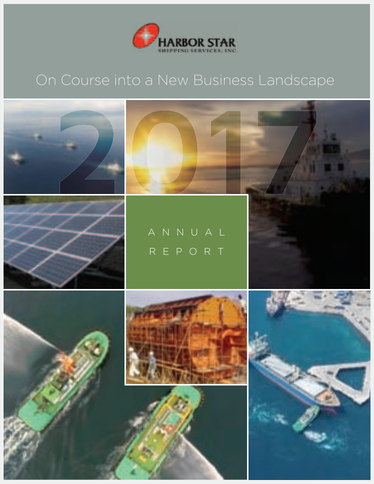
HARBOR STAR
SHIPPING SERVICES, INC.

On Course into a New Business Landscape

2017

ANNUAL REPORT

About the Cover



A BEACON FORGED BY EXPERIENCE

Amid a sea of uncertainty and change, Harbor Star moves steadily forward and serves as a beacon for others to follow. Already the leading integrated maritime service provider in the Philippines, it continues to grow, innovate and diversify each year as it expands domestically and globally. What was once a one-tug operation is now an industry leader with business interests in several key industries, and is a testament to the value of adapting and maximizing on strategic opportunities in order to stay ahead.

The Report's cover design makes use of vivid images such as the ray of light which draws the attention of the reader and symbolizes the Company's leadership, its ever-growing reach, and a bright future ahead. The photos of Harbor Star's fleet and facilities also exemplify the technical advancement, capabilities and experience of the group that is unsurpassed in the industry.

The use of a design grid, with images of the Company's services-in-action and the ports it serves, represents the well-planned and well-executed expansion plan that Harbor Star is embarking on with precision and with strategic priority. The arrangement also represents the coming together of the Company's different business segments, and its expertise and experience as it crafts the best way forward.

As the group grows and diversifies into new industries, it remains committed to service and excellence in all of its operations and activities. It is this commitment to all stakeholders that keeps the team going and expanding its horizons.

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Company Profile

Harbor Star Shipping Services, Inc. ("Harbor Star" or "the Company" or "Parent Company") is a leading integrated maritime service provider in the Philippines. Its service lines include harbor assistance, lighterage, towing, ship salvage and oil spill response, marine construction, repair and maintenance works, diving and underwater work, and ship and crew management. In 2017, the Company diversified into the general construction and renewable energy industries.

The Company was registered with the Securities and Exchange Commission ("SEC") on 5 July 1988 under the name "Seatows, Inc".

On 30 October 2013, Harbor Star's common shares were listed in the Philippine Stock Exchange following the initial public offering of 30.0% of its shares at an issue price of PHP1.88 per share.

In February 2015, Harbor Star commenced its Malaysia operations through subsidiary Peak Flag Sdn. Bhd. Two (2) tugboats where brought to Malaysia, M/T Hamal and M/T Mirzam. Both vessels serve Malaysia's major ports namely North Port and Kuantan Port.

On 11 August 2015, Harbor Star secured the approval of the SEC to expand its business scope to include international marine commerce; manning, recruitment, ship and crew management; operate liner/feeder vessels and logistics operations; invest in, develop, manage and/or operate in domestic and international shipyards, ports and terminals; construction and rehabilitation of marine facilities; and real estate development.

In September 2015, Harbor Star created the Diving and Marine Maintenance unit in its bid to further develop its other business lines which have shown potential in terms of revenue contribution.

Domestically, the Company expanded its presence by opening a Cebu branch office. Later in the year, Harbor Star opened a wholly-owned subsidiary, Harbor Star Subic Corp.

In 2016, Harbor Star secured its Contractor's License with the Philippine Contractors Accreditation Board ("PCAB"). The license authorizes the Company to engage in general construction and engineering in the Philippines.

Also in the same year, the Company signed an agreement with Guam Industrial Services, Inc. to establish a joint venture company ("JVC") to operate a floating dry dock and ship repair facilities in the Philippines. Commercial operations shall commence in 2019.

On 6 March 2017, the Company's shareholders approved the amendment of the Articles of Incorporation to include power generation and education as among the business purposes.

In April 2017, "M/T" Keid, a 3,200 "BHP" tugboat, arrived in Batangas from Japan to augment the Company's fleet.

In May 2017, the Company established its wholly-owned subsidiary, Harbor Star Energy Corporation ("HSEC"). In December, HSEC acquired 60% shareholdings of Astronergy Development Gensan Inc. ("ADGI"). ADGI has an existing Power Purchase Agreement ("PPA") with South Cotobato II Electric Cooperative, Inc. ("SOCOTECO II"). Under the PPA, SOCOTECO-II will purchase all the energy output from the project.

In August 2017, the Company acquired its 43rd harbor tugboat to augment its fleet. "M/T" Kraz is a 3,600 BHP 45-ton bollard pull tugboat.

On 11 August 2017, Harbor Star inaugurated its Iloilo Branch Office in line with its domestic expansion to increase its base ports and marine services throughout the Philippines.

In the later part of 2017, the Company's Malaysia subsidiary Peak Flag Sdn. Bhd. ("Peak Flag"), renewed its Marine Tugboat Service Agreement with KA Petra Sdn. Bhd. ("KA Petra") for another two (2) years. Peak Flag will assist vessels for their Ship-to-Ship ("STS") Operations at Malacca, Malaysia for the period covering 1 March 2018 to 28 February 2020.

As of 31 December 2017, Harbor operates and manages fifty-three (53) watercraft comprising of tugboats, barges and other specialized vessels.

Harbor Star continues to strengthen its core business while diversifying in key industries in line with its vision to be the in the top 1% corporations in the Philippines.

Mission

Harbor Star's mission is to provide total marine services:

Safely, promptly, and efficiently
Taking care of the environment
Assuring equitable returns to shareholders
Responsive to employees and stakeholders' welfare
Strictly observing good corporate governance

Vision

In 2020, Harbor Star Shipping Services, Inc., the leading tug and marine services provider in the Philippines, will be a major player in South East Asia.

Core Values

Honesty
Accountability
Reliability
Benevolence
Orderliness
Resourcefulness

Service-Oriented
Trustworthiness
Adaptability
Respect

SUBSIDIARIES

Peak Flag Sdn. Bhd.

Peak Flag was incorporated in Malaysia on 18 October 2011. Peak Flag aims to provide marine services at select ports in Malaysia which exhibit high vessel traffic and the opening of additional berthing areas.

Peak Flag's commercial operations commenced in February 2015 with M/T Hamal operating at Malaysia's North port. Months after, Peak Flag brought in an additional tugboat, M/T Mirzam, to operate in Kuantan Port.

Harbor Star owns a 45.0% stake at Peak Flag.

Harbor Star Subic Corp.

Harbor Star Subic Corp. ("HSSC") was registered with the Securities and Exchange Commission ("SEC") on 17 September 2015. Its primary purpose is to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil-spill response and underwater marine services.

HSSC commercial operations commenced in 2016 with the arrival of its first tugboat, M/T Lucida.

Harbor Star owns 99.9% of HSSC.

Harbor Star Energy Corporation

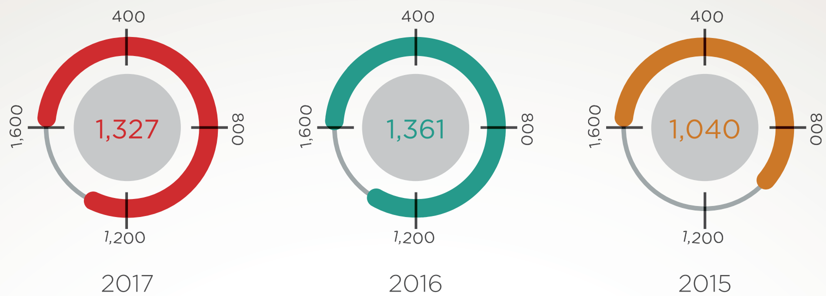
Harbor Star Energy Corporation ("HSEC") was registered with the SEC on 11 May 2017. Its primary purpose is to carry on the general business of generating electric power derived from renewable sources and fuels.

HSEC owns a 60% stake of Astronergy Development Gensan, Inc. ("ADGI"), an entity engaged in renewable power generation.

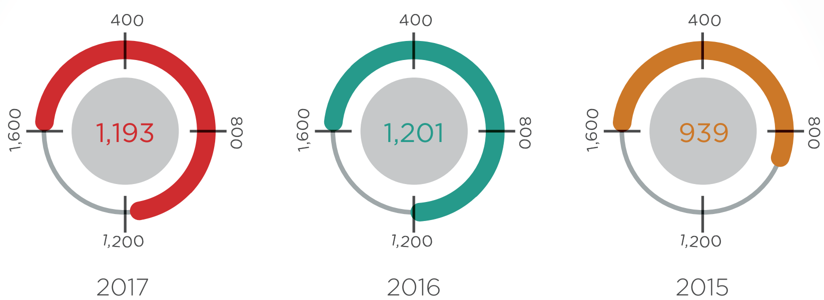
Harbor Star owns 99.9% of HSEC.

Financial Highlights

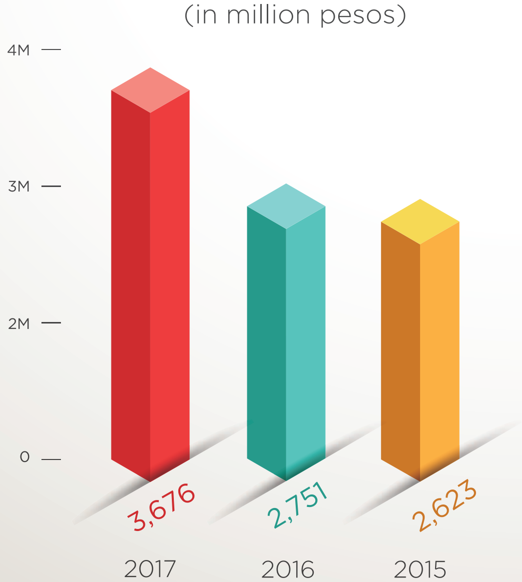
Net Revenue
(in million pesos)



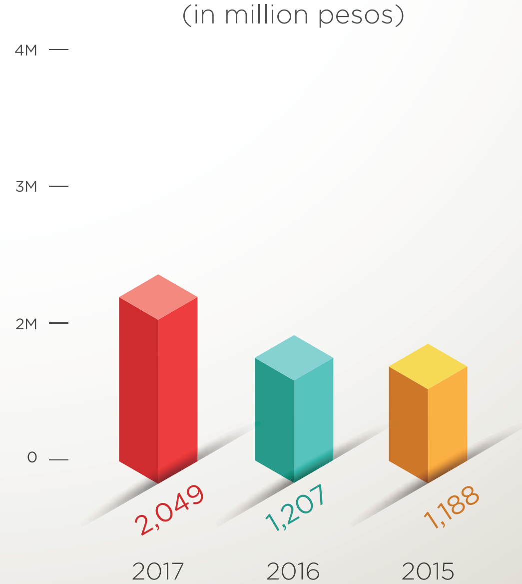
Total Expenses
(in million pesos)



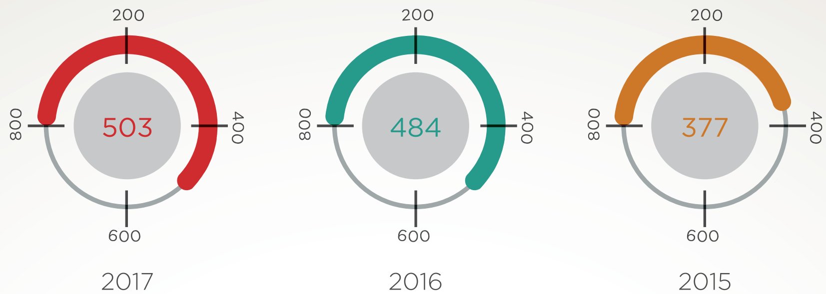
Total Assets
(in million pesos)



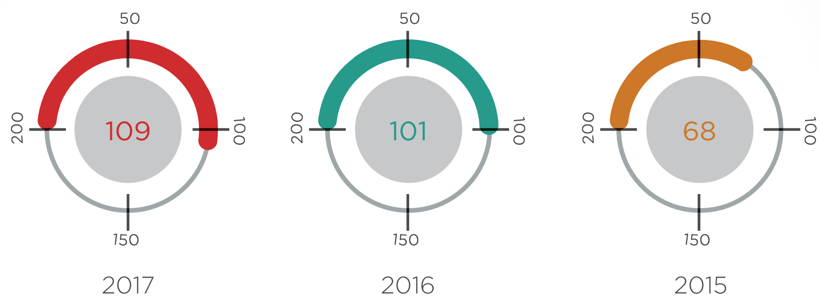
Total Liabilities
(in million pesos)



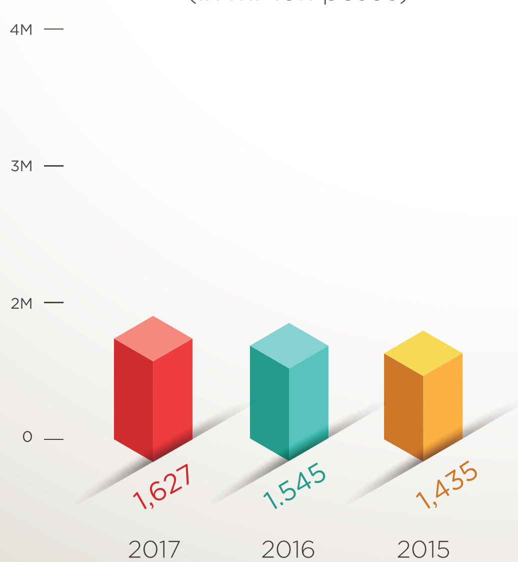
EBITDA
(in million pesos)



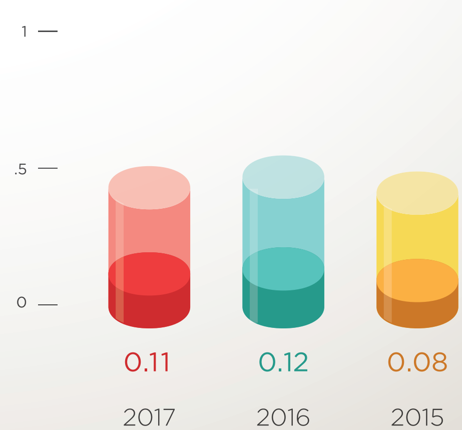
Net Income
(in million pesos)



Total Equity
(in million pesos)



Earnings Per Share
(in pesos)



Message to our Stockholders

Fellow Shareholders

2017 was significant year for Harbor Star. Our main service line of harbor assist remained strong. Our international operations began bearing fruit. And we took our first steps in our diversification plans.

The Performance

Amid increasing competition and the rationalization of rates in select ports, Harbor Star saw an 8% growth in net income to P109 million for the year. Revenues were again led by the Company's core business, harbor assist, which contributed P1.05 Billion or 79% of the consolidated service income of P1.3 Billion. Lighterage and towing services continued to be solid contributors to the business adding P91 Million and P64 Million, respectively. Our Salvage and Wreck Removal line meanwhile contributed P77 million in 2017 from P40 million the previous year.

The sustained income and profitability of the Company is due to the strategic positioning of our assets throughout the Philippines which no other tug company can match. We were also able to counter the predatory pricing techniques and questionable business practices adopted by competitors in harbor assistance with relentless marketing efforts and adopting cost-saving measures.

Noteworthy is the increase in revenue generated by our Malaysian tug operations, through subsidiary Peak Flag Sdn Bhd, which grew significantly to P60 million in 2017. This proves that expanding internationally is a viable growth strategy for the Company, which we intend to continue.

In terms of business efficiency, we saw an improvement in the Company's Gross Profit Margin and EBITDA Margin which rose to 31.7% and 37.9%, respectively.

"As we look forward to the coming years, we remain confident in our ability to exceed the targets we have set for the group. We continue to strengthen our core business of harbor assistance as we create more opportunities for growth with new and diversified ventures."

Laying Additional Pillars

In 2017, Harbor Star continued to set the standard in the industry by acquiring two additional harbor tugboats, each with at least 3,200 BHP engines. This will address customer demands for more powerful tugboats as international shipping companies are leaning towards operating larger vessels in the next 10 years. We also opened a branch in Iloilo, an up and coming port in the Visayas, in line with our first mover strategy for our harbor assist business.

Also this year, heeding this Administration's pronouncements of build-build-build, we reorganized our Diving and Marine Maintenance Unit and renamed it the Diving and Marine Maintenance and Construction Division. We hired experienced civil engineers and architects, purchased equipment, and retrofitted some of our existing assets for capacity-building. We believe that the division, which also contributed over P40 Million in 2017, has great potential of being a major driver of growth for the Company in the coming years.

Then in October 2017, Harbor Star acquired a controlling stake in Astronergy Development Gensan, Inc. (ADGI). ADGI has the licenses and permits to operate a 25-megawatt (MW) solar power plant facility in General Santos City. The capacity of this solar facility can be expanded to 75MW. More importantly, ADGI has an existing 25-year power purchase agreement (PPA) with the local electric distribution utility where all energy production will be purchased by the distribution utility. We see this project as a stepping stone for us to have the knowledge and experience to embark in other renewable energy projects which is recognized as the energy source of the future.

To support our expansion plans, Harbor Star increased its capital stock to P2 billion in 2017. This gives us the flexibility to immediately raise additional capital to fund, if needed, our continuing domestic and international expansion plans, whether they be in harbor assist, construction, energy, or our other service lines. We are confident that the diversification of our business lines, all while remaining focused on key industries, will keep us ahead of the competition.

The way forward

As we look forward to the coming years, we remain confident in our ability to exceed the targets we have set for the group. We continue to strengthen our core business of harbor assistance as we create more opportunities for growth with new and diversified ventures. Our capabilities and strategic investments have put us in a prime position as the government moves to stimulate development outside of Manila, and as more opportunities are opening up overseas.

