HARBOR STAR
SHIPPING SERVICES, INC.

Integrated Annual and
Sustainability Report 2019

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COMPANY PROFILE

Harbor Star Shipping Services, Inc. ("Harbor Star" or "the Company" or "Parent Company") was registered with the Securities and Exchange Commission ("SEC") on 05 July 1988 under the name "Seatows, Inc." with the primary purpose of engaging in domestic and international towage, commerce and navigation in the carriage of goods and passengers by water upon the seas, lakes, rivers, canals, bays, harbors, and other waterways.

Through the years, Harbor Star amended its Articles of Incorporation to engage in other business endeavors. It is now a company with diversified businesses interests ranging from towing to construction to energy.

For its maritime business, Harbor Star is the leading marine services company having the widest area of service coverage and most diverse service lines. In 2009, the Company raised the bar in the tug industry when it was certified as being compliant with ISO 9001 for quality, ISO 14001 for environment, and OHSAS 18001 for occupational health safety. The Company continues to maintain and upgrade its certifications with DNV-GL.

From its initial office in Manila in 1998, Harbor Star now has offices in Batangas, Cebu, Davao, Cagayan de Oro, Iloilo, and Subic.

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 2014, Harbor Star thru its subsidiary, Peak Flag Sdn Bhd., became the first Filipino tugboat company to operate in Malaysia. Its tugs render harbor assist and ship-to-ship transfer operations at Malacca, Malaysia under a service contract in force until 2020.

In 2016, Harbor Star created the Diving, Marine Maintenance and Construction (DMMC) Division and secured its Contractor's License with the Philippine Contractors Accreditation Board ("PCAB") to engage in general construction and engineering in the Philippines. The Company obtained its Triple A PCAB License in 2018 allowing it to take on broader and more complex range of projects.

In 2017, Harbor Star formalized its entry into the energy industry when it incorporated a wholly-owned subsidiary, Harbor Star Energy Corporation (HSEC). In 2018, HSEC acquired 100% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), and 100% of ADGI's subsidiaries, ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions allowed Harbor Star, thru HSEC, to own and control a 25 MW solar power plant project, with option to expand to 75 MW, in General Santos City.

In February 2018, Harbor Star incorporated a wholly-owned subsidiary, Harbor Star East Asia (Myanmar) Ltd.

In August 2018, the Company acquired 31% of the outstanding capital stock of tugboat operator High Energy Marine Services, Inc. (HEMSI). HEMSI is the dominant tugboat operator in the Manila South Harbor which is managed by Asian Terminals, Inc. ("ATI").

In 2019, Harbor Star continued its market dominance rendering its core competence of harbor assist by assisting 3,912 foreign vessels during the year. The Company also won biddings and contracts as it sought to strengthen its market position and develop its other service lines.

In January 2019, Harbor Star began its contract to provide various diving and marine maintenance services to GN Power Mariveles Coal Plant such as underwater inspection, supply of chain tensioner & shackles and removal and installation of fenders.

In the same month, the Company was engaged by Philippine National Oil Corporation to supply, remove and install rubber fenders located in PNOC Alternative Fuels Corp. (PAFC) Terminal in Mariveles, Bataan.

In February 2019, Harbor Star signed a Tug Assist and Mooring Service Contract with Chevron Philippines, Inc. ("Chevron"). TUGS will provide harbor assist and mooring services to tankers calling Chevron's terminals in Batangas, Cebu, Davao, and Misamis Oriental. TUGS was awarded the contract after competitive bidding and selection, with nationwide presence, safety, reliability, and track-record used as among the criteria. The contract will be for three (3) years beginning 1 February 2019.

Also in February 2019, Harbor Star signed the contract with Cebu-Link Joint Venture for one (1) year charter hire of Barge Kenram with tug in tandem. The barge will be used as working platform in the construction of Cebu-Cordova bridge, as part of Government Build-Build-Build project.
In March 2019, General Santos Shipyard awarded a contract to HSSSI to conduct bathymetric survey and deploy sinkers for the repositioning of the yard's floating dock.

On 1 April 2019, Harbor Star signed a Two (2) year Service Agreement with Mariveles Grains Corporation ("MGC"), which owns and operates a grains and commodities terminal in Mariveles, Bataan. Harbor Star will exclusively provide harbor assist services to all vessels calling the terminal.

In May 2019, Petron Bataan Refinery engaged the diving service of Harbor Star for their annual turnaround shutdown for the removal of the SBM hoses and product swivel for repair and maintenance in Limay Lamao, Bataan.

In July 2019, Harbor Star participated in the salvage of M/V Diamond Highway, a 200-meter car carrier ship. The said vessel caught fire close to Recto Bank in the West Philippine Sea. On 17 June 2019, TUGS's M/T Mimosa, as first salvor responder, conducted firefighting and then towed the abandoned M/V Diamond Highway preventing said vessel from drifting to marine protected and populated areas. With the burning vessel in tow, M/T Mimosa rendezvoused with TUGS's M/T Lucida, M/T Markab, and M/T Merak which continued the firefighting until the blaze was extinguished on 19 June 2019.

In September 2019, Harbor Star participated the bidding and signed a Tug Service Agreement with LMG Land Development Corporation ("LMG") to provide harbor assistance and tending to chemical tankers calling at LMG terminal in Pinamucan, Batangas. TUGS was awarded the contract for three (3) years term.

In December 2019, Harbor Star was engaged to tow and rescue the 7,600 GRT Tanker vessel "Celanova" (Spanish Flag), with rudder problem at West Philippine Sea. The vessel was laden with Butadiene cargo of about 7000 metric tons. Tugboat "Procyon" and "Caph" was dispatched and safely towed the ship to Manila. While the ship was anchored at Manila Bay, Harbor Star continued to provide emergency towing and shifting services, also for the supply of provisions.

In the same month, Harbor Star was hired to tow PHINMA "Power Barge 101" from Iloilo to Subic for drydocking and towed back to Iloilo after the repair. The towing job was performed by tugboat "Procyon" with the assistance of Harbor Star's tugboat during pull-out and positioning at Subic Dockyard.

Also in December 2019, Harbor Star was contracted to rescue the drifting vessel "London Trader" with main engine problem at Cayangon point, Cebu. M/T "Achernar" towed the vessel away from a marine protected area and brought her safely to Cebu City.

Finally in December 2019, Harbor Star's M/T Merga towed Fishing Vessel "Paul Reynald" from the vicinity of Palau Island. Vessel was loaded of about 15,000 tons of fish tuna and powerless due to fire onboard. The vessel was delivered safely to General Santos City and saved her cargo from spoiling.

Subsidiaries

Peak Flag Sdn. Bhd.

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 vessel, M/T Mirzam, which operated at Kuantan Port.

In 2018, Harbor Star renewed its contract with Ka Petra for another 2 years (March 2018 to February 2020), which ensures the continued presence of Harbor Star in Malaysia.

In 2019, Peak Flag was awarded a contract to provide harbor tug services to Westports Malaysia Sdn Bhd in Port Klang, Malaysia ("Westports Malaysia"). Peak Flag will provide a sixty (60) ton bollard pull tug for a period of three (3) years with an option for extension for another two (2) years. On 30 May 2019, Peak Flag acquired the 2500 bhp M/T Pollux.

Harbor Star owns a 45.0% stake at Peak Flag.

Harbor Star Subic Corp.

Harbor Star Subic Corp. ("HSSC") was registered with the 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 vessel M/T Lucida.

In December 2018, Harbor Star Subic has now two deployed vessels, M/T Lucida and M/T Zaniah, to service calling the economic zone.

On 15 March 2019, Peak Flag acquired the 3600 bhp M/T Jabbah to support its operations in Subic.

Harbor Star owns 99.9% of HSSC.

Harbor Star Energy Corporation

On 11 May 2017, the Securities and Exchange Commission approved the incorporation of Harbor Star Energy Corporation ("HSEC"), a wholly owned subsidiary of the Company. The primary purpose of HSEC is to carry on the general business of generating, distributing and storing electric power derived from solar energy, other renewable energy sources and fuels.

In 2018, HSEC acquired 100% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), and 100% of ADGI's subsidiaries, ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions allowed Harbor Star, thru HSEC, to own and control a 25 MW solar power plant project, with option to expand to 75 MW, in General Santos City.

General Santos City is the regional center for commerce and industry of the SOCCSKSARGEN Region, and is geographically located within the province of South Cotabato.

In April 2019, Astronergy Development Gensan, Inc. ("ADGI") inaugurated its 25-megawatt solar power plant on April 25, 2019 at Sitio Changco, Barangay Siguel, General Santos City.

In July 2019, the power plant delivered its first electricity to the local distribution utility, South Cotobato II Electric Cooperative, Inc. (SOCOTECO II)

As of 31 December 2019, ADGI has delivered 12,996,000 KWh of electricity to SOCOTECO II.

Harbor Star owns 99.9% of HSEC.

Harbor Star East Asia (Myanmar) Ltd.

On 15 February 2018, the Republic of the Union of Myanmar approved the incorporation of Harbor Star East Asia (Myanmar) Ltd., a wholly-owned subsidiary of Harbor Star Shipping Services, Inc., primarily to explore several business opportunities in Myanmar by marketing its expertise in integrated maritime services.

Harbor Star owns 99.99% of HSEA.

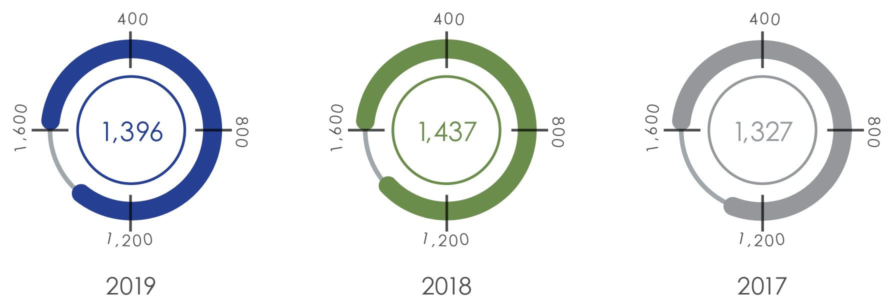
Harbor Star East Asia (Thailand) Co., Ltd.

On 20 September 2019, the Department of Business Development of Malaysia approved the incorporation of Harbor Star East Asia (Thailand) Co., Ltd. The company was registered to be engaged in the maritime business.

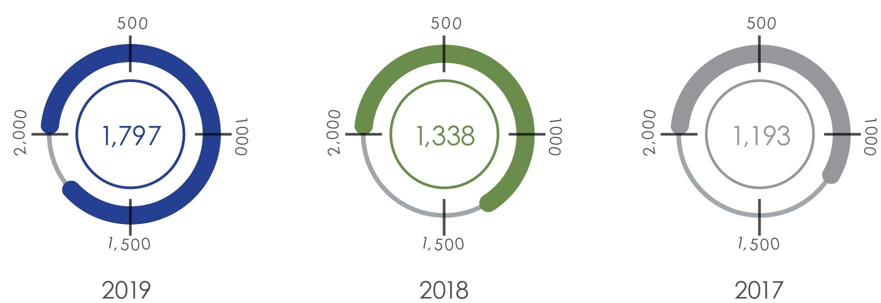
Harbor Star owns 28.99% of HSEA Thailand.

FINANCIAL HIGHLIGHTS

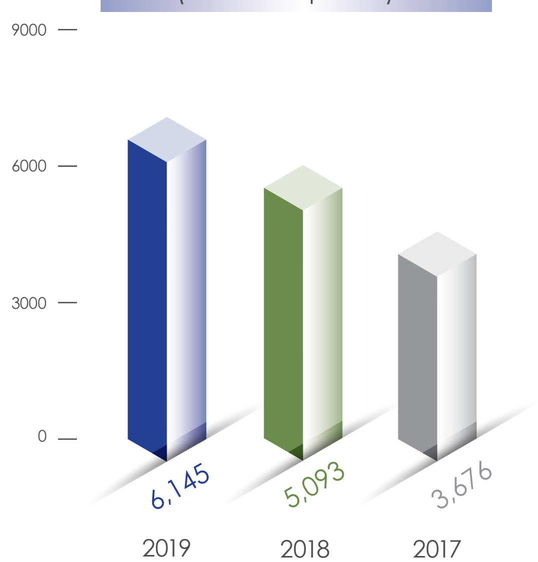
Net Revenue
(in million pesos)