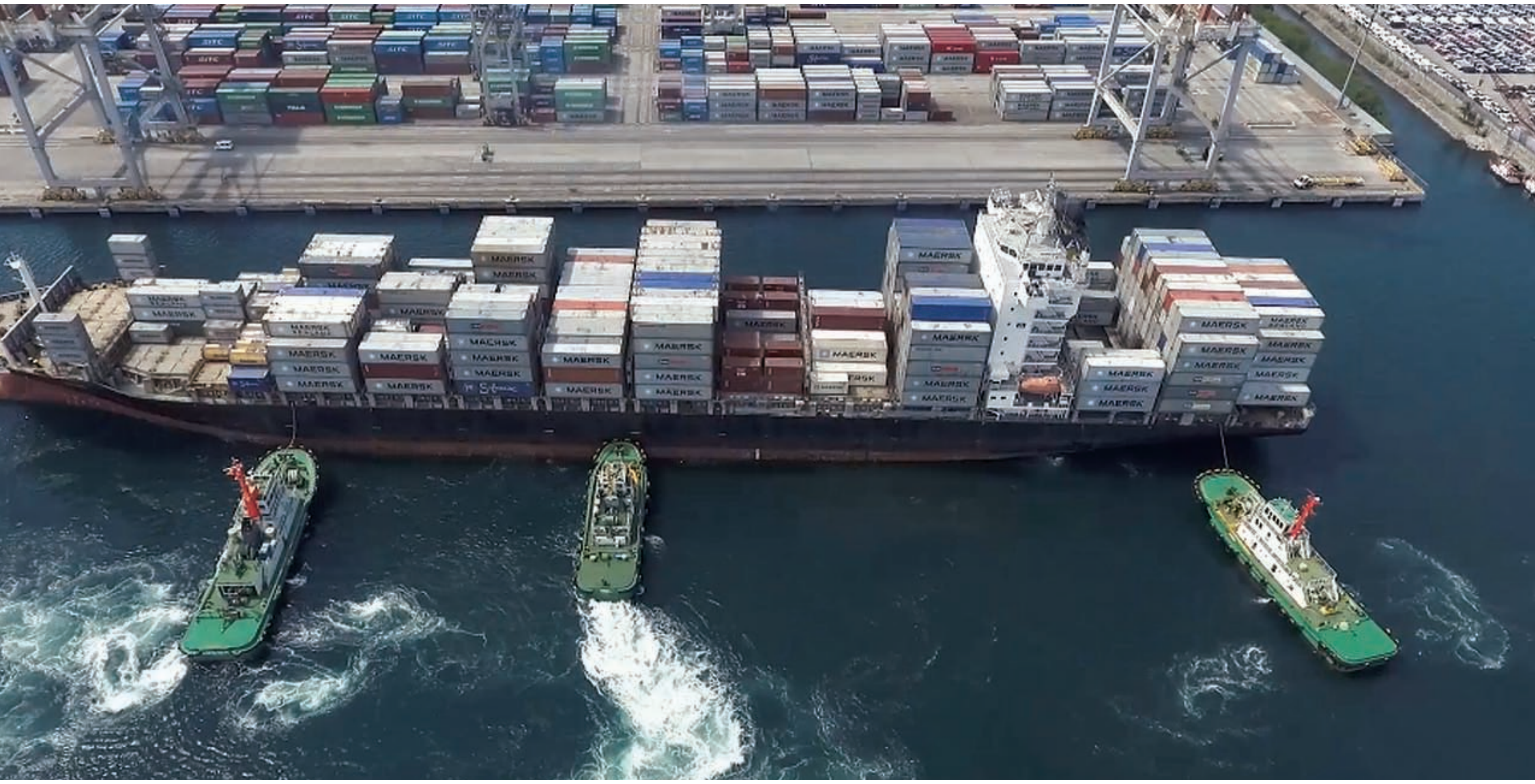
We have accomplished much since we started in 1998. A one-tug operation is now a diversified business with interests in major industries here and abroad. We owe this success to the continued support of our shareholders, partners, employees and associates, and we would like to thank all our stakeholders for your leadership, guidance and commitment to genuine service excellence. Together, we are well on our way to a brighter future.

Geronimo P. Bella, Jr.

GERONIMO P. BELLA, JR.
Chairman of the Board and President

Operational Highlights

"The sustained income and profitability of the Company is due to the strategic positioning of our assets throughout the Philippines which no other tug company can match."



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The sustained income and profitability of the Company is due to the strategic positioning of our assets throughout the Philippines which no other tug company can match.

Harbor Star continued to set the standard in the industry by acquiring two additional harbor tugboats, each with at least 3,200 BHP engines. This will address customer demands for more powerful tugboats as international shipping companies is moving towards operating larger vessels in the next 10 years.

We have accomplished much since we started in 1998. A one-tug operation is now a diversified business with interests in major industries here and abroad.

Services

The bulk of Harbor Star's revenue is derived from its five main service lines namely— (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage and (e) marine construction, repair, maintenance works and other marine services. Other services include oil and chemical spill response, diving and underwater services and ship and crew management.

HARBOR ASSISTANCE

Harbor Star focuses its harbor assistance operations at ports with heavy vessel traffic, such as Manila International Container Terminal (MICT), and the ports of Bataan, Batangas, Cebu, CDO, Davao, and Iloilo, among others. In addition to public or open ports, Harbor Star also provides services to a number of private ports managed by corporations engaged in the oil and gas, power, mining and cement industries.

As of 31 December 2017, revenues from harbor assistance amounted to P1.05 billion, equivalent to 79% of total the revenue.

LIGHTERAGE

Harbor Star's tug and barge tandems are capable of transporting different types of cargo outside of the Philippines and within the region. For lighterage services, Harbor Star charges the client a fixed charter rate. The charter rate covers the use and maintenance of the vessel, crewing, insurance, and administrative support costs incurred during operations.

As of 31 December 2017, revenues from lighterage services amounted to P91 million, equivalent to 7% of the total revenue.

TOWING

Harbor Star provides services in various stages of the towing cycle, from planning activities to the actual towage operation. The company provides two (2) types of towing services:

a. Regular towing – when a tugboat is chartered to tow a vessel or barge from one port to another port.
b. Emergency towing – when a vessel in distress needs a towing service.

As of 31 December 2017, revenues from towing services amounted to P64 million, equivalent to 5% of the total revenue.

SALVAGE

Salvage is any act or activity undertaken to assist a vessel or any other property in danger in navigable waters or in any other waters. Using international methods and standards, Harbor Star offers the following salvage services:

a. Vessels in distress – This include instances when vessels are on fire, capsized or sinking vessels, among others, that require rescuing.

b. Wreck removal – This include refloating of vessels that ran aground, retrieval of vessels, among others

c. Wayward vessels – This pertains to breakaway or abandoned vessels drifting afloat and wandering into waters that are vulnerable to collisions and other maritime accidents.

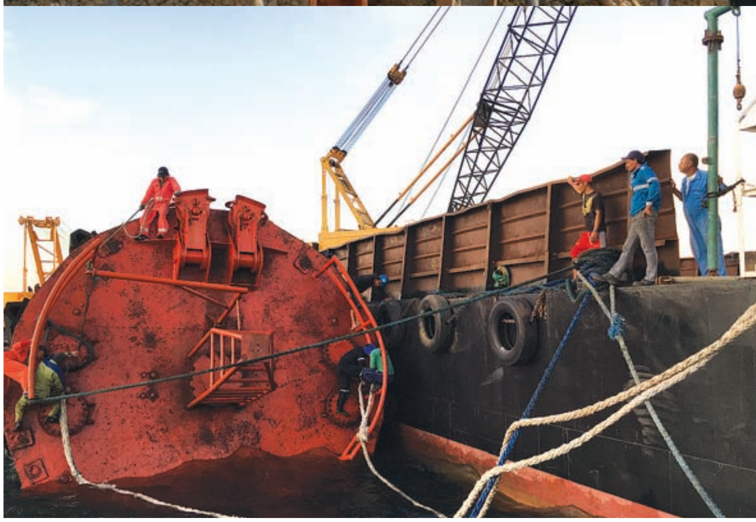
As of 31 December 2017, revenues from salvage operations amounted to P77 million, equivalent to 6% of the total revenue.

MARINE CONSTRUCTION, REPAIR, MAINTENANCE WORKS AND OTHER MARINE SERVICES

Harbor Star strengthened its marine ancillary services by offering port construction, pier repair, and other port-related development.

Harbor Star's marine and other ancillary services include: Oil and Chemical Spill Response; Ship repairs; Buoy construction deployment and maintenance; Diving services, which includes underwater repairs, and Single Buoy Moorings (SBM) and repair; Ship and crew management; Fire fighting; and Off-shore tug services.

As of 31 December 2017, revenues from marine construction, repair, maintenance works and other marine services. amounted to P45 million, equivalent to 3% of the total revenue.



Fleet List

TUGBOATS
M/T Achernar
M/T Adara
M/T Agena
M/T Alphard
M/T Arneb
M/T Atria
M/T Avior
M/T Canopus
M/T Capella
M/T Deneb
M/T Dubhe
M/T Enir
M/T Galina
M/T Giedi
M/T Great Eagle
M/T Homam
M/T Keid
M/T Kraz
M/T Lucida
M/T Markab
M/T Merak
M/T Merga
M/T Mimosa
M/T Minkar
M/T Mira
M/T Mizar
M/T Procyon
M/T Propus
M/T Regulus
M/T Rigel
M/T Sargas
M/T Sarin
M/T Schedar
M/T Sirius
M/T Skat
M/T Spica
M/T Tabit
M/T Tyl
M/T Vega
M/T Wezen
M/T Zaniah

AHTS
M/V Rho Cas

MALAYSIA TUGBOATS
M/T Hamal
M/T Mirzam

BARGES
Barge Centaurus
Barge Corvus
Barge Hydrus
Barge Kenram
Barge Lynx

OTHER MARINE VESSELS
M/V Cassopeia
M/V Draco
M/V Wise

Safety, Quality, Maintenance and Compliance with Environmental Laws

ISO 9001:2008
Quality Management

ISO 14001:2004
Environmental Management

OHSAS 18001:2007
Occupational Health and Safety Management

Focusing on quality of service and safety of operations, Harbor Star is acknowledged as being at par with international standards proven by its accreditation from various local and domestic associations.

Harbor Star maintained its international accreditations for its management systems, specifically ISO 9001:2008 -Quality of Services, ISO 14001:2004-Environment, and OHSAS 18001:2007-Safety. The Company was evaluated for all its major processes and enacted the necessary reforms to be in line with international standards. Having obtained these certifications, the Company consistently maintains strict adherence to ISO protocol and procedures to ensure quality and safe service. The Company achieved IMS Certification, having completed the three (3) certifications from DNV GL.

The Company also has an established maintenance and dry docking program for its fleet to minimize the potential for engine breakdown, engine overhauls, and other types of repairs, to ensure that all vessels shall at all times be in seaworthy condition. Having classed vessels distinguishes the Company's fleet as meeting operational and safety standards. Its vessel maintenance and dry docking program minimizes the potential for engine breakdowns, engine overhauls and other types of repairs.

Recognizing that its people are its most vital resource, Harbor Star is greatly committed in providing its employees the safest work environment conducive to achieve optimum performance. This is verified through the Certificate of Compliance to Occupational Safety and Health Standards and the Certificate of Compliance to General Labor Standards both issued last June 30, 2017 by the Department of Labor and Employment (DOLE). Moreover, the Company does various supported training such as:

1. Basic Occupational Safety and Health (BOSH),
2. Construction Occupational Safety and Health (COSH),
3. Maritime Occupational Safety and Health (MOSH),
4. Emergency Response Training (ERT).

Finally, the Company complies with environmental ordinances and laws by the Department of Environment and Natural Resources (DENR) and Philippine Coast Guard (PCG). Regular submission of environmental reports accomplished and lead by two accredited DENR Pollution Control Officer acting as Occupational Health Safety and Environment (OHSE) Manager & Officer in the Company, ensures that Harbor Star performs its services while preserving the environment at the same time.

Corporate Governance

Harbor Star is committed to conduct all aspects of its business to the highest ethical and legal standards. On 11 December 2017, the Board of Directors adopted a revised Manual on Corporate Governance to monitor and assess the Company's compliance with leading practices on good corporate governance as specified in the Manual and relevant SEC circulars and memoranda.

The Board of Directors, Management, Employees and Shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will undertake every effort necessary to create this awareness within the organization.

Board of Directors

Compliance with the principles of good corporate governance starts with the Board of Directors. The Company's Board acts in a manner characterized by transparency, accountability and fairness. It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders.

The Board cares of the interests of the shareholders and protects their investment through the implementation of sound corporate policies and plans while maintaining its independent assessment on Management's performance. The Chairman of the Board designates a Compliance Officer to ensure that the Company adheres to the Manual and to corporate best practices.

REGULAR DIRECTORS:
Geronimo P. Bella, Jr.
Ricardo Rodrigo P. Bella
Ryota Nagata
Ramon C. Liwag
Ignatius A. Rodriguez

Independent Director

An "Independent Director" means a person who, apart from his/her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a director of the Corporation.

INDEPENDENT DIRECTORS:

Manuel H. Puey
Jose S. Navarro

Executive Committee

The Executive Committee, when the Board of Directors is not in session, exercises the powers of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to:

(a) Approval of any action for which stockholders' approval is also required;
(b) The filling of vacancies in the Board of Directors;
(c) The amendment or repeal of these By-Laws or the adoption of new By-Laws;
(d) The amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
(e) A distribution of cash dividends to the stockholders; and
(f) Such other matters as may be specifically excluded or limited by the Board of Directors.

EXECUTIVE COMMITTEE:

Chairman:
Ricardo Rodrigo P. Bella

Members
Geronimo P. Bella, Jr.
Manuel H. Puey

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibility of the Company's corporate governance processes relating to the: Financial statements and financial reporting process; Internal control systems; Internal and external auditors; Compliance with accounting standards, legal and regulatory requirements, including disclosure policies and procedures; Risk management policies and processes; and Business practices and ethical standards.

The Audit Committee also ensures that work of the Internal Auditor shall be free from interference by outside parties.

In 2017, the Audit Committee also assumed the responsibilities of a risk management committee. As such, the Committee ensures that the Board and Management is aware of all actual and potential risks, both internal and external, facing the business and makes recommendations how to avoid, avert or manage those risks.

AUDIT COMMITTEE:

Chairman:
Jose S. Navarro

Members
Ramon C. Liwag
Ignatius A. Rodriguez

Governance Committee

The Governance Committee assists the Board with respect to governance matters, especially in the implementation of practices and standards to be observed in an effective stewardship environment. The Committee plays a critical role in fostering a healthier and better culture among the Board Members and Management. Harbor Star continues to improve its corporate governance, systems and processes to enhance adherence to practices of good governance.

This year, the Governance Committee assumed the duties and responsibilities of both the Nominations Committee, and the Compensation and Remuneration Committee. As such, the Committee reviews and evaluates the qualifications of all persons nominated to the Board and other appointments that require Board approval. It also assesses the effectiveness of the Board's processes and procedures in the election or replacement of directors. Further, the Committee establishes a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

GOVERNANCE COMMITTEE:

Chairman
Manuel H. Puey

Members
Jose S. Navarro
Ryota Nagata

Corporate Social Responsibility

Supporting environmentally sustainable programs, particularly the conservation and restoration of the country's marine resources, has always been one of the Company's priorities as it continues to give back to the communities in which it operates.

Harbor Star's CSR programs are geared towards inclusive growth for all stakeholders and towards sustaining the coasts. One of the ways this is achieved is through the Company's own mangrove rehabilitation initiative dubbed the Adopt-A-Mangrove program.

Adopt-A-Mangrove Program

Our valuable partnership with Barangay Banoyo, Municipality of San Luis, Batangas, and the Provincial Government Environment and Natural Resource Office (PGENRO) allows us to work together to protect, propagate, and expand mangrove plantations.

Today, Barangay Banoyo has gained popularity as a learning destination for mangrove restoration initiatives. Schools and private organizations flock to the area to participate in the coastal clean-up and planting activities. The barangay and municipal officials have also involved the provincial government to work in a concerted effort for conservation.

According to Harbor Star President Geronimo P. Bella, Jr. "Our bottom line is not limited to how well we perform as a company, but more importantly, how we present ourselves as corporate citizens. Ultimately, who else could better take care of our precious coast than a company like Harbor Star, whose business thrives on making sure that its environment remains sustainable not only today but for generations to come."

Moving forward, Harbor Star is determined to continuously support the Adopt-A-Mangrove program. Since its launch in 2013, its employees, families, and friends together with the Banoyo community continue to visit the site and participate in mangrove planting and clean-ups quarterly. The company also seeks to be at the forefront of educating its stakeholders through orientations on the importance of taking care of the environment, and on how the Adopt-A-Mangrove program will help our ecosystem.

Coastal Clean-up

Aside from its Adopt-A-Mangrove Program, HSSSI also participated in the International Coastal Cleanup drive to help preserve our country's marine resources.

Every year, large amounts of garbage such as plastics, drinking straws, cigarette butts etc. are dumped into our bodies of water and pose a grave threat to marine life. By participating in events such as the International Coastal Clean-up last September 16, 2017 in Baywalk, Manila, Harbor Star contributes to a healthier environment and promotes unity and fellowship with the communities as well.

Board of Directors Profile

Geronimo P. Bella, Jr.

57, Filipino, Chairman of the Board and President. Mr. Bella, Jr. is the Chairman of the Board and President of Harbor Star since 2006. Prior to his present position, he worked in Transpacific Towage, Inc. from 1978 to 1988 and Keppel Smit-Transpacific from 1988 to 2000. Mr. Bella, Jr. is currently the President for the Harbor Tugowners Association of the Philippines, Inc. and a director in Harbor Star Subic Corp., and Peak Flag Sdn. Bhd. He obtained his Bachelor of Science degree in Commerce, Major in Business Management from De La Salle University in 1983.

Ricardo Rodrigo P. Bella

51, Filipino, Director and Vice President. Mr. Bella is the Vice President of Harbor Star. He participated in various training seminars in the fields of corporate management, shipbuilding repair and maintenance, and other related disciplines, locally and abroad. Prior to his role as Vice President of Harbor Star, he served as the Vice President of Transpacific Towage, Inc. from 1983 to 1998. Currently, he is a director in various corporations, namely, Harbor Star Subic Corp., Great Eastern Tug Corporation, Bellport Shipping Corporation, Bellridge Resources, Inc., and Mearnz Green Technology Proponents, Inc. He pursued undergraduate studies in Business Management at De La Salle University in 1985.

Ignatius A. Rodriguez

48, Filipino, Director, Corporate Secretary, Chief of Staff to the President, Chief Information Officer and Corporate Information Officer. Mr. Rodriguez is a Director and the Corporate Secretary of Harbor Star and is the Chief of Staff to the Office of the President. He is the Corporate Information Officer and is the acting Chief Information Officer.

Mr. Rodriguez is a Director of Harbor Star Subic Corp., and Peak Flag Sdn. Bhd. He served as legal and business consultant to several businesses engaged in telecommunications, shipping, realty, foods, aviation, transport, and property, among others. He also serves as director or corporate officer in several companies. Mr. Rodriguez earned his Juris Doctor from the Ateneo Law School in 1996 and his Masters in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008.

Ramon C. Liwag

61, Filipino, Director. Mr. Liwag serves as a director of the Company. Currently, he is the President of Alliance Security and Logistics Solutions, Inc. He is a member of the Philippine Military Academy Class of 1979 and served as the 23rd Commandant of the Philippine Coast Guard from 2011 to 2012. He was the commander of six (6) Coast Guard Districts and commanded five (5) Coast Guard Field Stations. He served as Chairman in the PCG's Deputy Commandant for Operations from 2008 to 2011 and the Chairman of the PCG's Board of Marine Inquiry (BMI). He was awarded with two (2) Legion of Honor (Degree of Maginoo); Gawad sa Kaunlaran Medal; Coast Guard Outstanding Achievement Medal; Six (6) Distinguished Service Stars Medals, Military Merit Medals; Military Commendation Medals, Insurgency Campaign and Rescue and Relief Medals; and scores of Plaques / Certificates of Merit / Appreciation and Letters of Commendation in various capacities and positions both in government and civic organization.

He graduated Bachelor of Science degree in Military Education from the Philippine Military Academy in 1979. In 1996, he took his Master's degree in M.S. in Maritime Safety Administration from the World Maritime University in Sweden.

Ryota Nagata

53, Japanese, Director. Mr. Nagata serves as a Director of Harbor Star. Currently he is the President of Philster Corporation. He started his career as a Sales Representative in Kirin Brewery Company Limited from 1987 to 1990. He was a Sales Representative from 1990 to 1996 in Naigai Corporation. In 2001 to 2008, he became the Vice President of Naigai Corporation and eventually became the President and CEO from 2008 until the present. He obtained his Bachelor of Arts degree in Politics in Keio University, Japan in 1987.

Jose S. Navarro

65, Filipino, Independent Director. Mr. Navarro serves as an Independent Director of Harbor Star. He was the past director of the University of Asia and the Pacific's Continuing Management Educational Program and Entrepreneurial Management Program. Before joining the university, he was a Senior Vice-President at the Philippine Fuji Xerox Corporation, and retired in 1998 as Chief Operating Officer. He was a director for Hibix Corporation and became a lecturer in Entrepreneurship and Innovation at the University of Western Australia, Graduate School of Business from 2003-2005. He acquired his degree in Accounting from the Philippine School of Business Administration in 1980. He then completed post graduate studies at the University of Asia and the Pacific in 1997, where he attended the Strategic Business Economics Program, a Masteral program for top business executives. He continues to serve as consultant to several businesses in different industries. He is also a Securities and Exchange Commission-accredited corporate governance resource speaker.

Manuel H. Puey

70, Filipino, Independent Director. Mr. Puey has been appointed as one of the Independent Directors of Harbor Star. Prior to this appointment, Mr. Puey served as President and CEO of PNOC Shipping from December 2006 until May 2011. He also held various positions at different shipping and maritime companies. In 1971, he was the Chairman and CEO of Intermodal Shipping, Inc. He also served as Chairman of Skanfil Maritime Inc. in 1975. He acted as President of Transport Systems, Inc. and Hi Marketing Corp. In the years 1972 and 1974. He also served as Managing Director in Tokyo Pacific Shosi KK in 1973. At present, Mr. Puey is the Chairman and President of Anna Cristina Farms, Anna Cristina Properties, Inc., and Novi's Enterprises, Inc. He is also the current President of Negros Poultry Raisers Association, and the United Negrense Sugar Planters Association Inc. Mr. Puey obtained degrees in Ship Management from Galbraith School of Shipping in London sometime in 1979.

Board of Directors

GERONIMO P. BELLA, JR.
Chairman of the Board

RICARDO RODRIGO P. BELLA
Director

IGNATIUS A. RODRIGUEZ
Director/Corporate Secretary

RYOTA NAGATA
Director

MANUEL H. PUEY
Independent Director

RAMON C. LIWAG
Director

JOSE S. NAVARRO
Independent Director

Key Officers

GERONIMO P. BELLA, JR.
President

RICARDO RODRIGO P. BELLA
Vice President

IGNATIUS A. RODRIGUEZ
Chief of Staff/
Corporate Information Officer/
Corporate Secretary

ADELIA D. VASQUEZ
Chief Finance Officer/Compliance Officer

DANY CLEO B. USON
Treasurer/Investor Relations Officer/
Business Development Manager

Management Team Profile

Adelia D. Vasquez

49, Filipino, Chief Finance Officer and Compliance Officer of Harbor Star. Ms. Vasquez also serves as the Treasurer of Harbor Star Subic Corp. Prior to this position Ms. Vasquez worked in the audit division of SyCip, Gorres, Velayo & Co. from 1987 to 1993 and was its Audit Executive from April 1998 to October 1999. She started as Finance Manager, then was promoted to AVP for Operations and then Head of Internal Audit in the Mondragon Group of companies from 1993 to 1998. She was also a Consultant for Controllership & Corporate Services in Manila Consulting & Management Company, Inc. from 1999 to 2007. From 2008 to February 2010 she served as the Project Accounting Services Head in Fulton Hogan Limited in New Zealand. She was the AVP for Treasury at Alphaland Development, Inc. from March 2010 to August 2011 and then joined Filinvest Land, Inc. for a brief stint as VP-Comptroller prior to joining Harbor Star. She obtained her Bachelor of Science degree in Commerce Major in Accountancy from De La Salle University in 1987. In 2008, she took business modeling courses in University of Auckland and pursued postgraduate units in Corporate Finance and Investments in Massey University in 2009. Ms. Vasquez is a Certified Public Accountant.

Dany Cleo B. Uson

55, Filipino, Treasurer, Investor Relations Officer, and Business Development Manager of Harbor Star. Mr. Uson served as Harbor Star's Budget Committee Head, Funds Planning & Financing and Marketing Manager, Corporate Planning Manager prior to his latest appointment as Business Development Manager. He was involved in the Sales and Marketing department of a number of companies prior to his position at Harbor Star, including Servequest, Inc., Capitol Wireless, Inc., PNB Securities, Inc., G.K. Goh Securities Philippines, Fortune Life and General Insurance Co., and RGV Real Estate Center. He also worked as a Stock Trader for AAA Southeast Equities, Inc. from 1990 to 1996. Mr. Uson obtained his Bachelor of Science degree in Marketing Management and Applied Economics from De La Salle University in 1983. He took up units in MS Computational Finance at De La Salle University.

Lorenzo C. Caranzo

50, Filipino, Operations Manager for Fleet Operations of Harbor Star. Captain Caranzo is appointed as Operations Manager for Fleet Operations as of October 2015. Prior to his appointment, Captain Caranzo served as the Company's Safety Manager from 2006 to 2015 and served as a Captain and Master for Harbor Star from 2004 until 2006. Before working with the Company, Capt. Caranzo was the Assistant Harbor Master for Philippine National Oil Company – Petrochemical Development Corp. from 2000 to 2003 and Master Chief Mate for Loadstar International Shipping Company, Inc. from 1990 to 2000. Currently, Captain Caranzo is also a director of Harbor Star Subic Corp. He obtained his Bachelor of Science degree in Marine Transportation from Cebu Central Colleges in 1989.

Rudiardo L. Arcellana

53, Filipino, Operations Manager for Salvage, Towage, Lighterage & Special Projects of Harbor Star. Prior to Captain Arcellana's joining Harbor Star, he served as a Master Mariner in various vessel types, trading internationally. He also worked as a Crewing Manager in Blue Manila, Inc. Captain Arcellana completed his Bachelor of Science in Marine Transportation at Philippine Merchant Marine Academy in 1985. He is a licensed Master Mariner, with a diverse professional experience in Seafaring for thirty-two years. He is also a MARINA Licensed instructor for IMO course 6.09 and Assessor for IMO course 3.12. His land-based experience includes crew management, technical training, and dry-docking of manned vessels.

Leofrank P. Castrence

58, Filipino, Technical Manager of Harbor Star. Mr. Castrence is a licensed Chief Engineer. He has been distinguished in the field of ship and crew management for both local and international vessels. He held the positions of PMS Superintendent, Training Superintendent, and Crewing Manager in various companies like Abojeb Company Inc., Thome Ship Management, and TSM Shipping Inc. Mr. Castrence is a graduate of BS in Marine Bachelor of Science in Marine Transportation Major in Steam Engineering at the Philippine Merchant Marine Academy.

Edwin G. Amejana

52, Filipino, Commercial Manager of Harbor Star. Prior to Mr. Amejana's present position in the Company, he was the Operations Officer-in-Charge from 1999 to 2006 and became the Business Development Officer in 2006 to 2008. He obtained his degree in Bachelor of Science major in Marine Transportation in Iloilo Maritime Academy in 1983.

Lito Brando A. Topacio

52, Filipino, Diving Marine Maintenance and Construction (DMMC) Manager of Harbor Star. Mr. Topacio is a registered Civil Engineer and has 12 years of experience in UAE; 3 years in Singapore and 12 years in the Philippines with experience in managing major construction projects from design concepts, project initiation, planning & execution. He completed his degree in Civil Engineering at Technological University of the Philippines in 1986. He took up units in MS Civil Engineering at the Technical University of the Philippines.

Ernesto F. Calderon, Jr.

44, Filipino. Sales and Marketing Manager of Harbor Star. Mr. Calderon has over 20 years of experience in sales and marketing in Fast Moving Consumer Goods (FMCG) such as hardware and health and care products. Prior to joining Harbor Star, he was the General Manager of A.I.I. Systems Inc. (supplier of Carbon Steel Pipes, Water Pumps and Chemical Cleaning Agents and various services). He completed his degree in Bachelor of Science in Business Management from San Beda College in 1994.

Jay-R L. Castillo

32, Filipino, Occupational, Health, Safety, Environment (OHSE) Manager of Harbor Star. Prior to Mr. Castillo's appointment, he served as the Company's Safety Officer from 2014 to 2015. Before joining the Company, he served as an Occupational Health and Safety Practitioner in various companies such as Atlantic Gulf and Pacific of Manila Inc., Asian Terminals, Inc., and Toshiba. Mr. Castillo obtained his Bachelor of Science in Mechatronics Engineering at Batangas State University in 2007.

Virginia May P. Bella

43, Filipino, Legal Services Manager of Harbor Star. Ms. Bella is currently the director of Mearnz Green Technology Proponents, Inc. and Corporate Secretary of Belleridge Resources Inc. Prior to her present positions, Ms. Bella served as Managing Director of Earthlink Resources Inc., Managing Director of Luscent Oil Services, and Legal Associate at Rondain & Mendiola Law Offices. Ms. Bella also served as President of Bellport Shipping Corporation. She obtained her degree of Bachelor of Science Major in Biology in De La Salle University in 1993 and pursued her degree in Bachelor of Laws from San Beda College in 2000.

Maricel V. Blanco

54, Filipino, Internal Audit Manager of Harbor Star. Prior to Ms. Blanco's present position in the Company, she worked in the Internal Audit Department of Executive Optical, Carlos J. Valdes & Associates, CPAs, and Capwire Telecommunications. She obtained her Bachelor of Science degree in Business Administration, Major in Accounting from the University of the East. She passed the Government Licensure Board Examination for Certified Public Accountants in 1988.

Cecilia Melany G. Natividad

39, Filipino, Accounting Manager of Harbor Star. Prior to Ms. Natividad's present position in the Company, she was an Accounting Manager in Alphaland Development, Inc. She also served in the same capacity at Eton Properties Philippines, Inc. She also worked in the Finance Department of Deutsche Knowledge Services Pte. Ltd., Temic Automotive Philippines, Inc., Karrivin Holdings Corporation and United Colors of Benetton in the early years of her career. Ms. Natividad has over sixteen years of experiences in all facets of finance and accounting in various industries. She obtained her Bachelor of Science in Accountancy in Polytechnic University of the Philippines where she also graduated Cum Laude. She passed the CPA Licensure Examination in 2003.

Effel T. Santillan

40, Filipino, Human Resource Manager of Harbor Star. Ms. Santillan has been an HR practitioner for the past fifteen years. Prior to joining Harbor Star, she worked as an Employee Administration Manager and later headed the crew retention team of Aboitiz Jebsen Company Inc. as Crew and Family Welfare and Protection and Indemnity Manager. Aside from her five-year experience in the shipping industry, she also worked in various industries like BPO, IT, and retail. Ms. Santillan obtained her Bachelor of Science degree in Psychology from Pamantasan ng Lungsod ng Maynila in 1998.

Maria Elizabeth Jean E. Bella

30, Filipino, Procurement Officer-in-Charge of Harbor Star. Prior to Ms. Bella's appointment in the said position, she was the Company's Management Trainee then eventually served as the Special Assistant to the Operations Division Head from 2013 to 2015. Before joining Harbor Star, Ms. Bella worked for Topcon Positioning Systems Inc. as an International Sales Assistant. She completed her degree in International Business at St. Mary's College of California in Moraga, California in 2012. She also received a certification for taking courses in Naval Architecture from Lloyd's Maritime Academy in 2013.

Elionarda L. Refil

49, Filipino, General Services Department Manager of Harbor Star. Prior to Ms. Refil's present position in the Company, she was the HR Manager and Executive Secretary of the Company from 2006 to 2009. She obtained her Bachelor of Arts Major in Journalism in 1988 at Manuel L. Quezon University. She took units in Communication Management in the Pamantasan ng Lungsod ng Maynila in 2008 and completed Ateneo's Leadership and Management Development Program in 2010.

Ryan L. Orila

40, Filipino. Mr. Orila is the ICT Manager of Harbor Star. Mr. Orila has various experience in the field of IT, including computer hardware/ software troubleshooting and maintenance. Prior to joining Harbor Star, He has been an IT practitioner in various companies like Philippine AXA Life Insurance Corporation, Teletech and recently at AboJeb Company Inc. He completed his degree in Computer Science from AMA Computer College in 1999.

Management Team

LORENZO C. CARANZO
Operations Manager
Fleet

RUDIARDO L. ARCELLANA
Operations Manager
Salvage, Towage, Lighterage
& Special Projects

LEOFRANK P. CASTRENCE
Technical Manager

EDWIN G. AMEJANA
Commercial Manager

LITO BRANDO A. TOPACIO
DMMD Manager

ERNESTO F. CALDERON, JR.
Sales and Marketing Manager

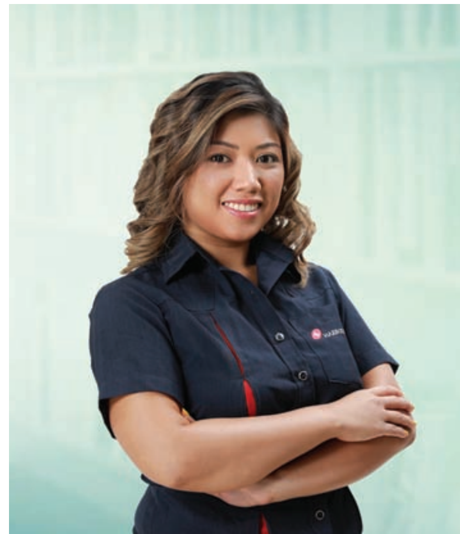
JAY-R L. CASTILLO
OHSE Manager

VIRGINIA MAY P. BELLA
Legal Services Manager

MARICEL V. BLANCO
Internal Audit Manager

CECILIA MELANY G. NATIVIDAD
Accounting Manager

EFFEL T. SANTILLAN
Human Resource Manager



MARIA ELIZABETH JEAN E. BELLA
Procurement Officer-in-Charge

ELIONARDA L. REFIL
General Services Manager

RYAN L. ORILA
ICT Manager

Statement of Management's Responsibility for Financial Statements

The management of Harbor Star Shipping Services, Inc. and its Subsidiaries (the "Group") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and such for internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process. The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Isla Lipana & Co., the independent auditor, appointed by the stockholders of the Parent Company, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

(Original Signed)

MR. GERONIMO P. BELLA, JR.
CHAIRMAN / PRESIDENT

(Original Signed)

MR. RICARDO RODRIGO P. BELLA
CHIEF OPERATING OFFICER

(Original Signed)

MS. ADELIA D. VASQUEZ
CHIEF FINANCIAL OFFICER

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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
2224 A. Bonifacio St., corner Pres. Sergio Osmeña Highway
Bangkal, Makati City

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2017 and 2016;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2017;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2017;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Our Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
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Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit pertains to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 29.26 to the consolidated financial statements for the discussion of Group's policy on revenue recognition and corresponding details. For the year ended December 31, 2017, the Group has recognized net revenue amounting to P1.3 billion (2016 - P1.4 billion; 2015 - P1.0 billion). This is an area of focus due to the Group's various revenue streams that are recognized under different contractual arrangements, which include harbour assistance, lighterage services, salvage income and towing services. There is an inherent risk of cut-off due to nature of revenue.	We have addressed the matter by evaluating and validating of key controls surrounding the revenue recognition process, detailed testing of sales transactions including cut-off review and review of manual adjustments, if any. Our control testing and test of details covered all assertions surrounding revenue. Cut-off testing was performed by validating proper recognition of revenue recognized days before and after year-end through inspection of related documents that evidenced delivery of services rendered. Our normal revenue cut-off procedures resulted to an adjustment which was properly taken up in the Group's financials as at December 31, 2017 and 2016.

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
Page 3

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability of each entity within the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
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As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each entity within the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity within the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
Page 5

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Roderick M. Danao.

Isla Lipana & Co.

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
SEC A.N. (firm) as general auditors 0009-FR-4; Category A; effective until July 15, 2018
TIN 152-015-078
BIR A.N. 08-000745-042-2018, issued on February 2, 2018; effective until February 1, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 29, 2018

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Isla Lipana & Co.

To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
2224 A. Bonifacio St., corner Pres. Sergio Osmeña Highway
Bangkal, Makati City

We have audited the consolidated financial statements of Harbor Star Shipping Services, Inc. (the "Parent Company") and its Subsidiaries, collectively referred to as "the Group", as at and for the year ended December 31, 2017, on which we have rendered the attached report dated March 29, 2018. The supplementary information shown in the *Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration, a Map Showing the Relationships between and among the Parent Company and its Subsidiaries and Associate, Schedule of Financial Soundness Indicator as of December 31, 2017 and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2017,* as additional components required by Part I, Section 4 of Rule 68 of the SRC, and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the SRC Code, are presented for purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the SRC.