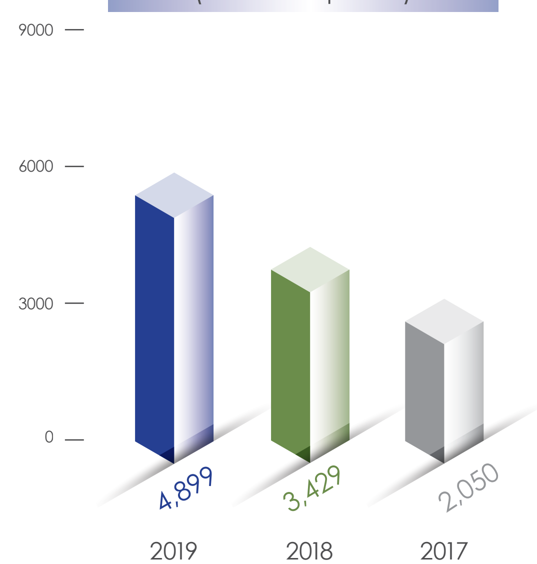
Total Expenses
(in million pesos)

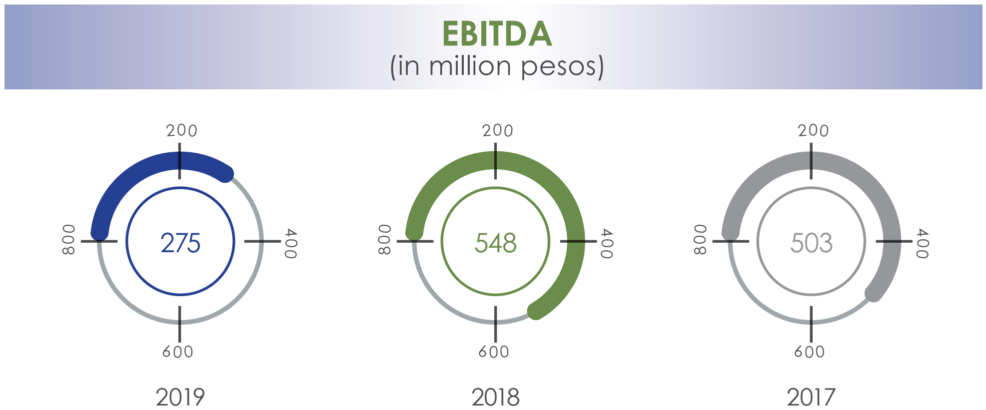


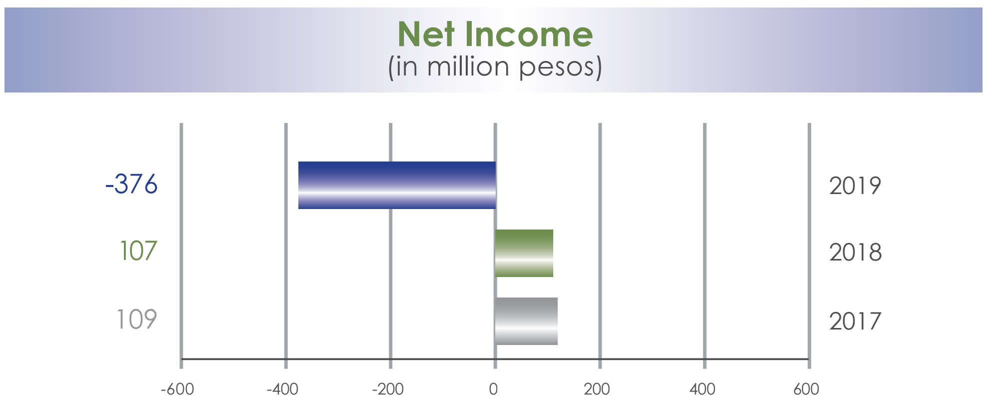
Total Assets
(in million pesos)

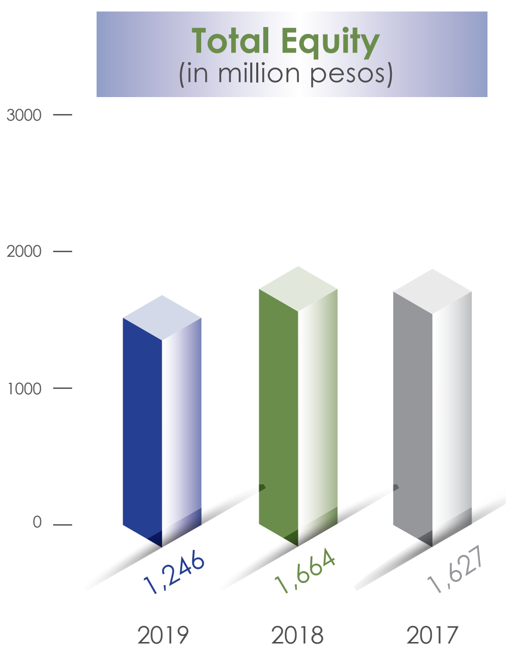


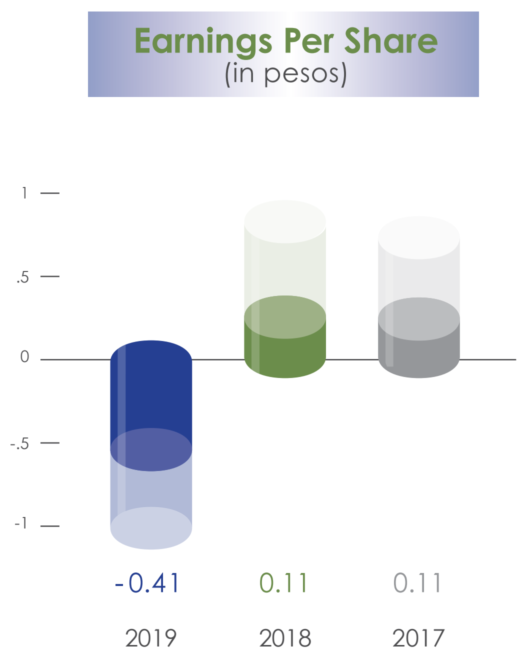
Total Liabilities
(in million pesos)




EBITDA
(in million pesos)
200
400
600
800
275
548
503
2019
2018
2017


Net Income
(in million pesos)
-376
107
109
2019
2018
2017
-600
-400
-200
0
200
400
600


Total Equity
(in million pesos)
3000
2000
1000
0
1,246
1,664
1,627
2019
2018
2017


Earnings Per Share
(in pesos)
1
.5
0
-.5
-1
-0.41
0.11
0.11
2019
2018
2017

MISSION, VISION VALUES

HARBOR STAR
SHIPPING SERVICES, INC.

COMPANY VISION

To build a healthy diversified portfolio of profitable businesses and belong to the top 1% Philippine companies by 2023

Increase Revenue	Rationalize Expenses	Improve Return on Asset Ratio

Market penetration	Product development	Diversification	Joint venture

MISSION

To deliver diversified services:

- **S**afely, promptly and efficiently
- **T**aking care of the environment
- **A**ssuring equitable returns to shareholders
- **R**esponsive to employees and stakeholders' welfare
- **S**trictly observing good corporate governance

VALUES

- **H**onesty
- **A**ccountability
- **R**eliability
- **B**enevolence
- **O**rderliness
- **R**esourcefulness
- **S**ervice Oriented
- **T**rustworthiness
- **A**daptability
- **R**espect

Message to Our Stockholders

In 2019, Harbor Star posted its first loss in the last 15 years largely due to external factors. While our consolidated service income of P1.39 Billion was only P40 Million less than our 2018 revenue, the Company posted a net loss of P387 Million in 2019 compared to a net income of P107 Million in 2018. This was mainly the result of an almost one-year delay in completing the construction of the General Santos Solar Plant due to shortcomings of our EPC contractor, supply-chain challenges, and unforeseen additional requirements by the national grid operators. The promising project which went online mid-July generated a revenue of only P107 Million in 2019 instead of the projected P287 Million. Also contributing to the loss was the failure of the Manila-Cavite container feeder service venture. While the service was meant to decongest Manila ports and resolve the traffic problems in Metro Manila, it unfortunately did not garner the support of the shipping lines and key government agencies, as was promised prior to deciding to invest in this venture. Despite the modest P39 Million revenue generated by the project, operating two vessels for the Manila-Cavite route was too costly. Finally, our cost of doing business increased in 2019. The cost of service of the Company historically hovered in the 6.5% to 6.9% of total revenue range. 2019 saw its cost of service reach 7.9% of total revenue. This was an inevitable consequence of asset acquisitions in the previous years which led to an increase in crew, operating and depreciation expenses.

Despite the setbacks, a lot of positives were achieved in 2019. We maintained our leadership in the integrated maritime services sector because of our diverse assets, skilled personnel and best-in-class service. We regained our lost market shares in the key ports of Bataan, Batangas and Cebu. Our service income from our main business, Harbor Assist, increased by 8.5% to P1.054 Billion in 2019 compared to P971 Million in 2018. Our operations in Malaysia also hit full stride. The year saw us adding another tug to support our Malaysian operations. Our strategy to gradually secure service contracts, instead of traditional spot-contracts, bore fruit as we were able to close more exclusivity contracts with various shipping lines and terminals. We participated in the salvage of MV Diamond Highway, a 200-meter car carrier ship which caught fire close to Recto Bank in the West Philippine Sea. However, the projected revenue to be derived from the salvage was not recognized in the FY2019 income statement despite proof of completion of the service. Another bright spot was the increase in the Company's total assets for 2019 to P6.14 Billion compared to P5 Billion in 2018.

Our Commitment to the Future

We continue to be guided by the opportunities that lie ahead. As we prudently explore ways to increase our revenue, we will continue to strengthen our core business.

We see harbor assistance to remain a critical service in the maritime industry now that the Philippines is touted as among the top 5 emerging economies in Asia in the next ten years. Our capabilities and strategic deployment of our tugboats have put us in a prime position as the government moves to stimulate development outside of Manila. With our 45 tug boats in 16 base ports and 80 sub ports in the country coupled with our new approach of building alliances with some of our competitors, we are confident that our harbor assist business will continue to grow and spearhead our diverse service lines. We look forward to the government finally fully implementing their Build-Build-Build program in the last two years of the Duterte Administration. We remain optimistic with the potential of our Diving Marine and Maritime Construction Department to be a major contributor to the Company's revenues. Our assets and personnel are custom fit to address the requirements of the reclamation projects and marine infrastructure of both the public and private sector.

We continue to build on our salvage and oil spill response assets, skills and capabilities. Our readiness and expertise to save ships or respond to oil spills often provide a fortuitous revenue boost.

We remain bullish with our international operations. Our South East Asian neighbors are slowly recognizing our expertise in maritime services by allowing us to participate in more biddings to service their terminals.

While our General Santos Solar project did not get off on the right foot, we are mindful that only 50 hectares of our 150 hectares property in General Santos City is utilized for our solar farm. Also, our 4-hectare Lemery, Batangas property is now primed for business activity as we have been issued the critical Department of Environment and Natural Resources permits to commercially use the said property and an additional 3-hectare foreshore area.

We are confident that Harbor Star will be able to face the challenges ahead and surpass recent setbacks. With the continued support of our shareholders, partners, customers, dedicated employees and crew, directors and other stakeholders, we are assured that we can make Harbor Star great again.

Thank you and stay safe!

Geronimo P. Bella, Jr.

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

OPERATIONAL HIGHLIGHTS

Harbor Star offers a wide range of indispensable maritime services such as harbor assistance, towing, lighterage, ship salvage, marine construction, repair and maintenance works, wreck removal, firefighting, oil spill abatement and recovery, handling hazardous chemical, ship and crew management, diving and underwater marine works.

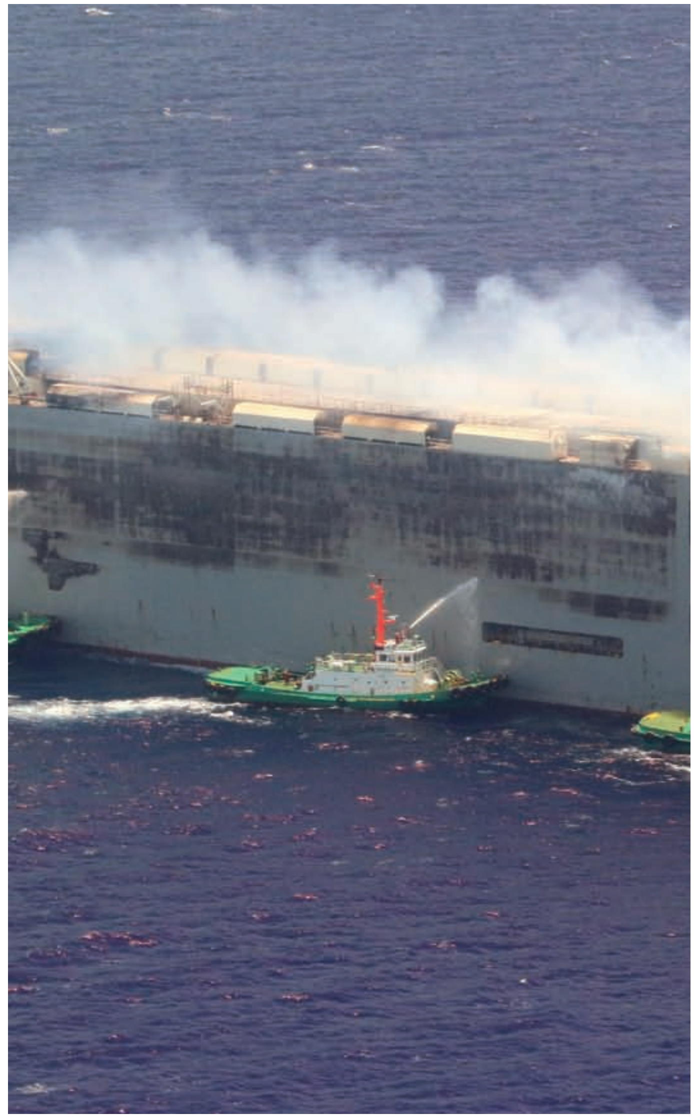
With strategically deployed tugs in Luzon, Visayas, and Mindanao, Harbor Star is renowned as having the widest area of coverage of tug services in the Philippine archipelago.