Isla Lipana & Co.

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
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TIN 152-015-078
BIR A.N. 08-000745-042-2018, issued on February 2, 2018; effective until February 1, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 29, 2018

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2017 and 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	2	398,114,751	89,661,565
Trade and other receivables, net	3	387,078,368	383,672,875
Advances to related party	21	7,789,948	9,389,948
Prepayments and other current assets	4	153,350,596	97,637,828
Total current assets		946,333,663	580,362,216
Non-current assets			
Property and equipment at revalued amounts, net	6	1,672,050,773	1,624,756,635
Property and equipment at cost, net	7	407,492,606	344,056,533
Pre-development cost	1.2	325,251,742	-
Computer software, net	8	27,828,669	26,147,435
Investment properties	9	43,476,987	24,069,051
Investment in associate	5	13,479,290	12,631,291
Goodwill	1.2	48,603,347	-
Other non-current assets, net	10	191,614,761	139,455,495
Total non-current assets		2,729,798,175	2,171,116,440
Total assets		3,676,131,838	2,751,478,656
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	247,602,634	215,775,868
Short-term loans	12	560,000,000	190,000,000
Borrowings, current portion	12	347,486,299	229,527,485
Finance lease liability, current portion	22	3,557,070	3,350,424
Income tax payable		47,186,376	42,741,307
Total current liabilities		1,205,832,379	681,395,084
Non-current liabilities			
Borrowings, net of current portion	12	722,927,421	390,775,824
Finance lease liability, net of current portion	22	27,085,626	30,642,696
Deferred income tax liabilities, net	24	21,704,001	38,331,673
Retirement benefit obligation	20	71,749,193	65,631,257
Total non-current liabilities		843,466,241	525,381,450
Total liabilities		2,049,298,620	1,206,776,534
Equity			
Attributable to owners of the Parent Company			
Share capital	13	907,857,870	605,238,580
Additional paid-in-capital	13	121,632,762	121,632,762
Revaluation surplus, net of tax	6	117,172,322	148,758,268
Cumulative translation difference	29.25	(7,101,375)	(1,212,105)
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings	13, 20	508,956,223	679,228,098
		1,648,357,802	1,553,485,603
Non-controlling interest		(21,524,584)	(8,783,481)
Total equity		1,626,833,218	1,544,702,122
Total liabilities and equity		3,676,131,838	2,751,478,656

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Total Comprehensive Income
For each of the three years in the period ended December 31, 2017
(All amounts in Philippine Peso)

	Notes	2017	2016	2015
Service income, net	15	1,326,908,771	1,360,830,025	1,040,243,517
Cost of services	16	(906,461,511)	(956,581,038)	(694,558,002)
Gross profit		420,447,260	404,248,987	345,685,515
General and administrative expenses	17	(233,922,429)	(205,556,511)	(208,490,115)
Other income, net	19	36,832,595	22,884,747	6,583,653
Operating profit		223,357,426	221,577,223	143,779,053
Finance cost				
Interest expense	12	(53,034,593)	(40,641,488)	(36,821,370)
Foreign exchange income (loss) on borrowings	25	125,257	(2,086,027)	(1,396,810)
		(52,909,336)	(42,727,515)	(38,218,180)
Share in profit of associate	5	439,499	1,558,856	969,982
Profit before income tax		170,887,589	180,408,564	106,530,855
Income tax expense	24	(62,081,927)	(79,521,348)	(38,813,405)
Profit for the year		108,805,662	100,887,216	67,717,450
Other comprehensive income				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	3,444,398	4,014,924	(5,154,601)
Share in other comprehensive income of associate	5	408,500	148,000	-
Total other comprehensive income (loss), net of tax		3,852,898	4,162,924	(5,154,601)
Total comprehensive income (loss) for the year		112,658,560	105,050,140	62,562,849
Profit (loss) attributable to:				
Owners of the parent		102,850,817	107,203,021	76,084,233
Non-controlling interest		5,954,845	(6,315,805)	(8,366,783)
		108,805,662	100,887,216	67,717,450
Total comprehensive income attributable to:				
Owners of the parent		106,703,715	111,365,945	70,929,632
Non-controlling interest		5,954,845	(6,315,805)	(8,366,783)
		112,658,560	105,050,140	62,562,849
Earnings per share				
Basic and diluted	14	0.11	0.12	0.08

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Changes in Equity
For each of the three years in the period ended December 31, 2017
(All amounts in Philippine Peso)

	Equity attributable to owners of the Parent Company								
	Share capital (Note 13)	**Additional paid-in capital** (Note 13)	**Revaluation surplus** (Note 6)	**Cumulative translation difference** (Note 29.25)	**Fair value reserve on available-for-sale financial assets**	**Retained earnings** (Notes 13, 20)	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2015	605,238,580	121,632,762	217,868,417	(1,429,097)	(160,000)	447,976,197	1,391,126,859	5,899,107	1,397,025,966
Comprehensive income									
Profit (loss) for the year	-	-	-	-	-	76,084,233	76,084,233	(8,366,783)	67,717,450
Other comprehensive loss									
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	(5,154,601)	(5,154,601)	-	(5,154,601)
Total comprehensive income (loss)	-	-	-	-	-	70,929,632	70,929,632	(8,366,783)	62,562,849
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,642,933)	-	-	34,642,933	-	-	-
Translation adjustments (Note 29.25)	-	-	-	3,222,292	-	(4,255,379)	(1,033,087)	-	(1,033,087)
Transactions with owners									
Declaration of cash dividends (Note 13)	-	-	-	-	-	(23,114,357)	(23,114,357)	-	(23,114,357)
Balances at December 31, 2015	605,238,580	121,632,762	183,225,484	1,793,195	(160,000)	526,179,026	1,437,909,047	(2,467,676)	1,435,441,371
Comprehensive income									
Profit (loss) for the year	-	-	-	-	-	107,203,021	107,203,021	(6,315,805)	100,887,216
Other comprehensive gain	-	-	-	-	-	-	-	-	-
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	4,014,924	4,014,924	-	4,014,924
Share of other comprehensive income of associate (Note5)	-	-	-	-	-	148,000	148,000	-	148,000
Total comprehensive income (loss)	-	-	-	-	-	111,365,945	111,365,945	(6,315,805)	105,050,140
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,467,216)	-	-	34,467,216	-	-	-
Translation adjustments (Note 29.25)	-	-	-	(3,005,300)	-	7,215,911	4,210,611	-	4,210,611
Balances at December 31, 2016	605,238,580	121,632,762	148,758,268	(1,212,105)	(160,000)	679,228,098	1,553,485,603	(8,783,481)	1,544,702,122
Comprehensive Income									
Profit for the year	-	-	-	-	-	102,850,817	102,850,817	5,954,845	108,805,662
Other comprehensive income									
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	3,444,398	3,444,398	-	3,444,398
Share of other comprehensive income of associate (Note 5)	-	-	-	-	-	408,500	408,500	-	408,500
Total comprehensive income	-	-	-	-	-	106,703,715	106,703,715	5,954,845	112,658,560
Depreciation transfer of revaluation surplus (Note 6)	-	-	(31,585,946)	-	-	31,585,946	-	-	-
Transactions with owners									
Declaration of stock dividends (Note 13)	302,619,290	-	-	-	-	(302,619,290)	-	-	-
Non-controlling interest from business acquisition (Note 1.2)	-	-	-	-	-	-	-	(18,695,948)	(18,695,948)
Total transactions with owners	302,619,290	-	-	-	-	(302,619,290)	-	(18,695,948)	(18,695,948)
Translation adjustments (Note 29.25)	-	-	-	(5,889,270)	-	(5,942,246)	(11,831,516)	-	(11,831,516)
Balances at December 31, 2017	907,857,870	121,632,762	117,172,322	(7,101,375)	(160,000)	508,956,223	1,648,357,802	(21,524,584)	1,626,833,218

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Cash Flows
For each of the three years in the period ended December 31, 2017
(All amounts in Philippine Peso)

	Notes	2017	2016	2015
Cash flows from operating activities				
Profit before income tax		170,887,589	180,408,564	106,530,855
Adjustments for:				
Share in profit of associate	5	(439,499)	(1,558,856)	(969,982)
Provision for (Reversal of) impairment of trade	3,17	1,719,356	(1,458,142)	18,448,896
Provision for impairment of input VAT	10,17	2,156,888	8,627,553	12,306,405
Depreciation and amortization	6,7,8,16,17	279,388,593	262,990,283	233,389,097
Retirement benefit expense	18,20	12,225,905	11,446,004	7,982,741
Unrealized foreign exchange loss (gain),net	25	3,612,176	721,760	3,159,930
Gain (loss) on sale of property and equipment	19	18,670	(17,859,837)	-
Interest income	2,19	(392,425)	(1,389,659)	(136,862)
Interest expense	12	53,034,593	40,641,488	36,821,370
Operating profit before changes in working capital		522,211,846	482,569,158	417,532,450
(Increase) decrease in:				
Trade and other receivables		4,917,032	(52,074,004)	(117,032,318)
Prepayments and other current assets		(57,279,748)	(44,197,325)	46,144,288
Advances to a related party		1,600,000	-	-
Other non-current assets		(36,896,957)	(55,000)	(58,725,453)
Increase (decrease) in:				
Trade and other payables		14,553,393	47,696,041	16,591,612
Advances from related parties		(82,825,013)	-	(2,152,434)
Cash generated from operations		366,280,553	433,938,870	302,358,145
Retirement obligation paid	20	(1,187,400)	(668,400)	-
Income taxes paid		(75,740,701)	(84,788,486)	(68,167,269)
Interest received		392,425	1,389,659	136,862
Net cash provided by operating activities		289,744,877	349,871,643	234,327,738
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired	1.2	(20,509,425)	-	-
Acquisition of property and equipment and computer software	6, 7	(381,440,200)	(385,289,734)	(451,139,094)
Proceeds from disposal of property and equipment		269,465	43,557,004	-
Acquisition of investment properties	9	(19,407,936)	(86,561)	(18,103,077)
Increase in pre-development cost	1.2	(304,476,559)	-	-
Net cash used in investing activities		(725,564,655)	(341,819,291)	(469,242,171)
Cash flows from financing activities				
Net proceeds from (payments of) short-term loans	12	370,000,000	(6,000,000)	84,000,000
Proceeds from borrowings	12	995,909,349	181,592,011	568,365,688
Payment of borrowings	12	(569,647,365)	(174,566,777)	(325,274,139)
Payment of finance lease liabilities	22	(3,350,424)	(3,155,782)	(2,972,448)
Interest paid	12	(49,108,473)	(42,645,794)	(34,227,440)
Dividends paid	13, 26	-	-	(23,114,357)
Net cash provided by (used in) financing activities		743,803,087	(44,776,342)	266,777,304
Net (decrease) increase in cash		307,983,309	(36,723,990)	31,862,871
Cash balance				
Beginning of year		89,661,565	124,797,892	93,565,923
Effect of foreign exchange rate changes on cash		469,877	1,587,663	(630,902)
End of year	2	398,114,751	89,661,565	124,797,892

Harbor Star Shipping Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2017 and 2016 and
for each of the three years in the period ended December 31, 2017
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Business information

1.1 General information

Harbor Star Shipping Services, Inc. (the "Parent Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 5, 1988, primarily to engage in harbor assistance (docking and undocking), ship salvage, towage/lighterage and specialized cargo handling operations and other marine services.

In July 2012, the Parent Company commenced activities for an initial public offering (IPO) of its common shares in the Philippines. On October 29, 2012, the Parent Company submitted its Registration Statement to the Philippine SEC. On October 30, 2013, the Parent Company completed its listing in the Philippine Stock Exchange (PSE) and became a public company (Note 13). The Parent Company did not have any follow-on offering subsequent to its initial public offering.

As a public company, the Parent Company is covered by Part I Section 2A(i) of the Securities Regulation Code (SRC) Rule 68, as amended on October 20, 2011 and also covered by additional requirements under SRC Rule 68, as amended, Part II.

As at December 31, 2017, the Parent Company has 111 shareholders each holding at least 100 common shares (2016 - 140). The Company's major shareholders are its own directors holding 67.88% of its total issued shares and the remaining 32.12% of total issued shares as at December 31, 2017 and 2016 are held by the public.

The Company's registered office, which is also its principal place of business, is located at 2224 A. Bonifacio Street corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines. It has 539 employees as at December 31, 2017 (2016 - 490 employees).

1.2 Significant developments

On July 17, 2014, the Parent Company's BOD approved the amendments made to the primary and secondary purpose of the Parent Company's Articles of Incorporation to include invest, own, operate, venture into domestic and international maritime commerce, domestic and international manning recruitment, transport in and between ports of the Philippines, domestic and international port and terminal operations, construction and rehabilitation of marine facilities and real estate development. The shareholders of the Parent Company approved the amendment on November 24, 2014. On August 11, 2015, the SEC approved the amendments submitted by the Parent Company.

On March 6, 2017, the Parent Company's BOD and shareholders approved the following:

a) Amendments made to the secondary purpose of the Parent Company's Articles of Incorporation to the business of power generation and operation of maritime schools, educational and training facilities;
b) To amend the Parent Company's articles of incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares (Note 13); and
c) Follow-on offering for P1 billion to fund the Parent Company's planned international fleet expansion, domestic feeder vessel services, shipyard business and renewable energy project. The planned follow-on offering has not been executed as at December 31, 2017.

The Company obtained approval from SEC on April 21, 2017.

On May 11, 2017, the Parent Company subscribed 25% (187,500,000 shares) of the 750,000,000 of the authorized shares of Harbor Star Energy Corporation (HSEC) and paid 25% of the subscription amounting to P46,874,500 which gave the Parent Company 100% controlling interest over HSEC.

On October 6, 2017, the Parent Company's BOD resolved to acquire 60% shareholdings of Astronergy Development Gensan Inc. (ADGI), an entity engaged in power generation through renewable energy through HSEC, its new subsidiary. On the same date, which became the acquisition date, a total of 599,997 shares have been acquired, representing 60% of the issued and outstanding shares of ADGI. As a result, ADGI became a subsidiary of HSEC effective October 6, 2017.

ADGI was registered with Department of Energy (DOE), with Registration No. SESC 2014-12-096 on December 29, 2014, as a Renewable Energy (RE) Developer of Solar Energy Resources. Pursuant to Section 15 Chapter VI of Republic Act (RA) No. 9513, An Act Promoting The Development, Utilization and Commercialization of Renewable Energy Resources and For Other Purposes, the Company, as RE Developer, is entitled to certain incentives including income tax holiday (ITH) for the first seven (7) years of its commercial operations.

ADGI has permits, licenses and entitlements to operate 25MW, expandable to 75MW, solar power plant in General Santos. ADGI has been issued a Certificate of Commerciality by the DOE and has an existing ERC-approved Power Purchase Agreement (PPA) with South Cotobato II Electric Cooperative, Inc. ("SOCOTECO II"). Under the PPA, SOCOTECO-II will purchase all the energy output from the project. The construction of the initial 25MW solar power plant is expected to be completed by the 2nd quarter of 2018.

The purchase method of accounting is used to account for the above acquisition whereby the cost of an acquisition is measured at the fair value of the consideration given.

The details of the fair value of ADGI's net liabilities acquired at acquisition date are as follows:

	Amounts
Current assets	
Cash	50,000
Trade and other receivables	246,658
Prepayment and other current assets	22,330
Total current assets	318,988
Non-current assets	
Pre-development expenditures	20,775,183
Property and equipment, net	289,456
Other non-current assets	15,262,309
Total non-current assets	36,326,948
Total assets	36,645,936
Current liabilities	
Trade and other payable	560,793
Advances from related party	82,825,013
Total liabilities	83,385,806
Net liabilities	46,739,870

The fair values of the acquired net assets have been determined provisionally as at acquisition date and are subject to change, as the Company has yet to finalize the fair value of all the net identifiable assets acquired due to the timing of the completion of the acquisition close to reporting date.

The consideration given with respect to the acquisition of ADGI's shares on the date of acquisition amounted to P20,559,425. Goodwill amounting to P48,603,347 was recognized from this acquisition.

The summary of this determination is presented below:

	Amounts
Consideration transferred	20,559,425
Non-controlling interest	(18,695,948)
Total	1,863,477
Add: 100% of the net liabilities acquired	46,739,870
Goodwill	48,603,347

As at December 31, 2017, the value of goodwill has been identified provisionally, thus, no impairment test has been performed.

There are no other expenses paid, contingent consideration arrangement and indemnification assets in relation to the business combination.

Cash paid for the acquisition of a subsidiary of P20,559,425 is presented net of cash from acquired subsidiary of P50,000 for a net cash paid of P20,509,425 in the consolidated statement of cash flows for the year ended December 31, 2017.

The consolidated statement of total comprehensive income for the year ended December 31, 2017 includes the results of operation of ADGI, for the period from October 6, 2017 to December 31, 2017.

Had it been that the business combination occurred at January 1, 2017, the aggregate revenues and profit or loss would have been the same while and profit or loss of the combined entities for year ended December 31, 2017.

Movements of pre-development costs acquired as at and for the year ended December 31, 2017 are as follows:

	Amounts
Beginning Balance	20,775,183
Additions	304,476,559
	325,251,742

The amount of pre-development costs represents total expenditures incurred to date net of revenue from saleable material recognized during the pre-commercial production period, if any. Deduction is only appropriate if it can clearly be shown that the production of the saleable material is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be continued.

1.3 Consolidation

As at December 31, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Harbor Star Subic Corp., Peak Flag SDN BHD; HSEC; and ADGI, collectively referred to as the "Group".

The principal activities of the subsidiaries and associate are set out below.

		% of interest held		Registered place of business/ Country of incorporation	
	Relationship	2017	2016		Main activity
Harbor Star Subic Corp. (HSSC)	Subsidiary	100%	100%	Philippines	HSSC was incorporated on September 17, 2015 and registered in the Philippines primarily to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil spill response and underwater marine services. Its registered address, which is also its principal place of business, is located at Units 9 and 10, Alava Quay, Waterfront Road, Subic Bay Freeport Zone, Subic, Zambales.
Harbor Star Energy Corporation (HSEC)	Subsidiary	100%	-	Philippines	HSEC was incorporated on May 11, 2017 and registered in the Philippines primarily to engage in the production and sale of renewable energy (Note 1.2). Its registered address is at 2224 A. Bonifacio cor Pres. Osmeña Bangkal Makati, Metro Manila.