As of 31 December 2019, Harbor Star, including its domestic subsidiaries and affiliates, has established operations in sixteen (16) base ports all over the country, providing services to approximately nine thousand three hundred (9,300) ships as of yearend 2019. The major ports that the Company services include: the Manila International Container Terminal ("MICT"), Manila South Harbor, Bataan, Batangas, Cagayan de Oro ("CDO"), Davao and the newly opened branch at Iloilo.

The Company maintains and manages a fleet of: forty five (45) domestically and internationally classed tugboats; seven (7) barges; one (1) LCT (Landing Craft Tank); one (2) Cargo Ship; one (1) Tanker, and one (1) Dredger. The company has a total of fifty seven (57) vessels.


JABBAH
JABBAH

SERVICES



MARINE SERVICES

Harbor Star derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, (e) marine construction, repair and maintenance works and (f) other marine services. Other marine 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 MICT, and the ports of Bataan, Batangas, CDO, and Davao. 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, and mining industries.

As of 31 December 2019, revenues from harbor assistance amounted to PHP1,054 million, equivalent to 81.8% of total revenue.

Lighterage. Harbor Star's tug and barge tandems are capable of transporting different types of cargo domestically 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 2019, revenues from lighterage services amounted to PHP103 million, equivalent to 8.0% of 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 2019, revenues from salvage operations amounted to PHP32 million, equivalent to 2.5% of 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 2019, revenues from towing services amounted to PHP37 million, equivalent to 2.9% of total revenue.

Construction, Repair and Maintenance Works. Harbor Star strengthened its marine ancillary services by offering port construction, pier repair, port-related development, road development, and other non-residential construction.

Other Marine Services. Harbor Star's marine and other ancillary services include:

a. Oil and Chemical Spill Response
b. Ship repairs
c. Buoy construction deployment and maintenance
d. Diving services, which includes underwater repairs, and Single Buoy Moorings (SBM) and repair
e. Ship and crew management
f. Firefighting
g. Offshore tug services

As of 31 December 2019, revenues from other marine services amounted to PHP64 million, equivalent to 4.8% of total revenue.

FLEET LIST

TUGBOATS

M/T ACHERNAR
M/T ADARA
M/T AGENA
M/T ALPHARD
M/T ALUDRA
M/T ARNEB
M/T ATRIA
M/T AVIOR
M/T CANOPUS
M/T CAPELLA
M/T CAPH
M/T DENEB
M/T DUBHE
M/T ENIR
M/T GALINA
M/T GIEDI
M/T GREAT HAWK
M/T HOMAM
M/T JABBAH
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 SHAULA
M/T SIRIUS
M/T SKAT
M/T SPICA
M/T TABIT
M/T TYL
M/T VEGA

MALAYSIA TUGBOATS

M/T WEZEN
M/T ZANIAH

BARGES

Barge AQUILA
Barge CENTAURUS
Barge CORVUS
Barge FORNAX
Barge HYDRUS
Barge KENRAM
Barge LYNX

OTHER VESSELS

LCT DRACO
M/V CASSOPEIA
M/V WISE
M/V AQUILA
M/V HYDRA

SAFETY, QUALITY, MAINTENANCE AND COMPLIANCE

Harbor Star is committed to maintaining its position as a leader in the industry by placing the utmost importance on excellence, quality service and safety, Thus, Harbor Star continues to be recognized both here and abroad for operations that are at par with global industry standards.

The Company has once again retained its international certifications for its management systems, specifically International Organization for Standardization (ISO) 9001:2015 Certification-Quality Management System, ISO 14001:2015 Certification-Environmental Management System and OHSAS 18001:2007 Certification-Occupational Health & Safety Management System. All of the Company's major processes are evaluated constantly, and continuous improvements are implemented to keep operations in line with international standards. The Company consistently maintains strict adherence to ISO standards to ensure quality and safety in all its services. In addition to these, Harbor Star also received the Integrated Management System (IMS) Certification for completing the three (3) certifications from DNV GL.

Harbor Star continues to have a robust and pro-active maintenance and dry docking program for its vessel fleet to minimize the potential for engine breakdown, engine overhauls, and other types of repairs.

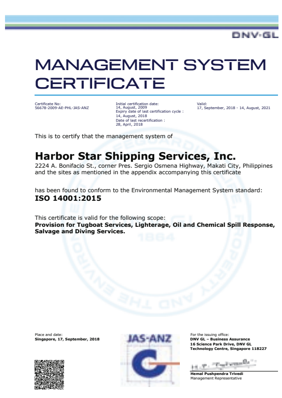
The Company ensures compliance with all environmental laws and regulations of the Department of Environment and Natural Resources (DENR) and the Philippine Coast Guard (PCG).Harbor Star also complies with the reportorial requirements of the Department of Labor and Employment's (DOLE) as it maintains an injury and illness free workplace while conserving and preserving the environment.

Harbor Star ensures that all operational personnel are competent and skilled in safe procedures and are aware of potential hazards and how to avoid them.To enhance the individual competence and skills of our workforce, the Company does various supported trainings such as:

Employee Training and Development

1. New Employee Orientation
2. Drug Free Workplace
3. HIV-AIDS Prevention and Control
4. Pulmonary Tuberculosis Prevention and Control
5. Hepa-B Prevention and Control
6. First Aid and Basic Life Support Training
7. Emergency Response Training (High Angle Rescue Training) 14
8. Basic Occupational Safety and Health (BOSH)
9. Construction Occupational Safety and Health (COSH)
10. Maritime Occupational Safety and Health (MOSH)
11. Fire Safety Practitioner Training
12. Pollution Control Officer Training
13. Hazardous Waste Operations & Emergency Response (HAZWOPER)
14. Behavior Based Safety
15. Chemical Safe Handling
16. Work Improvements in Small / Medium Enterprises (WISE)
17. Work Improvements On-board
18. 8-hour OSH Training
19. The Program on Occupational Safety and Health Management and Work Environment Improvement (ERWM)

Moving forward, as the industry steers towards higher standards of safety, maintenance, and employee development, the Company will continue to invest in our workforce and remain at par with the global industry standards.



DNV·GL

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56678-2009-AE-PHL-JAS-ANZ
Initial certification date: 14, August, 2009
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 14, August, 2021

This is to certify that the management system of

Harbor Star Shipping Services, Inc.
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Environmental Management System standard:
ISO 14001:2015

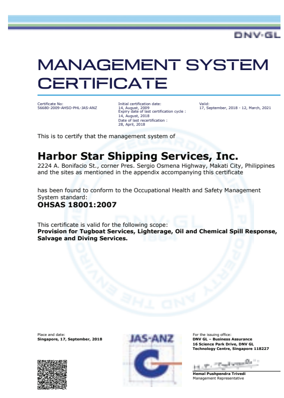
This certificate is valid for the following scope:
Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.

Place and date: Singapore, 17, September, 2018

For the issuing office: DNV GL – Business Assurance, 16 Science Park Drive, DNV GL Technology Centre, Singapore 118227

Hemal Pushpendra Trivedi
Management Representative

Lack of fulfilment of conditions as set out in the Certification Agreement may render this Certificate invalid.
ACCREDITED UNIT: DNV GL Business Assurance Australia Pty Limited., Level 7, 124 Walker Street, North Sydney NSW 2060, Australia TEL:61 299 00 9500. assurance.dnvgl.com



DNV·GL

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56680-2009-AHSO-PHL-JAS-ANZ
Initial certification date: 14, August, 2009
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 12, March, 2021

This is to certify that the management system of

Harbor Star Shipping Services, Inc.
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Occupational Health and Safety Management System standard:
OHSAS 18001:2007

This certificate is valid for the following scope:
Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.

Place and date: Singapore, 17, September, 2018

For the issuing office: DNV GL – Business Assurance, 16 Science Park Drive, DNV GL Technology Centre, Singapore 118227

Hemal Pushpendra Trivedi
Management Representative

Lack of fulfilment of conditions as set out in the Certification Agreement may render this Certificate invalid.
ACCREDITED UNIT: DNV GL Business Assurance Australia Pty Limited., Level 7, 124 Walker Street, North Sydney NSW 2060, Australia TEL:61 299 00 9500. assurance.dnvgl.com

DNV·GL

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56677-2009-AQ-PHL-JAS-ANZ
Initial certification date: 15, July, 2003
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 14, August, 2021

This is to certify that the management system of

Harbor Star Shipping Services, Inc.
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Quality Management System standard:
ISO 9001:2015

This certificate is valid for the following scope:
Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.

Place and date: Singapore, 17, September, 2018

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CORPORATE GOVERNANCE

Harbor Star is committed to conducting 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 in order 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.

During the Board of Directors' meeting on 29 May 2019, the board unanimously approved the Board of Director's Charter and the Insider Trading Policy.

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 therefore undertake every effort necessary to create awareness within the organization.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance shall start with the Board of Directors. The Board shall act 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 shall take care of the interests of the shareholders and protect 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 is responsible for designating a Compliance Officer to ensure that the Company adheres to the Manual and to corporate best practices.

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.

EXECUTIVE COMMITTEE

The Executive Committee, when the Board of Directors is not in session, may exercise 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.

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, in the performance of the work of the Internal Auditor, it shall be free from interference by outside parties.

CORPORATE GOVERNANCE COMMITTEE

The Governance Committee assists the Board with respect to governance matters, most 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. Part of the Committee's role is to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. The Committee also 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.

Harbor Star will continue to improve its corporate governance, systems and processes to enhance adherence to practices of good governance.

For further details about the Corporation's governance practices, kindly refer to the Corporation's Annual Corporate Governance Report ("ACGR").

BOARD OF DIRECTORS PROFILE

Geronimo P. Bella, Jr.

59, Filipino, Chairman of the Board and President. Mr. Bella, Jr. is the Chairman of the Board and President of Harbor Star since 2006. He is also the President and Director of ASTRONERGY Development Gensan Inc. (ADGI), ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), Harbor Star Subic Corp. (HSSC), and Harbor Star East Asia (Myanmar) Ltd (HSEA). 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

53, Filipino, Director and Vice President. Mr. Bella is the Vice President of Harbor Star. He is the Director and Vice President of ASTRONERGY Development Gensan Inc. (ADGI), ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), and Harbor Star Subic Corp. (HSSC). He is also the Director of Harbor Star East Asia (Myanmar) Ltd (HSEA). Mr. Bella 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

50, 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 also currently the Corporate Information Officer and acting Chief Information Officer. Mr. Rodriguez is a Director and Corporate Secretary of Harbor Star Subic Corp (HSSC) and Harbor Star Energy Corporation (HSEC). He served and continues to serve as legal and business consultant to several businesses engaged in telecommunications, information technology, realty, transport, and logistics, among others. Mr. Rodriguez earned his Juris Doctor from the Ateneo Law School in 1996 and his Master in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008.

Ramon C. Liwag

63, Filipino, Director. Mr. Liwag serves as a director of Harbor Star Shipping Services, Inc. Currently the President of Alliance Security and Logistics Solutions, Inc. 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. And later on, in 1996, he then took his Master's degree in M.S in Maritime Safety Administration from the World Maritime University in Sweden.

Ryota Nagata

55, Japanese, Director. Mr. Nagata serves as a Director of Harbor Star Shipping Services Inc (HSSSI), Harbor Star Subic Corp (HSSC), and Harbor Star Energy Corporation (HSEC). 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 to 2011. He obtained his Bachelor of Arts degree in Politics in Keio University, Japan in 1987.

Jose S. Navarro

67, 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. Currently, he is also an Independent Director for the Armed Forces and Police General Insurance Corporation ("AFPGEN") and serves as a consultant for Raquel Pawnshops Inc. Mr. Navarro is also an advisor to the National Advisory Group for Police Transformation and Development and to Raquel Group of Companies. He is also a member of the Philippine Council on Foreign Relations ("PCFR") and the Advisory Board of the National Police Commission ("NAPOLCOM"). 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.