	Relationship	% of interest held 2017	2016	Registered place of business/ Country of incorporation	Main activity
Peak Flag SDN BHD (Peak Flag)	Subsidiary	45%	45%	Malaysia	Peak Flag was incorporated and registered in Malaysia, primarily to carry on the business of providing tugboat harbor assist/ marine support services. Its registered address, which is also its principal place of business, is at Suite N-6-04, The Gamuda Biz Suites, No.12, Persiaran Anggerik Vanilla 31/99 Seksyen 31, Kota Kemuning 40460 Shah Alam, Selangor.
Astronergy Development Gensan, Inc. (ADGI)	Subsidiary (indirect)	60%	-	Philippines	During 2017, HSEC acquired 60% ownership of Astronergy Development Gensan, Inc., an entity engaged in power generation through renewable energy. Its registered address, which is also its principal place of business, is at Unit 202 Midway Court Building, EDSA Mandaluyong, Metro Manila.
Great Eastern Tug Corporation (GETC)	Associate	20%	20%	Philippines	GETC was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 9, 2002, primarily to own, charter in/out, operate and manage tugboats or domestic services. Its registered address, which is also its principal place of business, is located at 11F Marc 2000 Tower, 1973 Taft Avenue, Malate, Manila.

Critical accounting judgments

Determining control over investments with ownership of less than half of the entity's total equity

The Parent Company follows the guidance of PFRS 10 "Consolidated Financial Statements" in determining if control exists for investments with ownership of less than half of its total equity. In making this judgment, the Parent Company considers the power over more than half of the voting rights by virtue of an agreement with other investors, power to govern the financial and operating policies of the entity under a statute or an agreement, power to appoint or remove the majority of the members of the BOD, or power to cast the majority of votes at meetings of the BOD.

Having a significant influence based on the percentage ownership, the Parent Company initially considered Peak Flag as associate. However, effective January 1, 2014, the Parent Company has gained control over the key economic decisions and policies affecting Peak Flag under the duly signed amended shareholders' agreement including majority board representation. Consequently, based on management's judgment and continuous assessment of the Parent Company, Peak Flag is considered a subsidiary as at December 31, 2017 and 2016.

Non-controlling interest

Set out below are the summarized financial information of subsidiaries, that has non-controlling interests to the Group. The amounts disclosed are before intercompany eliminations.

a) Peak Flag

	2017	2016
Total current assets	158,877,038	136,804,457
Total non-current assets	1,482,718	1,047,411
Total current liabilities	126,001,206	82,492,611
Total non-current liabilities	45,360,000	71,833,312
Net capital deficiency	(11,001,450)	(16,474,055)
Total revenue	60,166,505	40,492,249
Total expenses	53,948,522	51,975,530
Total income (loss) for the year	9,741,132	(11,483,281)
Total comprehensive income (loss) for the year	9,741,132	(11,483,281)
Net cash used in operating activities	(77,693,290)	(7,490,040)
Net cash provided by financing activities	85,804,729	6,735,169

b) ADGI

	2017
Total current assets	80,059,110
Total non-current assets	335,299,485
Total current liabilities	460,605,410
Total capital deficiency	(45,246,815)
Total other income	1,534,406
Total expenses	(41,351)
Total income for the year	1,493,055
Total comprehensive income for the year	1,493,055
Net cash provided by operating activities	452,122,364
Net cash used in financing activities	(73,368,354)

1.4 Approval of the consolidated financial statements

The consolidated financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 15, 2018. There were no events subsequent to date of the consolidated financial statements up to opinion date, March 28, 2018, which would require adjustments or disclosures in these consolidated financial statements.

Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2017	2016
Cash in banks	393,804,011	85,530,387
Cash equivalents	2,580,138	2,550,219
Cash on hand	1,730,602	1,580,959
	398,114,751	89,661,565

Interest income earned from cash in banks and cash equivalents for the year ended December 31, 2017 amounted to P392,425 (2016 - P1,389,659; 2015 - P136,862) (Note 19).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	2017	2016
Trade receivables	373,944,210	377,538,322
Allowance for impairment of trade receivables	(20,105,907)	(18,386,551)
	353,838,303	359,151,771
Advances to employees	33,240,065	24,521,104
	387,078,368	383,672,875

The movements in allowance for impairment of trade receivables for the years ended December 31 are as follows:

	Note	2017	2016
Beginning of year		18,386,551	19,844,693
Provision (Reversal of), net	17	1,719,356	(1,458,142)
End of year		20,105,907	18,386,551

For the year ended December 31, 2017, a net provision for impairment of trade receivables amounting to P1,719,356 (2016 - P1,458,142 reversal/credited; 2015 - P18,448,896 provision/charged) was charged to general and administrative expenses (Note 17), as a result of management's assessment of collectability.

The Group has not written off any receivables for the years ended December 31, 2017, 2016 and 2015.

The carrying value of trade and other receivables as at December 31, 2017 and 2016 approximates their fair value as at reporting date.

Critical accounting judgment

Allowance for impairment of receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of provision is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables, designed to identify potential charges to the provision, is performed on a continuous basis throughout the year. Management evaluates specific accounts of customers who are unable to meet their financial obligations. In these cases, management uses judgment based on the best available facts and circumstances, including but not limited to, the length of relationship with the customers and the customers' payment history. The amount and timing of recorded expenses for any period would therefore differ based on the judgments made.

In relation to receivables which are past due but not impaired (Note 28.4), no provision for impairment for the years ended December 31, 2017, 2016 and 2015 has been determined by management to be necessary considering customer relationship and historical experience. Historically, the Group did not experience any material default from concerned customers.

Judgments related to provision for impairment of receivables are continually evaluated based on historical experiences and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Note 4 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	Notes	2017	2016
Advances to suppliers		61,577,257	-
Prepayments		58,118,461	54,843,554
Input value-added tax (VAT), net	10	32,563,797	42,326,012
Refundable deposits	22	1,091,081	468,262
		153,350,596	97,637,828

Advances to suppliers consist of advance payments on services to be performed within 12 months.

Prepayments consist of mainly unexpired hull and machinery insurance, motor car insurance, life and health insurance, prepaid rent and fuel which are expected to be utilized for a period of less than a year.

Note 5 - Investment in associate

The movements of investment in associate for the years ended December 31 are as follows:

	2017	2016	2015
Beginning of year	12,631,291	10,924,435	9,954,453
Share in net profit	439,499	1,558,856	969,982
Share in other comprehensive income	408,500	148,000	-
End of year	13,479,290	12,631,291	10,924,435

Set out below is the summarized financial information of the Parent Company's associate, GETC, at December 31:

	2017	2016	2015
Total current assets	48,029,731	41,714,179	29,750,828
Total non-current assets	19,674,137	21,876,387	27,103,063
Total current liabilities	307,418	434,111	2,231,716
Net equity	67,396,450	63,156,455	54,622,175
Total revenue	11,112,821	13,277,852	15,060,000
Total profit for the year	2,197,495	7,794,280	4,849,910
Total other comprehensive income	2,042,500	740,000	-
Total comprehensive income	4,239,995	8,534,280	4,849,910

	2017	2016	2015
Net assets, January 1	63,156,455	54,622,175	49,772,265
Profit for the year	2,197,495	7,794,280	4,849,910
Other comprehensive income	2,042,500	740,000	-
Net assets, December 31	67,396,450	63,156,455	54,622,175
Group's share in %	20%	20%	20%
Group's share in net assets	13,479,290	12,631,291	10,924,435

Critical accounting judgment

Impairment of investment in associate

The Group's investment in associate is carried using equity method. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those management assessment and judgment could have a significant effect on the carrying value of investment in associate and the amount and timing of recorded provision for any period.

As at December 31, 2017 and 2016, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of its investment in associate may not be recoverable.

Note 6 - Property and equipment at revalued amounts, net

Details of property and equipment carried at revalued amounts at December 31 follow:

	Notes	2017	2016
As at January 1			
Revalued amount		3,206,094,078	2,976,704,459
Accumulated depreciation		(1,581,337,443)	(1,424,317,054)
Net carrying amount		1,624,756,635	1,552,387,405
Year ended December 31			
Opening net carrying amount		1,624,756,635	1,552,387,405
Additions		90,097,102	252,429,965
Disposal			
Cost		-	(68,487,105)
Accumulated depreciation		-	51,346,942
Reclassification from property and equipment at cost	7	173,203,254	45,446,759
Depreciation	16	(216,006,218)	(208,367,331)
Closing net carrying amount		1,672,050,773	1,624,756,635
At December 31			
Revalued amount		3,469,394,434	3,206,094,078
Accumulated depreciation		(1,797,343,661)	(1,581,337,443)
Net carrying amount		1,672,050,773	1,624,756,635

The net book value of the tugboats, had the assets been carried at cost and not at revalued amount as at December 31 would have been as follows:

	Note	2017	2016
As at January 1			
Cost		2,171,703,490	1,942,313,871
Accumulated depreciation		(759,458,666)	(651,677,158)
Net carrying amount		1,412,244,824	1,290,636,713
Year ended December 31			
Opening net carrying amount		1,412,244,824	1,290,636,713
Additions		90,097,102	252,429,965
Disposal			
Cost		-	(68,487,105)
Accumulated depreciation		-	51,346,942
Reclassification from property and equipment at cost	7	173,203,254	45,446,759
Depreciation		(170,883,438)	(159,128,450)
Closing net carrying amount		1,504,661,742	1,412,244,824
At December 31			
Cost		2,435,003,846	2,171,703,490
Accumulated depreciation		(930,342,104)	(759,458,666)
Net carrying amount		1,504,661,742	1,412,244,824

The movements of revaluation increment for the years ended December 31 are as follows:

	Note	2017	2016
Beginning of year		212,511,811	261,750,692
Amortization of revaluation increment through depreciation		(45,122,780)	(49,238,881)
End of year, gross of tax		167,389,031	212,511,811
Deferred income tax liability (at 30%)	24	(50,216,709)	(63,753,543)
End of year, net of tax		117,172,322	148,758,268

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12). As at December 31, 2017, the Group's tugboats used as collaterals have net carrying amount of P765,394,210 (2016 - P862,090,551).

Critical accounting estimates

Useful lives of property and equipment at revalued amount

The Group's management determines the estimated useful lives for its property and equipment at revalued amount based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

An increase/decrease in the estimated useful life would impact the recorded net carrying amounts of property and equipment at revalued amount with a corresponding increase/decrease in the profit for the year as a result of lower/higher depreciation expense charged to profit or loss.

Revaluation of tugboats

The Group carries its tugboats at appraised value, with changes in fair value being recognized directly in equity under revaluation surplus. The Group engaged independent valuation specialists in determining the fair value of its tugboats as at December 31, 2016. The Group reviews the fair value of its tugboats periodically every 3 to 5 years.

The Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates on recent market transactions on arm's length terms at the end of each reporting period. However, it is reasonably possible, on the basis of existing knowledge, that changes in estimates would impact the recorded cost of services and property and equipment at revalued amount.

Management deems that the revalued amounts still approximate the fair value as at reporting dates with a significant number of tugboats only recently acquired. The Company is considering revaluing its tugboats in 2018.

Note 7 - Property and equipment at cost, net

Details of property and equipment at December 31 follow:

	Land	Barges	Building and building improvements	Transportation equipment	Diving and oil spill equipment	Furniture, fixtures and leasehold improvements	Construction equipment	Construction-in-progress	Total
As at January 1, 2016									
Cost	39,556,011	328,812,186	26,088,355	51,775,259	116,632,870	3,870,237	-	58,906,395	625,641,313
Accumulated depreciation	-	(110,603,051)	(18,872,104)	(31,206,890)	(90,966,735)	(2,999,114)	-	-	(254,647,894)
Cumulative translation adjustments	-	-	-	-	-	(13,917)	-	(340,668)	(354,585)
Net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	-	58,565,727	370,638,834
Year ended December 31, 2016									
Opening net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	-	58,565,727	370,638,834
Additions	-	10,816,763	663,500	5,085,625	6,103,530	238,476	11,500,000	73,769,026	108,176,920
Disposal									
Cost	-	-	-	(11,110,901)	-	(128,587)	-	(8,137,663)	(19,377,151)
Accumulated depreciation	-	-	-	10,820,147	-	-	-	-	10,820,147
Reclassification (Notes 6 and 8)	-	-	-	-	1,516,031	-	-	(73,321,100)	(71,805,069)
Depreciation	-	(33,051,159)	(2,615,733)	(7,295,712)	(10,725,762)	(340,378)	(383,333)	-	(54,412,077)
Translation adjustments	-	-	-	-	(303,206)	(22,533)	-	340,668	14,929
Closing net carrying amount	39,556,011	195,974,739	5,264,018	18,067,528	22,256,728	604,184	11,116,667	51,216,658	344,056,533
At December 31, 2016									
Cost	39,556,011	339,628,949	26,751,855	45,749,983	124,252,431	3,980,126	11,500,000	51,216,658	642,636,013
Accumulated depreciation	-	(143,654,210)	(21,487,837)	(27,682,455)	(101,692,497)	(3,339,492)	(383,333)	-	(298,239,824)
Cumulative translation adjustments	-	-	-	-	(303,206)	(36,450)	-	-	(339,656)
Net carrying amount	39,556,011	195,974,739	5,264,018	18,067,528	22,256,728	604,184	11,116,667	51,216,658	344,056,533
n									
Year ended December 31, 2017									
Opening net carrying amount	39,556,011	195,974,739	5,264,018	18,067,528	22,256,728	604,184	11,116,667	51,216,658	344,056,533
Business acquisition									
Cost	-	-	41,050	-	-	413,508	-	-	454,558
Accumulated depreciation	-	-	-	-	-	(124,052)	-	-	(124,052)
Additions	-	66,498,321	-	14,914,000	21,094,055	73,746	-	196,381,486	298,961,608
Disposal									
Cost	-	-	-	(5,019,820)	-	-	-	-	(5,019,820)
Accumulated depreciation	-	-	-	4,731,685	-	-	-	-	4,731,685
Reclassification (Note 6)	-	6,983,364	-	-	-	-	-	(180,186,618)	(173,203,254)
Depreciation	-	(38,164,839)	(2,557,617)	(8,024,089)	(11,406,834)	(343,625)	(2,300,000)	-	(62,797,004)
Translation adjustments	-	-	-	-	396,816	35,536	-	-	432,352
Closing net carrying amount	39,556,011	231,291,585	2,747,451	24,669,304	32,340,765	659,297	8,816,667	67,411,526	407,492,606
At December 31, 2017									
Cost	39,556,011	413,110,634	26,792,905	55,644,163	145,346,486	4,467,380	11,500,000	67,411,526	763,829,105
Accumulated depreciation	-	(181,819,049)	(24,045,454)	(30,974,859)	(113,099,331)	(3,807,169)	(2,683,333)	-	(356,429,195)
Cumulative translation adjustments	-	-	-	-	93,610	(914)	-	-	92,696
Net carrying amount	39,556,011	231,291,585	2,747,451	24,669,304	32,340,765	659,297	8,816,667	67,411,526	407,492,606

As at December 31, 2017, the cost of fully depreciated property and equipment still used in operation amounted to P106,831,816 (2016 - P97,131,100).

As at December 31, 2017, the Group's unpaid acquisitions of property and equipment amounted to P52,040,713 (2016 - P42,155,598).

Depreciation for the years ended December 31 charged to profit or loss consists of:

	Notes	2017	2016	2015
Cost of services	16	48,040,347	41,397,737	38,085,928
General and administrative expenses	17	14,756,657	13,014,340	11,886,122
		62,797,004	54,412,077	49,972,050

Construction-in-progress as at December 31, 2016 mainly comprise of a new building being constructed and cost of newly purchased tugboat being prepared for intended use, which remains uncompleted as at December 31, 2017.

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 12) amounted to P14,612,085 and P79,323,025, respectively, as at December 31, 2017 (2016 - P9.8 million and P110.7 million, respectively).

As at December 31, 2017, net carrying value of barge held under finance lease amounted to P75,839,168 (2016 - P74,666,935) (Note 22).

Critical accounting estimates

Useful lives of property and equipment at cost

The Group's management determines the estimated useful lives for its property and equipment at cost based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

An increase/decrease in the estimated useful life would impact the recorded net carrying amounts of property and equipment at cost with a corresponding increase/decrease in the profit for the year as a result of lower/higher depreciation expense charged to profit or loss.

Critical accounting judgment

The Group's property and equipment, except for tugboats, is carried at cost. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those assessment and judgment could have a significant effect on the carrying value of property and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2017 and 2016, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their property and equipment may not be recoverable.

Note 8 - Computer software, net

The details of computer software, net as at December 31, 2017:

Year ended December 31, 2016	
Opening net carrying amount	-
Reclassification from property and equipment at cost (Note 7)	26,358,310
Amortization (Note 17)	(210,875)
Closing net carrying amount	26,147,435
At December 31, 2016	
Cost	26,358,310
Accumulated amortization	(210,875)
Net carrying value	26,147,435
Year ended December 31, 2017	
Opening net carrying amount	26,147,435
Additions	2,266,605
Amortization (Note 17)	(585,371)
Closing net carrying amount	27,828,669
At December 31, 2017	
Cost	28,624,915
Accumulated amortization	(796,246)
Net carrying value	27,828,669

Note 9 - Investment properties

As at December 31, 2017 and 2016, the Group's investment properties consist of parcels of land in various locations, which are held for capital appreciation.

The movement in investment properties for the years ended December 31 follows:

	2017	2016
Beginning of year	24,069,051	23,982,490
Additions	19,407,936	86,561
End of year	43,476,987	24,069,051

The estimated fair value of the investment properties as at December 31, 2017 amounted to P230.7 million (2016 - P28.9 million) based on the recent selling price per square meter and land reclassification to industrial during the year.

There were no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2017, 2016 and 2015.

Critical accounting judgment

The carrying value of the Group's investment properties is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those assessment and judgment could have a significant effect on the carrying value of investment properties and the amount and timing of recorded provision for any period.

As at December 31, 2017 and 2016, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their investment properties may not be recoverable.

Note 10 - Other non-current assets, net

Other non-current assets as at December 31 consist of:

	Note	2017	2016
Input VAT, net of output VAT		210,696,343	166,179,826
Allowance for impairment of input VAT		(35,397,251)	(33,240,363)
Input VAT, net		175,299,092	132,939,463
Performance bond		9,799,637	-
Lease guarantee deposit	22	4,356,032	4,356,032
Available-for-sale financial assets		810,000	810,000
Others		1,350,000	1,350,000
		191,614,761	139,455,495

Performance bond is a security required by the contracting party to ensure completion of performance of obligation in the event that the performing party cannot fulfill its obligations, as set forth in the circular no DOE DC 2009-07-0011 Sec 16 Obligations of a Developer.