Alexandra G. Garcia

54, Filipino, Independent Director. Ms. Garcia serves as an Independent Director of Harbor Star. She is the current Chief Operating Officer in Chemical Industries of the Phil Inc., and Perfumia Espanola Corporation. She is also a Director in Cuyapo Rural Bank, Manila Memorial Park, and Pacific Plaza Condo Corp. She acquired her degree in International Relations from the University of British Columbia. She then completed post graduate studies at the University of San Francisco in 1993 and Ateneo Graduate School of Business in 1999, where she attended the Masters in Business Administration

BOARD OF DIRECTORS

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

RICARDO RODRIGO P. BELLA
Director and Vice President

IGNATIUS A. RODRIGUEZ
Director/Corporate Secretary

RYOTA NAGATA
Director

ALEXANDRA G. GARCIA
Independet Director

RAMON C. LIWAG
Director

JOSE S. NAVARRO
Independet Director

KEY OFFICERS

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

51, Filipino, Chief Finance Officer and Compliance Officer. Ms. Vasquez is the Chief Finance Officer and Compliance Officer of Harbor Star. She is the Director and Treasurer of ASTRONERGY Development Gensan Inc. (ADGI), ASTRONERGY Development F1 (ADF1), and ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), and Harbor Star Subic Corp. (HSSC). Ms. Vasquez worked in the audit division of SyCip, Gorres, Velayo & Co. from 1987 to 1993 and from April 1998 to October 1999 as Audit Executive. She started as Finance Manager, 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 Assistant Vice President for Treasury at Alphaland Development, Inc. from March 2010 to August 2011 and thereafter, joined Filinvest Land, Inc. on a brief stint as Vice President-Comptroller prior to joining Harbor Star. She obtained her degree in Bachelor of Science 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 post graduate units in Corporate Finance and Investments in Massey University in 2009. Ms. Vasquez is a Certified Public Accountant.

Dany Cleo B. Uson

57, Filipino, Treasurer, Business Development Manager, and Investor Relations Officer. Mr. Uson is the Treasurer, Business Development Asia Pacific, and Investor Relations Officer of Harbor Star. He is also Director of ASTRONERGY Development Gensan Inc. (ADGI) ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), and Harbor Star East Asia (Myanmar) Ltd. (HSEA). Mr. Uson served as Harbor Star's Budget Committee Head, Funds Planning & Financing and Marketing Manager before becoming the Corporate Planning 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

52, Filipino, Operations Division Head. As of 1 October 2015, Captain Caranzo is appointed Operations Division Head of Harbor Star. He is also the Director and Operations Head of Harbor Star Subic Corp. (HSSC). Prior to his appointment, he 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. Prior to his stint 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.

Emmanuel L. Falcunit

41, Filipino, Operations Manager - Fleet. Capt. Falcunit is the Operations Manager of Harbor Star. He is a homegrown employee of the company, having started as a Cadet way back 2002. Also in the same year, he went onboard as a Deck Cadet. In 2003, he officially started his career as a seaman having been a Deck Rating onboard tug. Later on, he became tug master from 2006 to 2009. Then, he went back to head office to become a Safety Officer from 2009 to 2013. He again went back onboard via Harbor Star's AHTS vessel, M/V Rho Cas, as a 2nd Mate in 2013 and later on got promoted as Chief Mate. He officially became a full-pledged Captain in 2016. By 2018, he was assigned back to head office to take on the position of Operations Manager. Capt. Falcunit obtained his degree in B.S. Marine Transportation from the Philippine Merchant Marine School. He got his Marine Deck Officer license in 2005 and got his Master Mariner license in 2016.

Rudiardo L. Arcellana

55, Filipino, Operations Manager – Salvage, Towage, Lighterage & Special Projects. Captain Arcellana is the Operations Manager for Salvage, Towage, Lighterage & Special Projects of Harbor Star. Prior to 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 diverse professional experience in Seafaring for thirty two (32) 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.

Jose Q. Santos

54, Filipino, Operations & Commercial Manager – Feeder Services. Mr. Santos is the Operations & Commercial Manager of the Feeder Services team of Harbor Star that operates in the Cavite Gateway Terminal. Mr. Santos started his career as a Nike Athletic Wear Consultant for Mondragon Industries from 1985 to 1987. Then he went onboard MOF Company Inc. from 1988 to 1992, serving as Operations Team Member and later on as the Marketing Team's Pricing Officer. In 1992, he had a brief stint as Documentation Supervisor for CNT Worldwide Logistics Inc. In the same year, he became a Documentation Team Member for Aboitiz Transport System which is under Hapag-Lloyd Phils. Inc. In 1994, he became an Account Executive and later on, Trade Lane Manager–Inter Asia for the same company. He, again, took even larger responsibilities, becoming the Sales & Marketing Manager OIC from 1999 to 2003 before finally taking over the position in full capacity as Sales & Marketing Manager from 2003 to 2011. In 2011, he took his last stint with Hapag-Lloyd Phils. Inc. as Sales & Marketing Manager, this time, under 2GO Group Inc., before arriving in Harbor Star in 2018. Mr. Santos obtained his degree in BSBA – Major in Accountancy from the Philippine School of Business Administration.

Leofrank P. Castrence

59, Filipino, Technical Manager. Mr. Castrence is the Technical Manager of Harbor Star. He 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.

Jay-R L. Castillo

34, Filipino, Occupational, Health, Safety, Environment (OHSE) Manager. Mr. Castillo is the OHSE Manager of Harbor Star. Prior to his appointment, he served as the Company's Safety Officer from 2014 to 2015. Before joining the Company, he served as a 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.

Edwin G. Amejana

54, Filipino, Commercial Manager. Mr. Amejana serves as the Commercial Manager of Harbor Star. Prior to his 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

53, Filipino, Diving, Marine Maintenance and Construction Manager (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.

Virginia May P. Bella

45, Filipino, Legal Services Manager. Ms. Bella is the Legal Services Manager of Harbor Star. She is also a Director and Corporate Secretary of ASTRONERGY Development Gensan Inc. (ADGI), ASTRONERGY Development F1 (ADF1), and ASTRONERGY Development F2 (ADF2). 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

56, Filipino, Internal Audit Manager. Ms. Blanco is the Internal Audit Manager of Harbor Star. Prior to her 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.

Elionarda L. Refil

51, Filipino, General Services Department Manager. Ms. Refil is the General Services Department Manager of Harbor Star. She is also a Director of Harbor Star Subic Corp. (HSSC). Prior to her 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 ("LMDP") in 2010.