The movement in allowance for impairment of input VAT for the years ended December 31 follows:

	Note	2017	2016
Beginning of year		33,240,363	24,612,810
Provision for impairment	17	2,156,888	8,627,553
End of year		35,397,251	33,240,363

Critical accounting judgment

Allowance for impairment of input VAT is maintained at a level considered adequate to provide for potentially unrecoverable tax claims from excess input VAT. An evaluation of the recoverability of the excess input VAT, designed to identify potential charges to the provision, is performed on a continuous basis throughout the period. Management uses judgment based on the best available facts and circumstances, including but not limited to the evaluation of its future utilization, in determining provision for impairment of input VAT. A change in the provision would impact the Group's recorded carrying value of input VAT and provision for impairment.

Further, based on management assessment, out of the total carrying amount of input VAT as at December 31, 2017, P32,563,797, presented under "Prepayments and other current asset" in the statement of financial position (2016 - P42,326,012) (Note 4), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P175,299,092 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2016 - P132,939,463).

Management believes that the carrying amount of input VAT is recoverable based on the long-term business plans of the Group.

Note 11 - Trade and other payables

Trade and other payables at December 31 consist of:

	2017	2016
Trade payable	150,045,702	141,050,433
Accrued expenses		
Fuel	14,626,252	19,263,420
Marketing	12,160,149	13,900,253
Tug assistance	7,226,989	3,300,869
Interest	2,996,221	5,497,223
Others	43,215,643	12,348,091
Unearned income	7,570,882	7,869,161
Advances from employees	6,182,186	5,189,959
Payable to government agencies	3,571,453	6,672,911
Others	7,157	683,548
	247,602,634	215,775,868

Trade payables are generally non-interest-bearing and are settled in thirty (30) to ninety (90) days' term.

Accrued expenses are obligations on the basis of normal credit terms and do not bear interest. These pertain to accruals made for professional fees, and delivered goods and services not yet billed by suppliers as of reporting period. Accruals are made based on prior month's billings and/or contracts and are normally settled within twelve (12) months from the reporting period. Other accrued expenses are mainly composed of outstanding payable to insurance companies and unliquidated expenses which are expected to be settled in the subsequent year.

Unearned income pertains to advance collection from customers.

Note 12 - Short-term loans and borrowings

Details of short-term loans and borrowings as at December 31 are as follows:

	2017	2016
Current		
Short-term loans	560,000,000	190,000,000
Current portion of long term borrowings	347,486,299	229,527,485
Non-current		
Long-term borrowings	722,927,421	390,775,824
	1,630,413,720	810,303,309

As at December 31, 2017 and 2016, the Parent Company's unsecured short-term loans from local banks bear interest rates ranging from 4.5% to 5.5% and have maturity of one to three months from reporting date.

As at December 31, 2017 and 2016, the Parent Company's long term borrowings bear annual interest rate ranging from 4.5% to 13.65% are payable in various installments maturing on various dates up to 2022. These are secured by chattel mortgages to certain Parent Company-owned tugboats (Note 6), transportation equipment and barges (Note 7).

The long-term borrowings agreement requires compliance by the Group to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2017 and 2016, Parent Company had complied with those financial ratios.

Both short-term loans and long-term borrowings were obtained specifically for working capital purposes and to finance capital expenditures.

Total interest expense from borrowings charged to profit or loss for the year ended December 31, 2017 amounted to P53,034,593 (2016 - P40,641,488; 2015 - P36,821,370). There are no qualifying assets as at December 31, 2017 and 2016, hence, no borrowing costs are capitalized.

The fair value of long-term borrowings approximate its carrying values as at December 31, 2017 and 2016.

Net debt reconciliation

Detailed analysis of net debt and the movements in net debt for the year ended December 31, 2017 are presented below:

	Notes	Amounts
Cash and cash equivalents	[illegible]	398,114,751
Short-term loans		(560,000,000)
Borrowings, current portion		(347,486,299)
Borrowings, net of current portion		(722,927,421)
Finance lease liability, current portion	2[illegible]	(3,557,070)
Finance lease liability, net of current portion	2[illegible]	(27,085,626)
Net debt		(1,262,941,665)

Cashflow movements presented in the statement of cashflows from the financing liabilities above are net of foreign exchange adjustments amounting to P24 million for the year ended December 31, 2017.

Note 13 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2017 and 2016 are as follows:

	Shares		Amount	
	2017	2016	2017	2016
Common shares at P1 par value share				
Authorized	2 billion	1.5 billion	2 billion	1.5 billion
Issued and outstanding	907,857,870	605,238,580	907,857,870	605,238,580

As discussed in Note 1.1, on October 29, 2012, the Company submitted its Registration Statement to the Philippine SEC. On October 30, 2013, the IPO of the Company's shares were issued with an issue/offer price of P1.88 per share. Total shares registered and subscribed was 181.6 million shares resulting in share capital of P181.6 million and additional paid-in capital of P121.6 million net of transaction costs amounting to P24.6 million. There are no other share offering after the IPO in 2013.

On March 6, 2017, the BOD and shareholders approved to amend the Company's articles of incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares (Note 1.2).

On September 5, 2017, the SEC issued an order, in favor of the Parent Company, authorizing the issuance of three hundred two million six hundred nineteen thousand two hundred ninety (302,619,290) common shares with a par value of One Peso (P1.00) per share, as stock dividends to stockholders of record as of September 19, 2017, which was subsequently issued by the Parent Company on September 29, 2017. (Note 26).

The Parent Company's record of registration of its securities under the Securities Regulation Code follows:

Number of shares registered	181,600,000
Issued/offer price	P1.88
Date of approval	October 29, 2012

Dividend declaration

On June 17, 2015, the Parent Company's BOD approved the declaration of cash dividends amounting to P23.1 million (P0.038 per share), in favor of the Parent Company's existing shareholders of record as at July 10, 2015 and was paid on August 5, 2015.

On March 6, 2017, the Parent Company's BOD and shareholders approved the declaration of 50% stock dividends equivalent to 302,619,290 shares from the unrestricted retained earnings of the Parent Company as at December 31, 2015 based on its audited financial statements for the year then ended.

Note 14 - Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Parent Company and held as treasury shares, if any.

Total issued ordinary shares for the period has been adjusted for impact of stock split and stock dividends, if any.

Earnings per share for the years ended December 31 is calculated as follows:

	2017	2016	2015
Net income attributable to Parent Company	102,850,817	107,203,021	76,084,233
Weighted average number of common shares - basic and diluted	907,857,870	907,857,870	907,857,870
Basic and diluted earnings per share	0.11	0.12	0.08

The earnings per share for the years ended December 31, 2016 and 2015 has been adjusted as a result of the stock dividend declaration during the year.

The previously reported earnings per share are as follows:

	2016	2015
Net income attributable to Parent Company	107,203,021	76,084,233
Weighted average number of common shares - basic and diluted	605,238,580	605,238,580
Basic and diluted earnings per share	0.18	0.13

The basic and diluted earnings per share are the same each for the year presented as there are no potential dilutive common shares.

Note 15 - Service income, net

The components of service income, net for the years ended December 31 are:

	Note	2017	2016	2015
Harbor assistance, net of discounts		1,049,202,992	1,043,687,401	741,913,577
Lighterage services		91,432,697	105,971,809	202,429,743
Salvage income		77,161,337	39,850,400	31,060,024
Towing services		64,407,902	64,249,585	16,894,364
Income from construction contract	23	-	57,466,091	12,628,855
Others		44,703,843	49,604,739	35,316,954
		1,326,908,771	1,360,830,025	1,040,243,517

Harbor assistance pertains to services rendered in assisting ships and other watercrafts in docking and undocking at the port. The amount of income recognized is net of discounts amounting to P117.6 million (2016 - P128.4 million; 2015 - P78.7 million).

Others consist of income generated from diving and other underwater services, among others. All of the above revenues are considered as one business segment of the Group.

Note 16 - Cost of services

The components of cost of services for the years ended December 31 are:

	Notes	2017	2016	2015
Depreciation	6,7	264,046,565	249,765,068	221,502,975
Personnel costs	18	208,749,994	181,507,307	142,653,209
Fuel and lubricants		181,255,629	140,518,049	127,668,490
Supplies and construction supplies		65,849,705	110,012,641	48,566,131
Outside services		40,792,774	74,746,493	46,099,142
Insurance		39,120,738	36,668,262	33,458,995
Repairs and maintenance		21,478,917	26,005,036	14,737,646
Port expense		11,191,975	12,354,814	10,001,269
Professional fees		8,722,550	9,128,313	5,654,747
Communications, light and water		6,097,289	10,255,743	8,184,279
Transportation and travel		5,028,592	4,647,206	2,422,737
Charter hire		4,082,708	21,461,178	17,618,491
Rent	22	2,552,475	27,369,495	2,464,422
Taxes and licenses		2,417,391	2,336,337	849,888
Others		45,074,209	49,805,096	12,675,581
		906,461,511	956,581,038	694,558,002

Others mainly composed of expenses such as travel and transportation, survey and valuation fees, commission and utilities expenses.

Rent expense for the year ended December 31, 2016 includes equipment rentals related to the construction and repair of a jetty in Quezon Province (Note 23).

Note 17 - General and administrative expenses

The components of general and administrative expenses for the years ended December 31 are:

	Notes	2017	2016	2015
Personnel costs	18	84,933,136	81,547,596	74,774,651
Transportation and travel		31,334,433	21,520,874	20,375,650
Taxes and licenses		21,881,423	12,702,445	9,113,428
Representation and entertainment		15,753,760	17,404,819	13,958,003
Depreciation and amortization	7,8	15,342,028	13,225,215	11,886,122
Professional and management fees		12,091,228	13,115,980	15,183,661
Advertising and promotions		7,238,490	5,716,356	4,789,108
Communications		6,512,346	6,276,436	4,590,153
Supplies and construction materials		5,587,820	4,539,726	5,051,670
Registration and membership fees		5,524,112	762,825	329,284
Outsourced services		4,876,422	3,958,070	1,259,185
Rent	22	3,498,727	3,952,866	3,244,919
Fuel and lubricants		2,684,671	2,388,986	1,791,326
Repairs and maintenance		2,262,041	3,405,067	2,735,345
Insurance		2,167,725	1,077,269	2,234,313
Provision for impairment of input VAT	10	2,156,888	8,627,553	12,306,405
Provision for (reversal of) impairment of trade receivables	3	1,719,356	(1,458,142)	18,448,896
Utilities		1,624,005	1,782,971	1,791,861
Others		6,733,818	5,009,599	4,626,135
		233,922,429	205,556,511	208,490,115

Others mainly composed of expenses such as directors' fee, membership fees, postage, courier, bank service charges and other expenses.

Note 18 - Personnel costs

The components of personnel costs for the years ended December 31 are:

	Notes	2017	2016	2015
Cost of services				
Salaries and wages		105,169,402	102,852,396	77,177,172
Crew expense		61,985,633	41,927,555	33,569,578
Tug and barge operations		19,414,758	16,905,332	15,059,402
Retirement benefit expense	20	8,558,134	8,375,125	5,587,919
Other employee benefits		13,622,067	11,446,899	11,259,138
	16	208,749,994	181,507,307	142,653,209
General and administrative expenses				
Salaries and wages		71,746,221	68,219,001	65,267,625
Retirement benefit expense	20	3,667,771	3,070,879	2,394,822
Other employee benefits		9,519,144	10,257,716	7,112,204
	17	84,933,136	81,547,596	74,774,651
		293,683,130	263,054,903	217,427,860

Other employee benefits mainly pertain to employer's share on statutory contributions and insurance.

Note 19 - Other income, net

The components of other income, net for the years ended December 31 consist of:

	Notes	2017	2016	2015
Insurance claims		28,560,624	2,490,741	3,022,242
Ship management		2,000,000	-	-
Interest income	2	392,425	1,389,659	136,862
Foreign exchange gain (loss), net	25	(9,913,783)	(1,623,152)	3,180,020
Gain (loss) on sale of property and equipment		(18,670)	17,859,837	-
Others		15,811,999	2,767,662	244,529
		36,832,595	22,884,747	6,583,653

Insurance claims pertain to reimbursements from insurance companies for the damages on tugboats incurred by the Group in previous years.

Others pertain to recharges and special projects provided by the Group to their customers which do not fall under regular service income.

Note 20 - Retirement benefit

The Parent Company has an unfunded, non-contributory, and actuarially computed retirement benefit plan which provides a retirement benefit in accordance with the local conditions and practices in the Philippines. Under the Plan, the normal retirement age is 60 with a minimum of five years of service.

The amount recognized in the statement of financial position as at December 31 is as follows:

	2017	2016
Present value of defined benefit obligation	71,749,193	65,631,257

The Parent Company does not have any plan assets.

The movements in the liability recognized in the statements of financial position at December 31 are as follows:

	2017	2016
Beginning of year	65,631,257	60,589,258
Current service cost	8,774,424	8,400,904
Interest cost	3,451,481	3,045,100
Benefits paid	(1,187,400)	(668,400)
Remeasurement (gain) loss due to:		
Changes in financial assumptions	(2,394,083)	(8,390,402)
Experience adjustments	(1,899,862)	4,151,531
Changes in demographic assumptions	(626,624)	(1,496,734)
End of year	71,749,193	65,631,257

The amounts recognized in profit or loss for the years ended December 31 are as follows:

	2017	2016
Current service cost	8,774,424	8,400,904
Net interest cost	3,451,481	3,045,100
Retirement benefit expense	12,225,905	11,446,004

Retirement benefit expense is included as part of personnel cost under cost of services and general and administrative expenses (Note 18).

The amounts of remeasurement gain on defined benefit obligation recognized in other comprehensive income for the years ended December 31 are as follows:

	Note	2017	2016
Due to change in financial assumptions		(2,394,083)	(8,390,402)
Due to experience		(1,899,862)	4,151,531
Due to change in demographic assumption		(626,624)	(1,496,734)
Remeasurement gain		(4,920,569)	(5,735,605)
Deferred income tax expense	24	1,476,171	1,720,681
Remeasurement gain, net of tax		(3,444,398)	(4,014,924)

Movements in cumulative other comprehensive income related to retirement benefit obligation for the years ended December 31 presented as part of retained earnings in the statements of financial position follows:

	Note	2017	2016
Beginning of year		12,820,255	16,835,179
Remeasurement gain for the year		(4,920,569)	(5,735,605)
Deferred income tax effect	24	1,476,171	1,720,681
End of year, net of tax		9,375,857	12,820,255

Shown below is the maturity analysis of the undiscounted benefit payments at December 31:

	2017	2016
Less than one years	2,571,783	1,993,545
More than one year to five years	45,063,445	42,728,140
More than five years to 10 years	40,953,906	42,482,067
More than 10 years to 15 years	58,722,110	49,379,156
More than 15 years to 20 years	80,488,412	59,981,272
More than 20 years	213,940,275	197,097,124
Total expected payments	441,739,931	393,661,304

The average duration of the defined benefit obligation at the end of the reporting period is 18.28 years (2016 - 18.20 years)

There are no unusual or significant risks to which the Plan exposes the Parent Company.

Demographic assumptions

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy (including expectations for future improvements), plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plan. The assumptions used in 2017 are consistent with those applied in 2016.

Assumptions regarding future mortality experience are set based on advice from published statistics and experience within the industry.

Critical accounting estimate

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pension include the discount rate and future salary increase. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.

The Parent Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Parent Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The significant actuarial assumptions used by the Parent Company for the years ended December 31 are as follows:

	2017	2016
Discount rate	5.73%	5.34%
Salary growth rate	5.00%	5.00%

The sensitivity of the defined benefit obligation at December 31 to changes in the significant weighted principal assumptions is:

	2017			2016		
	Increase (decrease) in defined benefit obligation					
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rates	1%	(8,084,066)	6,913,513	1%	(5,424,031)	6,724,108
Salary growth rate	1%	1,827,574	(482,927)	1%	6,616,481	(5,773,907)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Note 21 - Related party transactions and balances

The table below summarizes the Group's transactions with their related parties for the years ended December 31:

	Terms and conditions	2017	2016	2015
(a) Purchase of services				
Associate	Services rendered to the Parent Company are billed based on agreed prices. These are unsecured, non-interest bearing and are payable in cash within 30 days after invoice date.	4,082,708	5,607,388	6,964,286

Intercompany balances eliminated in these consolidated financial statements pertain to the Parent Company's investments and advances to its subsidiaries amounting to P59,080724 and P989,860,726, respectively, as at December 31, 2017 (2016 - P8,455,724 and P275,463,115, respectively).

The Group has no other intercompany transactions. There are no unrealized gains and losses eliminated in the consolidation.

The table below summarizes the outstanding balances with related parties as at December 31:

	Terms and conditions	2017	2016
Advances to related party:			
Entity under common control	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.	7,789,948	9,389,948

Key management compensation and benefits

Key management compensation and benefits for the years ended December 31 consist of:

	Terms and conditions	2017	2016	2015
Salaries and short term employee benefits	Key management compensation covering salaries and wages and other short term benefits are determined based on contract of employment and payable in accordance with the Group's payroll period. These were fully paid at reporting date.	81,186,301	80,762,389	80,511,147
Retirement benefits	Retirement benefits are determined and payable in accordance with policies disclosed in Note 29.20. These will be settled upon retirement of key management.	999,767	999,776	999,776
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	-	20,000	110,000
		82,186,068	81,782,165	81,620,923

There are no amounts due from or payable to key management personnel arising from the above compensation arrangement, other than the retirement benefit obligation, at December 31, 2017 and 2016. The Group has not provided share based payments, termination benefits or other long term benefits other than retirement benefits to its key management personnel for the years ended December 31, 2017, 2016 and 2015.

Note 22 - Lease commitments

(a) Finance lease

On February 27, 2014, the Parent Company entered into a finance lease agreement covering a specific barge for ten (10) years. The annual interest rate of the said agreement is 6%. The first monthly lease payment commenced in September 2014.

This agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,356,032, which is presented within other non-current assets in the consolidated statement of financial position as at December 31, 2017 and 2016 (Note 10).

The commitments in relation to above finance lease agreement as at December 31 are payable as follows:

	2017	2016
Not later than 1 year	5,157,030	5,157,030
Later than 1 year but not more than 5 years	20,628,122	20,628,122
More than 5 years	8,595,051	13,752,082
Minimum lease payments	34,380,203	39,537,234
Future finance charges	(3,737,507)	(5,544,114)
Total finance lease liabilities	30,642,696	33,993,120

The present value of finance lease liability as at December 31 are as follows:

	2017	2016
Not later than 1 year	3,557,070	3,350,424
Later than 1 year but not more than 5 years	16,561,745	17,963,585
More than 5 years	10,523,881	12,679,111
	30,642,696	33,993,120

(b) Operating lease

The Parent Company has various non-cancellable operating lease agreements covering certain warehouse and offices for periods ranging from six (6) months to one (1) year which can be extended or renewed upon mutual agreement of the parties.

These agreements require the Parent Company to pay refundable deposits which are presented within prepayments and other current assets in the consolidated statements of financial position. Refundable deposits amounted to P1,091,081 as at December 31, 2017 (2016 - P468,262) (Note 4).

Rent expense from the foregoing lease agreements recognized in profit or loss for the years ended December 31 are as follows:

	Notes	2017	2016	2015
Cost of services	16	2,552,475	6,161,631	2,464,422
General and administrative expenses	17	3,498,727	3,952,866	3,244,919
		6,051,202	10,114,497	5,709,341

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2017 amounted to P674,944 (2016 - P182,473).

Critical accounting judgment

The Group follows the guidance of PAS 17 "Leases" to determine whether a lease is a finance lease or operating lease. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the transfer of ownership of the asset to the lessee at the end of the lease term. If there is a transfer of ownership at the end of the lease term, the Group classifies the lease as a finance lease. Based on management's assessment, lease covering the specific barge wherein ownership will be transferred at the end of the lease term, is considered a finance lease while other leases remain to be operating lease.

Note 23 - Construction contract

In 2015, the Group entered into an agreement with a third party to construct and repair a jetty in Quezon province. The project was completed in 2016.

The details of the Group's construction contract for the years ended December 31, 2016 are as follows:

	Notes	2016
Contract revenue for the year	15	57,466,091
Less: contract costs	16	(59,964,383)
Gross profit		(2,498,292)

The amount of advance billings to customers for contract work as at December 31, 2016 are as follows:

	Note	2016
Contract revenue to date		70,094,946
Less: progress billings to date		(70,094,946)
	11	-

Note 24 - Income tax expense

Deferred income tax (DIT) liabilities, net as at December 31 consist of

	2017	2016
DIT assets		
Retirement benefit obligation	21,524,757	19,689,377
Allowance for impairment of receivables	6,031,772	5,515,965
Unrealized foreign exchange loss,net	956,179	216,528
	28,512,708	25,421,870
DIT liabilities		
Revaluation increment on property and equipment	(50,216,709)	(63,753,543)
DIT liabilities, net	(21,704,001)	(38,331,673)

The maturity of DIT assets and liabilities are as follows:

	2017	2016
DIT assets:		
Expected to be recovered within 12 months	956,178	216,528
Expected to be recovered more than 12 months	27,556,530	25,205,342
	28,512,708	25,421,870
DIT liabilities		
Expected to be settled within 12 months	(15,375,906)	(15,375,906)
Expected to be settled more than 12 months	(34,840,803)	(48,377,637)
	(50,216,709)	(63,753,543)
	(21,704,001)	(38,331,673)

The movements in the Group's net DIT liabilities for the years ended December 31 follow:

	Note	2017	2016
Beginning of year		38,331,673	47,540,115
DIT credited to profit or loss		(18,103,843)	(10,929,123)
DIT charged to other comprehensive income	20	1,476,171	1,720,681
End of year		21,704,001	38,331,673

Income tax expense for the years ended December 31 is as follows:

	2017	2016	2015
Current	80,185,770	90,450,471	64,986,449
Deferred	(18,103,843)	(10,929,123)	(26,173,044)
	62,081,927	79,521,348	38,813,405

The reconciliation between income tax expense computed at the statutory income tax rate and the actual income tax expense as shown in the statements of total comprehensive income for the years ended December 31 is summarized as follows:

	2017	2016	2015
Income tax computed at 30%	51,266,277	54,122,569	36,576,396
Adjustments to income tax resulting from:			
Non-deductible expenses	11,055,212	26,282,836	2,569,063
Interest income subjected to final tax	(107,712)	(416,400)	(41,059)
Share in net income of associates	(131,850)	(467,657)	(290,995)
Income tax expense	62,081,927	79,521,348	38,813,405

Critical accounting judgment

The recognition of DIT assets depends on management's assessment of adequate future taxable income against which the temporary differences can be applied. The Group reviews the carrying amounts of DIT assets at the end of each reporting period and recognizes the amount to the extent that it is probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. The Group's management believes that the DIT assets at the end of each reporting period will be fully realized.

Note 25 - Foreign currency denominated monetary assets and liabilities

The Group's foreign currency monetary financial assets and liabilities are as follows:

	2017		2016	
	In USD	In JPY	In USD	In JPY
Assets				
Cash	1,223,193	2,114,237	403,937	1,899,164
Trade and other receivables	181,133	-	283,325	-
	1,404,326	2,114,237	687,262	1,899,164
Liabilities				
Trade and other liabilities	-	(110,850,915)	-	(90,459,028)
Borrowings	(78,571)	-	(255,107)	-
	(78,571)	(110,850,915)	(255,107)	(90,459,028)
Net foreign currency assets (liabilities)	1,325,755	(108,736,678)	432,155	(88,559,864)
Year-end exchange rates	49.92	0.44	49.55	0.43
Peso equivalent	66,181,690	(47,844,138)	21,413,280	(38,080,742)

Foreign exchange loss, net presented under other income, (Note 19) in the consolidated statements of total comprehensive income for the years ended December 31 consists of:

	Note	2017	2016	2015
Realized foreign exchange gain (loss)		(6,301,607)	(2,987,419)	4,943,140
Unrealized foreign exchange gain (loss)		(3,612,176)	1,364,267	(1,763,120)
	19	(9,913,783)	(1,623,152)	3,180,020

Unrealized foreign exchange gain, net on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2017 amounted to P125,257 (2016 - P2,086,027 loss; 2015 - P1,396,810 loss).

Note 26 - Supplemental disclosure to consolidated statement of cash flows

Non-cash financing activities in 2017 pertain to stock dividends amounting to P302,619,290 (Note 13).

Note 27 - Critical accounting estimates, assumptions and judgments

In preparing the Group's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as at the date of the consolidated financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed hereafter.

(a) Critical accounting estimates and assumptions

- Revaluation of tugboats (Note 6)
- Useful lives of property and equipment (Notes 6 and 7)
- Retirement benefit obligation (Note 20)

(b) Critical judgments in applying the Group's accounting policies

- Determining control over investments with ownership of less than half of the entity's total equity (Note 1.3)
- Recoverability of trade and other receivables (Note 3)
- Impairment of investment in associate (Note 5)
- Impairment of property and equipment (Notes 6 and 7)
- Impairment of investment properties (Note 9)
- Recoverability of input VAT (Note 10)
- Lease agreements (Note 22)
- Current and deferred income tax (Note 24)

Note 28 - Financial risk and capital management

28.1 Financial risk management

The Parent Company's BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Parent Company's BOD reviews and approves the policies for managing each of these risks.

28.2 Components of financial assets and liabilities

Financial assets

The Group's financial assets as at December 31 are as follows:

	Notes	2017	2016
Cash	2	398,114,751	89,661,565
Trade receivables, gross	3	373,944,210	377,538,322
Advances to related parties	21	7,789,948	9,389,948
Refundable deposits	4	1,091,081	468,262
Available-for-sale financial assets	10	810,000	810,000
		781,749,990	477,868,097

Trade receivables are presented gross of allowance for impairment amounting to P20,105,907 as at December 31, 2017 (2016 - P18,386,551) (Note 3).

Advances to employees amounting to P33,240,065 as at December 31, 2017 (2016 - P24,521,104) are considered non-financial assets as these are mainly subject to liquidation (Note 3).

Lease guarantee deposits amounting to P4,301,032 as at December 31, 2017 (2016 - P4,356,032) are also considered as non-financial asset as these will be applied as final payment at the end of the finance lease term (Notes 10 and 22).

The other components of prepayments and other current assets and non-current assets are considered non-financial assets.

Financial liabilities

The Group's financial liabilities as at December 31 are as follows:

	Notes	2017	2016
Trade and other payables	11	236,460,300	201,233,796
Short-term loans	12	560,000,000	190,000,000
Borrowings	12	1,070,413,720	620,303,309
Finance lease liability	22	30,642,696	33,993,120
		1,897,516,716	1,045,530,225

As at December 31, trade and other payable above exclude the following which are considered as non-financial liabilities:

	Note	2017	2016
Unearned income	11	7,570,882	7,869,161
Payable to government agencies	11	3,571,453	6,672,911
		11,142,335	14,542,072

28.3 Market risk

(a) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most transactions are carried out in Philippine Peso, which is the Parent Company's functional currency. Exposures to currency exchange rates arise from the Group's overseas transactions, which are primarily denominated in United States Dollar (USD), Japanese Yen (JPY) and Malaysian Ringgit (MYR). The Parent Company also maintains US Dollar-denominated bank accounts. Further, the Group has JPY payables from foreign suppliers, which have been used for the purchase of certain tugboats (Note 6) and maintains MYR bank accounts and receivables. To mitigate the Group's exposure to foreign currency risk, non-Philippine Peso cash flows are monitored on a regular basis.

For the year ended December 31, 2017, if the US Dollar had strengthened/weakened by 0.11% (2016 - 0.19%) with all other variables held constant, pre-tax profit for the year and equity would have been P72,800 higher/lower (2016 - P34,261), mainly as a result of net foreign exchange gains (losses) on translation of US Dollar-denominated net foreign currency monetary assets.

For the year ended December 31, 2017, if the Japanese Yen had strengthened/weakened by 0.48% (2016 - 1.88% weakened/strengthened) with all other variables held constant, pre-tax profit for the year and equity would have been P229,652 lower/higher (2016 - P502,134 lower/higher), mainly as a result of net foreign exchange (losses) gains on translation of Japanese Yen-denominated net foreign currency monetary liabilities.

The reasonable possible changes in foreign exchange rate used in the sensitivity analysis are the rates of changes in foreign currencies between the Philippine Peso equivalent at year end and thirty (30) days from reporting date, by which management is expected to receive or settle the Group's most significant financial assets or liabilities, respectively.

(b) Price risk

The Group is exposed to equity securities price risk because of the Group's proprietary shares in golf and country club classified as available-for-sale financial assets in the consolidated statement of financial position.

At December 31, 2017 and 2016, the Group's exposure to price risk is not considered significant.

(c) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial assets and liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial assets and liabilities will fluctuate because of changes in market interest rates.

The Group's financial liabilities are subject to fixed rates and are measured at amortized cost, hence not subject to repricing and independent of changes in market interest rates.

28.4 Credit risk

Credit risk arises from cash deposited in banks and financial institutions, as well as credit exposures on amounts receivable from customers, related parties and other parties. The Group provides services only to recognized, creditworthy third parties. Individual risk limits are set based on internal ratings in accordance with limits set by the Parent Company's BOD. The utilization of credit limits is regularly monitored. In addition, the Group's receivables are monitored on an ongoing basis and stringent collection policy enforced resulting in an insignificant exposure to bad debt.

The aging analysis of the Group's financial assets that are exposed to credit risks are as follows:

	Notes	Gross amount	Neither past due nor impaired	Past due but not impaired Up to 60 days	Past due but not impaired Over 60 days	Overdue and impaired
December 31, 2017						
Cash	2	396,384,149	396,384,149	-	-	-
Trade receivables	3	373,944,210	184,906,318	108,693,805	60,238,180	20,105,907
Advances to related party	21	7,789,948	7,789,948	-	-	-
Refundable deposits		1,091,081	1,091,081	-	-	-
		779,209,388	590,171,496	108,693,805	60,238,180	20,105,907

	Notes	Gross amount	Neither past due nor impaired	Past due but not impaired Up to 60 days	Past due but not impaired Over 60 days	Overdue and impaired
December 31, 2016						
Cash	2	88,080,606	88,080,606	-	-	-
Trade receivables	3	377,538,322	174,897,610	35,815,446	148,438,715	18,386,551
Advances to related party	21	9,389,948	9,389,948	-	-	-
Refundable deposits	4	468,262	468,262	-	-	-
		475,477,138	272,836,426	35,815,446	148,438,715	18,386,551

The maximum exposure to credit risk at the reporting date is equal to the carrying value of the financial assets summarized above.

None of the financial assets that are fully performing has been renegotiated in 2017 and 2016.

As at December 31, 2017 and 2016, the Parent Company holds a maritime lien over the ships owned and operated by a government-owned corporation as security for a receivable amounting to P2,536,633. The fair value of the maritime lien amounted to P12,025,458.

Credit quality of fully performing financial assets

(a) Neither past nor impaired

Cash in banks

To minimize credit risk exposure, the Group deposits its cash in the following banks:

	2017	2016
Universal banks	356,670,309	65,620,799
Commercial banks	39,713,840	22,216,800
Thrift banks	-	243,007
	396,384,149	88,080,606

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P1,730,602 as at December 31, 2017 (2016 - P1,580,959) (Note 2).

Trade receivables

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As at December 31, 2016, trade receivables amounting to P184,906,318 (2016 - P174,897,610) which are neither past due nor impaired, are fully recoverable as a result of management's assessment of the credit worthiness of these customers and historical experience. To minimize credit risk, the Group transacts only with counterparties with good credit standing.

Advances to related parties

Advances to related parties amounting to P7,789,948 as at December 31, 2017 (2016 - P9,389,948) that are neither past due nor impaired consist primarily of various charges and advances for working capital purposes. These advances are fully recoverable as at December 31, 2017 and 2016 and no provision for impairment is required.

Refundable deposits

Refundable deposits amounting to P1,091,081 as at December 31, 2017 (2016 - P468,262) pertain to deposits made to lessors for the lease of the Group's office space and warehouse, which are refundable at the end of the respective lease term.

(b) Past due but not impaired

Past due but not impaired trade receivables as at December 31, 2017 amounting to P168,931,985 (2016 - P184,254,161) are related to a number of independent customers with no history of default. Management has assessed based on credit worthiness and existing relationship with customers as well as historical experience that these accounts are fully collectible and therefore no provision for impairment is required.

(c) Overdue and impaired

As at December 31, 2017, trade receivables amounting to P20,105,907 (2016 - P18,386,551) are impaired and have been fully provided for with allowance for impairment. The individually impaired receivable from customers relate to customers that are in unexpectedly difficult economic situations. These trade receivables were assessed by management as non-recoverable.

28.5 Liquidity risk

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. Amounts disclosed in the table are the contractual undiscounted cash flows.

	Notes	Gross amount	Less than 3 months	3-12 months	More than one year
December 31, 2017					
Trade and other payables	11	236,460,300	236,460,300	-	-
Short-term loans	12	566,493,978	349,335,853	217,158,125	-
Borrowings	12	1,135,445,048	73,535,762	305,452,129	756,457,157
Finance lease liability	22	34,380,203	1,289,258	3,867,772	29,223,173
		1,972,779,529	660,621,173	526,478,026	785,680,330
December 31, 2016					
Trade and other payables	11	201,233,796	201,233,796	-	-
Short-term loans	12	191,954,146	158,558,958	23,272,813	10,122,375
Borrowings	12	690,545,875	65,684,351	184,693,414	440,168,110
Finance lease liability	22	39,537,234	1,289,258	3,867,772	34,380,204
		1,123,271,051	426,766,363	211,833,999	484,670,689

Short term loans and borrowings as at December 31, 2017 include the undiscounted cash flows on future interest payable of P6,493,978 and P65,031,328, respectively (2016 - P1,954,146 and P70,242,566, respectively).

The Group expects to settle above financial liabilities in accordance with their contractual maturity.

Historically, maturing obligations are funded by cash flows from operating activities hence there is no perceived liquidity risks. Loans may be obtained only when there is a material capital expenditure.

28.6 Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue its operations on a going concern basis in order to provide adequate return to its shareholders and maintain optimal capital structure to reduce cost of capital and lessen the need to obtain long-term borrowings and maximize shareholder value.

The Group manages its capital structure and makes the adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2017 and 2016.

The Group monitors capital on the basis of the carrying amount of equity as presented in the face of the consolidated statements of financial position. The Group's goal is to manage a debt-to-equity ratio not exceeding 2:1.

As at December 31, the Group's debt-to-equity ratio is calculated as follows:

	2017	2016
Total debt	1,908,659,050	1,060,072,297
Total equity	1,538,286,855	1,405,939,440
Debt-to-equity ratio	1.24:1	0.75:1

The Group computes its total debt as at December 31 as follows:

	Notes	2017	2016
Trade and other payables	11	247,602,635	215,775,868
Short-term loans	12	560,000,000	190,000,000
Borrowings	12	1,070,413,719	620,303,309
Finance lease liability	22	30,642,696	33,993,120
		1,908,659,050	1,060,072,297

The Group computes its total equity as at December 31 as follows:

	Note	2017	2016
Share capital	13	907,857,870	605,238,580
Additional paid-in capital	13	121,632,762	121,632,762
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings attributable to the owners of Parent Company		508,956,223	679,228,098
		1,538,286,855	1,405,939,440

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE has required listed entities to maintain a minimum of fifteen percent (15%) of their listed issued and outstanding shares to be held by public. The Group is compliant with respect to this requirement as at December 31, 2017 and 2016.

Note 29 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

29.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting for many hedges. The new standard also introduces expanded disclosure requirements and changes in presentation. Early adoption is permitted. The Group intends to adopt the standard on January 1, 2018 but assessed that it will not have a significant effect on its financial statements. However, adoption of the new standard is expected to change the nature and extent of the Group's disclosures about its financial instruments.

- PFRS 15, 'Revenue from Contracts with Customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Under the new standard, the notion of control replaces the existing notion of risks and rewards. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction Contracts' and related interpretations. A five-step process must be applied before revenue can be recognized which include: (i) identification of contracts with customers; (ii) identification of the separate performance obligation; (iii) determination of the transaction price of the contract; (iv) allocation of the transaction price to each of the separate performance obligations; and (v) recognition of revenue as each performance obligation is satisfied. Revenue may also be recognized earlier than under current standards if the consideration varies for any reasons - minimum amounts must be recognized if they are not at significant risk of reversal. Further, the point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa. The standard is effective for accounting periods beginning or after January 1, 2018 and permits either a full retrospective or a modified retrospective approach for the adoption. Management is currently in the process of completing its assessment of the effects of applying the new standard on the Group's financial statements and has identified the adoption of the standard will only affect its revenue recognition should there be any construction projects to be undertaken in the future.

- PFRS 16, 'Leases' (effective January 1, 2019), requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. It has also included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the International Accounting Standards Boards (IASB) has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation contracts), lessors will also be affected by the new standard. Under the PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. PFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with PFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application. Furthermore, the 'simplified approach' does not require a restatement of comparatives. As a practical expedient, entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application. Upon adoption, the Group will recognize a right-of-use asset and lease liability measured at present value in its statement of financial position. The Group has an on-going assessment as to the amount to be recognized.

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29.2 Consolidation

(a) Business combination

The Parent Company applies the purchase or acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Parent Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Parent Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has a right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary is fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Intercompany transactions, balances and unrealized gain on transactions between Parent Company and its subsidiary are eliminated.

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost, with the change in carrying amount generally recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the Group surrenders control to a related party within the group it ultimately belongs, the difference between the consideration received and the fair value of the subsidiary at divestment date, is recognized as other charges to equity.

(c) Associate

An associate is an entity over which the Group is able to exert significant influence but which is neither a subsidiary nor a joint venture. Investment in associate is initially recognized at cost and subsequently accounted for using the equity method.

Under the equity method, the carrying amount of the investment in associate is increased or decreased to recognize the Group's share of the net earnings (losses) and other comprehensive income of the associates after the date of acquisition. The Group's share in the net earnings (losses) and Other comprehensive income of the associates is recognized in the Group's profit or loss. Items that have been directly recognized in the associates' equity are recognized in equity of the Group. Distributions received from the associates reduce the carrying amount of the investment.

If the Group's share in net losses of associates equals or exceeds its interest in the associates, the Group will discontinue recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those net earnings only after its share of the earnings equals the share of losses not recognized.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Investment in associate is derecognized when the risk and rewards of ownership have been transferred or extinguished. When the investment in associate is derecognized, its cost and related impairment, if any, are eliminated from the accounts.

29.3 Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred (including the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire) over the fair value of the Group's share of the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

29.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less from date of acquisition. Deposits held at call with banks earn interest at the prevailing bank interest rate. These are carried at face or nominal amount.

29.5 Financial assets

(a) Classification and presentation

The Group classifies its financial assets in the following categories: (i) loans and receivables, (ii) at fair value through profit or loss, (iii) held-to-maturity and (iv) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group did not hold financial assets under categories (ii) and (iii) above during and at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months after the reporting date, which are then classified as non-current assets.

The Group's loans and receivables consist mainly of cash, trade receivables, advances to related parties, and refundable deposits.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months from the reporting date.

The Group's available-for-sale financial assets consist of investment in golf club shares (Note 10), which is presented under non-current assets in the consolidated statement of financial position.

(b) Recognition and measurement

The Group recognizes a financial asset in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Loans and receivables are initially measured at fair value plus transaction costs, which is approximately their invoice amount, and are subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

Available-for-sale financial assets

Regular purchases of available-for-sale financial assets are initially measured at fair value plus transaction cost, at the trade date. These financial assets are subsequently measured at fair value, except where fair value cannot be reliably measured, in which case such is measured at cost. Unrealized gains or losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income. Dividends on available-for-sale financial assets are recognized in profit or loss when the Group's right to receive payments is established.

(c) Impairment

Loans and receivables

The Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant using the criteria above. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss within general and administrative expense.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited to general and administrative expense in profit or loss.

Impairment testing of trade receivables is described in Note 29.9.

Available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of security below its cost is also evidence that the assets are impaired. Significant and prolonged decline in fair value of security may be attributable to significant changes with an adverse effect have taken place in the technological, market, economical or legal environment in which the issuer operated. Generally, the Group treats 'significant decline' in fair value as 25% or more, and 'prolonged' decline in fair value as more than twelve months. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the other comprehensive income on equity instruments are not reversed through profit or loss.

(d) Derecognition

Loans and receivables and available for sale financial assets are derecognized when the rights to receive cash flows have expired, or when the Group has transferred substantially all the risks and rewards of ownership to the financial assets.

29.6 Financial liabilities

(a) Classification and presentation

The Group classifies its financial liabilities in the following categories: (i) financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and (ii) other financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Group did not hold financial liabilities at fair value through profit or loss during and at the end of each reporting period.

The Group's other financial liabilities at amortized cost are those that are not classified at fair value through profit or loss. These are included in current liabilities, except for maturities greater than twelve months after reporting date which are classified as non-current liabilities.

The Group's other financial liabilities at amortized cost consist mainly of trade and other payables (excluding payables to government agencies, advances from customers – construction contract and unearned income), advances from related parties, finance lease liabilities, short-term loans and borrowings.

(b) Recognition and measurement

The Group recognizes a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group's other financial liabilities at amortized cost are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

(c) Derecognition

Other financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

29.7 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.
The Group has no financial instruments that meet the offsetting criteria as at December 31, 2017 and 2016.

29.8 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's available-for-sale financial asset with quoted market price is valued using Level 1 of the fair value hierarchy.

The Group has no other significant financial assets and liabilities carried at fair value.

The carrying amount of significant financial assets and liabilities, except borrowings (Note 28.2) approximates their fair value as the impact of discounting is not considered significant considering that the remaining significant financial assets and liabilities generally have short term maturity.

For non-financial assets, the Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The Group's tugboats are valued using Level 2 of the fair value hierarchy. The fair value of tugboats were determined using cost approach where valuation performed are based on cost of reproduction of new vessel, accumulated depreciation, character and utility of the vessel (Note 6).

The Group determines the fair value of its investment properties, which is carried at cost (Note 9), using Level 2 of the fair value hierarchy by direct comparison approach with reference to open market of similar properties with consideration of the location, property size, physical features and economic factors.

The Group has no other significant non-financial assets and liabilities carried at fair value.

29.9 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, these are classified as current assets. If not, these are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Write-offs represent either direct charge against profit or loss at the time the receivable deemed uncollectible or the release of previously recorded provision from the allowance account and credited to the related receivable account following the Group's assessment that the related receivable will no longer be collected after all collection efforts have been exhausted, including filing a legal case.

Subsequent recoveries of amounts previously written-off are credited to the provision account in profit or loss. Reversals of previously recorded impairment provision are credited in profit or loss based on the result of management's update assessments, considering available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivable at reporting date.

Receivables are derecognized when actually collected, written-off, the rights to receive cash flows have expired or the Group has transferred substantially all risks and rewards of ownership to the receivable.

29.10 Prepayments and other assets

Prepayments are recognized in the consolidated statement of financial position in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts.

Other assets consist substantially of input value-added taxes (VAT) which are recognized as assets in the period such input VAT become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group.

A provision for unrecoverable input VAT is established when there is objective evidence that the Group will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Prepayments and other assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve months after the reporting period which are classified as non-current assets.

Prepayments are derecognized in the consolidated statement of financial position upon receipt of goods or services, through amortization over a certain period of time, and use or consumption.

Input VAT are derecognized when applied against output or when written off.

29.11 Property and equipment

All property and equipment are carried at cost less accumulated depreciation and any impairment except for tugboats which are carried at revalued amounts.

Tugboats are initially recognized at cost. Subsequently, tugboats are carried at revalued amounts, which is the fair value at date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group engages external, independent and qualified valuers to determine the fair value of the Group 's tugboats once every 3-5 years. The increase of the carrying amount of an asset as a result of a revaluation is credited directly to equity (under the heading 'revaluation surplus'), unless it reverses a revaluation decrease previously recognized as an expense, in which case it is credited in profit or loss. A revaluation decrease is charged directly against any related revaluation surplus, with any excess being recognized as an expense in profit or loss.

Each year, the Group transfers from revaluation surplus reserve to retained earnings the difference between the depreciation charges calculated based on the revalued amount and the depreciation charge based on the assets' historical cost.

The profit or loss on disposal of a revalued asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset. On disposal of the revalued asset, the relevant revaluation surplus included in equity is transferred directly to retained earnings.

All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which these are incurred.

Dry docking cost represents major inspection and overhaul costs and is depreciated to reflect consumption benefits which is to be replaced or restored by the subsequent dry docking generally every two (2) years. The Group has included these dry docking expenses as part of tugboat component.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives (in years), as follows:

Tugboats	8 to 26
Barges	10 to 37
Building and building improvements	10
Transportation equipment	5
Construction equipment	5
Diving and oil spill equipment	3 to 5
Furniture, fixtures and leasehold improvements	3 to 4

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and are available for use. Tugboats under construction is classified as "Property and equipment at cost" and subsequently transferred to "Property and equipment at revalued amounts" upon completion.

Leasehold improvements are amortized over the estimated useful life of the improvements, which is shorter than the lease term, considering the renewal option.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 29.15).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost, appraisal increase and their related accumulated depreciation are removed from the consolidated statement of financial position. Any gains and losses on disposals of an asset as cost are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

29.12 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs will be amortized over its estimated useful lives of five (5) years from the start of its use. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated amortization are removed from the consolidated statement of financial position. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

Relevant disclosures for Group's accounting policies on impairment of computer software are discussed in Note 29.15.

29.13 Pre-development costs

The Group capitalize costs of project development, comprehensive feasibility studies (resource assessment, preliminary or investigation, and economic), permits and endorsements, Grid Impact Study (GIS), Transmission and Connection Agreement, Detailed Engineering Design, plant design, negotiations of Electricity Sales Agreement and Power Purchase Agreements which are involved with the development of the Group appropriate costs on a pro rata basis.

The cost pre-development expenditures are deferred and amortized over future periods in order to match the costs of activities with the benefits which derived from them.

29.14 Investment property

Investment property is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost of the asset can be measured reliably.

Investment properties consist of land in various locations. Land is initially recognized at cost and subsequently carried at cost less any impairment losses.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation and commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment property is derecognized when it has either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Gains or loss on derecognition of an investment property is calculated as the difference between any disposal proceeds and the carrying amount of the related asset and is recognized in profit or loss in the year of derecognition.

29.15 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as land, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property and equipment, computer software, investment properties, input VAT and investment in associate, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses, if any, are recognized in profit or loss as part of general and administrative expenses.

When impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. Reversals of an impairment loss are credited to the provision account in profit or loss.

29.16 Trade and other payables

Trade and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established or when the corresponding assets or expenses are recognized. These are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

These are derecognized when extinguished or when the obligation is discharged, cancelled, or has expired.

29.17 Borrowings and borrowing cost

Borrowings

Borrowings are measured initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.
Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Borrowings are derecognized when the obligation is settled, paid or discharged.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are recognized in profit or loss in the period in which these are incurred.

29.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized from the consolidated statement of financial position.

29.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, DIT is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. DIT is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the DIT liability arises from the initial recognition of goodwill. DIT liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for DIT liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

DIT assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Specifically, DIT is provided on the temporary difference between the carrying amount of the revalued property and equipment and its tax base. Any taxable temporary difference reflects the tax consequences that would follow from the recovery of the carrying amount of the asset through sale (non-depreciable assets) and through use (depreciable assets), using the tax rate applicable to the taxable amount derived from the sale of a non-depreciable capital or ordinary asset or the tax rate applicable during the years the asset is utilized.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group re-assesses at each reporting date the need to recognize a previously unrecognized DIT asset, if any.

DIT assets and liabilities are derecognized when the related temporary difference are realized or settled.

29.20 Employee benefits

The Group provides short-term, retirement and terminal benefits to its employees. The Group did not grant any stock options or share based payments to its officers and employees.

(a) Other short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Retirement benefit obligations

Defined benefit plans is defined as an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, if any. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in unrestricted earnings in the period in which these arise.

Past-service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in personnel cost (Note 18) in profit or loss.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

29.21 Share capital

Common shares, recognized at par value, are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

When the shares are issued at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at fair value of the share issued or fair value of the liability settled, whichever is more reliably determinable.

Where any member of the Group purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

29.22 Other comprehensive income

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

29.23 Retained earnings

Retained earnings represent the accumulated profit or loss arising from the operations of the Group and reserves for remeasurement on retirement benefit obligation less any dividends declared by the Parent Company.

Appropriation of retained earnings is recognized based on the provisions of the Corporation Code of the Philippines and by approval of the Parent Company's BOD. The Parent Company's BOD releases retained earnings from the appropriation when the purpose of such appropriation has been completed.

29.24 Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's BOD.

29.25 Foreign currency transactions and translation

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

All foreign exchange gains and losses except for foreign exchange loss on borrowings are presented in profit or loss within other income (expense), net. Foreign exchange gains and losses from borrowings are presented as part of finance cost in profit or loss.

Subsidiary

The results and financial position of the subsidiary, (which has no currency of a hyperinflationary economy), that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
b) Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
c) All resulting exchange differences are recognized as cumulative translation differences as a separate line item under equity.

As at December 31, 2017, cumulative translation differences recognized in equity amounted to P7,101,375 loss (2015 - P1,212,105 loss).

29.26 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of service discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that the economic benefits will flow to the Group, the collectability of the related receivables is reasonably assured and specific criteria have been met as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

(a) Sale of services

Revenues are derived mainly from (i) harbor assistance, (ii) lighterage services, (iii) salvage income, (iv) and towing services. Income from harbor assistance is recognized when the service has been rendered. Lighterage fees are recognized during the lease period of the Group's tugboat. Salvage income is recognized when the services for repair and rescue operations of ports and ships have been rendered. Towing services is recognized upon completion of towing assistance.

Unearned revenue represents the amount of payments received in advance for the performance of services. These services provided by the Group are on a contractual basis with general terms of one year. Revenue from customer service term contracts is recognized as services are rendered over the contract period. Payments received in advance for the performance of services are deferred until earned.

(b) Income from construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of their design and function or their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the accounting period.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These are presented as inventories, prepayments or other assets, depending on their nature.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss as part of cost of construction contracts, with a corresponding credit to allowance. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of contract activity, or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract.

Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins will be recognized in the year in which the changes are determined.

Progress payments received under the construction contracts are deducted from contract assets as the contract is completed. Progress payments received before corresponding work has been performed (or in excess of percentage of completion) are presented as advances from customers under trade and other payable in the consolidated statement of financial position.

(c) Interest income

Interest income is recognized in profit or loss on a time-proportion basis using the effective interest method. Interest income from cash in banks and short-term placements is presented net of final taxes paid and withheld.

(d) Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established.

(e) Other income

Other income is recognized in profit or loss when earned.

29.27 Costs and expenses

Costs and expenses are recognized:

i on the basis of a direct association between the costs incurred and the earning of specific items of income;

ii on the basis of systematic and rational allocation procedures (i.e. when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined); or

iii immediately and as incurred (i.e. when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statement of financial position).

Costs and expenses are presented in the profit or loss according to their function.

29.28 Leases where Group is a lessee

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(b) Finance lease

The Group leases certain property and equipment. Leases of property and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated consistent with that for comparable depreciable assets that are owned and the depreciation shall be calculated in accordance with the policy stated in Note 29.10.

29.29 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Parent Company and held as treasury shares. In a capitalisation or bonus issue or a share split, common shares are issued to existing shareholders for no additional consideration. Therefore, the number of common shares outstanding is increased without an increase in resources. The number of common shares outstanding before the event is adjusted for the proportionate change in the number of common shares outstanding as if the event had occurred at the beginning of the earliest period presented.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Parent Company has two possible categories of dilutive potential common shares: convertible debt and share options. The Parent Company has no convertible debt nor share options as at December 31, 2017, 2016 and 2015.

29.30 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

29.31 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Committee that makes strategic decisions, under the policies adopted by the BOD.

As at December 31, 2017 and 2016, the Group has one operating business segment which pertains to revenue and related economic activities arising from harbor assistance including those of Jetty construction services. In 2015, the Group started to operate in Malaysia creating two geographical segments as at December 31, 2017 and 2016.

Below are the geographical segments of the Group:

As at and for the year ended December 31, 2017

	Philippines	Malaysia	Elimination	Total
Revenue	1,266,735,433	60,173,338	-	1,326,908,771
Segment result	213,616,293	9,741,133	-	223,357,426
Share in net profit of associate	439,499	-	-	439,499
Finance costs	(52,909,336)	-	-	(52,909,336)
Income tax expense	(62,081,927)	-	-	(62,081,927)
Profit for the year	99,064,529	9,741,133	-	108,805,662

	Philippines	Malaysia	Elimination	Total
Segment assets	4,707,061,785	160,359,756	(1,191,289,703)	3,676,131,838
Segment liabilities	(3,047,788,230)	(171,361,206)	1,169,850,816	(2,049,298,620)
Capital expenditures	380,782,727	410,390	-	381,193,117
Depreciation and amortization	278,981,162	407,431	-	279,388,593
Non-cash expenses other than depreciation and amortization	3,876,244	-	-	3,876,244

As at and for the year ended December 31, 2016

	Philippines	Malaysia	Elimination	Total
Revenue	1,320,337,775	40,492,250	-	1,360,830,025
Segment result	230,175,540	(8,598,317)	-	221,577,223
Share in net profit of associate	1,558,856	-	-	1,558,856
Finance costs	(39,842,550)	(2,884,965)	-	(42,727,515)
Income tax expense	(79,521,348)	-	-	(79,521,348)
Profit for the year	112,370,498	(11,483,282)	-	100,887,216

	Philippines	Malaysia	Elimination	Total
Segment assets	2,888,664,338	137,851,867	(275,037,549)	2,751,478,656
Segment liabilities	1,331,595,341	154,325,923	(279,144,730)	1,206,776,534
Capital expenditures	360,606,885	-	-	360,606,885
Depreciation and amortization	262,637,276	353,007	-	262,990,283
Non-cash expenses other than depreciation and amortization	20,073,557	-	-	20,073,557

29.32 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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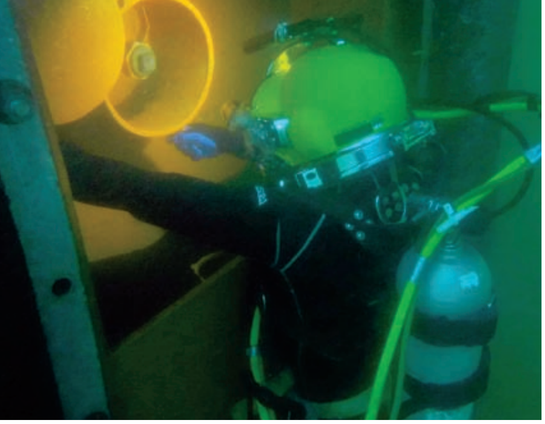


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