Cecilia Melany G. Natividad

41, Filipino, Accounting Manager. Ms. Natividad is the Accounting Manager of Harbor Star. Prior to her present position in the Company, she was an Accounting Manager in Alphaland Development, Inc. She also served in the same capacity in 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 (16) 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

42, Filipino, Human Resource Manager. Ms. Santillan is the Human Resource Manager of Harbor Star. Ms. Santillan has been an HR practitioner for the past fifteen (15) 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 5-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

31, Filipino, Procurement Manager. Ms. Bella is the Procurement Manager of Harbor Star. Prior to her appointment, she was the Company's Management Trainee then eventually served as the Special Assistant to the Operations Division Head from 2013 to 2015 then served as the Procurement Officer-in-Charge from 2016 to 2018. 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.

Ryan L. Orila

41, Filipino, ICT Manager. 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.

Ronaldo Antonio C. Samong

50, Filipino, Business Development Manager for Visayas & Mindanao. Mr. Samong served as Davao Branch Head from 2010-2019 before becoming the Business Development Manager for Visayas & Mindanao of Harbor Star. He was involved in the Sales, Marketing, and Operation department of a number of companies prior to his position at Harbor Star, including Essen Pharma Inc., G&G Logistic Inc., Crown Pacific Logistics, and Sumifru (Phils.) Corporation. Mr. Samong obtained his Bachelor of Arts Major in Political Science from Western Mindanao State University in 1991.

Marvin William Trinidad

42, Filipino, Sales & Marketing Officer-in-Charge. Mr. Trinidad served as a Sales & Marketing Officer from 2011-2019 before becoming the Sales & Marketing Officer-in-Charge. Prior to joining Harbor Star, he was involved in the Sales & Marketing Department of a number of companies, including Mariveles Grain Corporation, Asian Terminals Incorporated, BCI Asia, and PCIB Cignal Life Insurance Corporation. Mr. Trinidad obtained his degree in B.S. Marketing Management from San Beda University in 1999.

MANAGEMENT TEAM

LORENZO C. CARANZO
Operations Division Head

EMMANUEL. L. FALCUNIT
Operations Manager
Fleet Operations

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

JOSE Q. SANTOS
Operations and Commercial Manager

LEOFRANK P. CASTRENCE
Technical Manager

JAY-R L. CASTILLO
Occupational, Health, Safety, Environment Manager

EDWIN G. AMEJANA
Commercial Manager

LITO BRANDO A. TOPACIO
Diving, Marine Maintenace and Construction Manager

VIRGINIA MAY P. BELLA
Legal Services Manager

MARICEL V. BLANCO
Internal Audit Manager

ELIONARDA L. REFIL
General Services Department Manager

CECILIA MELANY G. NATIVIDAD
Accounting Manager

EFFEL T. SANTILLAN
Human Resource Manager

MARIA ELIZABETH JEAN E. BELLA
Procurement Manager

RYAN L. ORILA
ICT Manager

RONALDO ANTONIO C. SAMONG
Business Development Manager
for Visayas & Mindanao

MARVIN WILLIAM TRINIDAD
Sales & Marketing Officer-in-Charge

Sustainability Report 2019

SUSTAINABILITY REPORT 2019

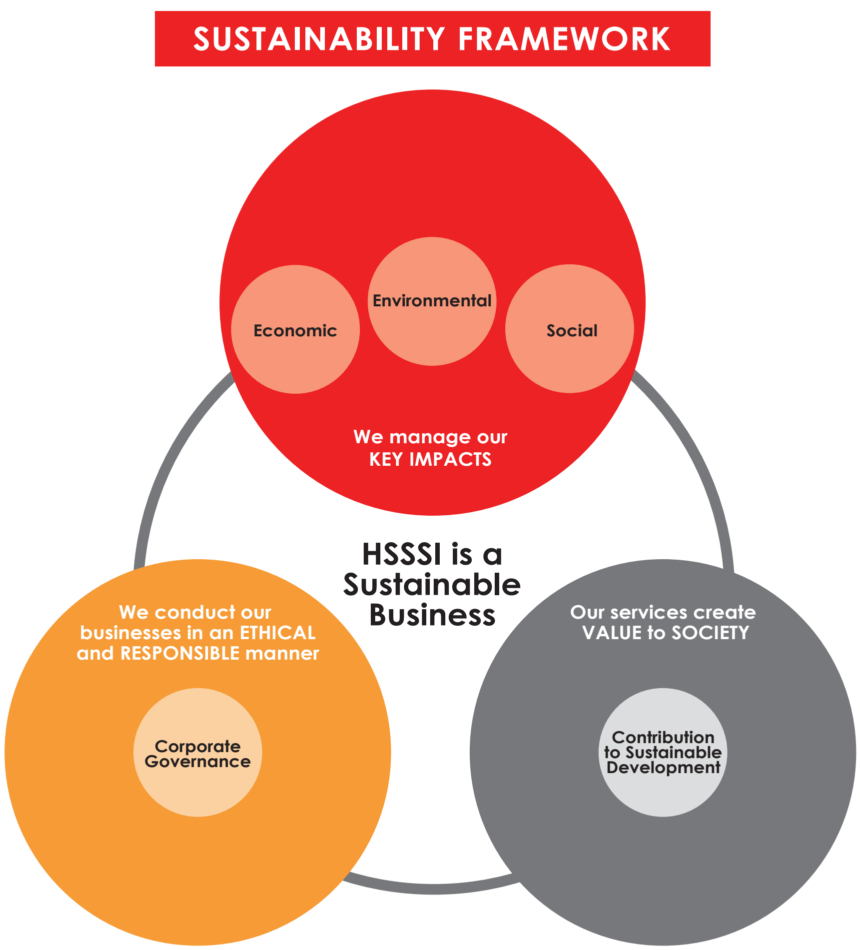
Introduction to the Sustainability Report

Integral to HSSSI's operations are its Sustainability Programs focused primarily on the economic, environmental and social wellbeing of communities. Through the years, the company has invested a significant amount of resources and manpower into activities that promote community development, sustainability and the conservation of marine life. It is HSSSI's conviction that, both in the short and long term, these efforts will safeguard the welfare particularly of people residing in the Philippines' coastal areas. Moving forward, HSSSI will continue to work towards inclusive and sustainable growth for all communities -- which ultimately redounds to the country's overall progress and development.

This report has been prepared in accordance with the GRI Standards: Core Option. It is the maiden report that covers the period of January to December 2019. ***(102-48, 102-49, 102-54)***

Sustainability Framework

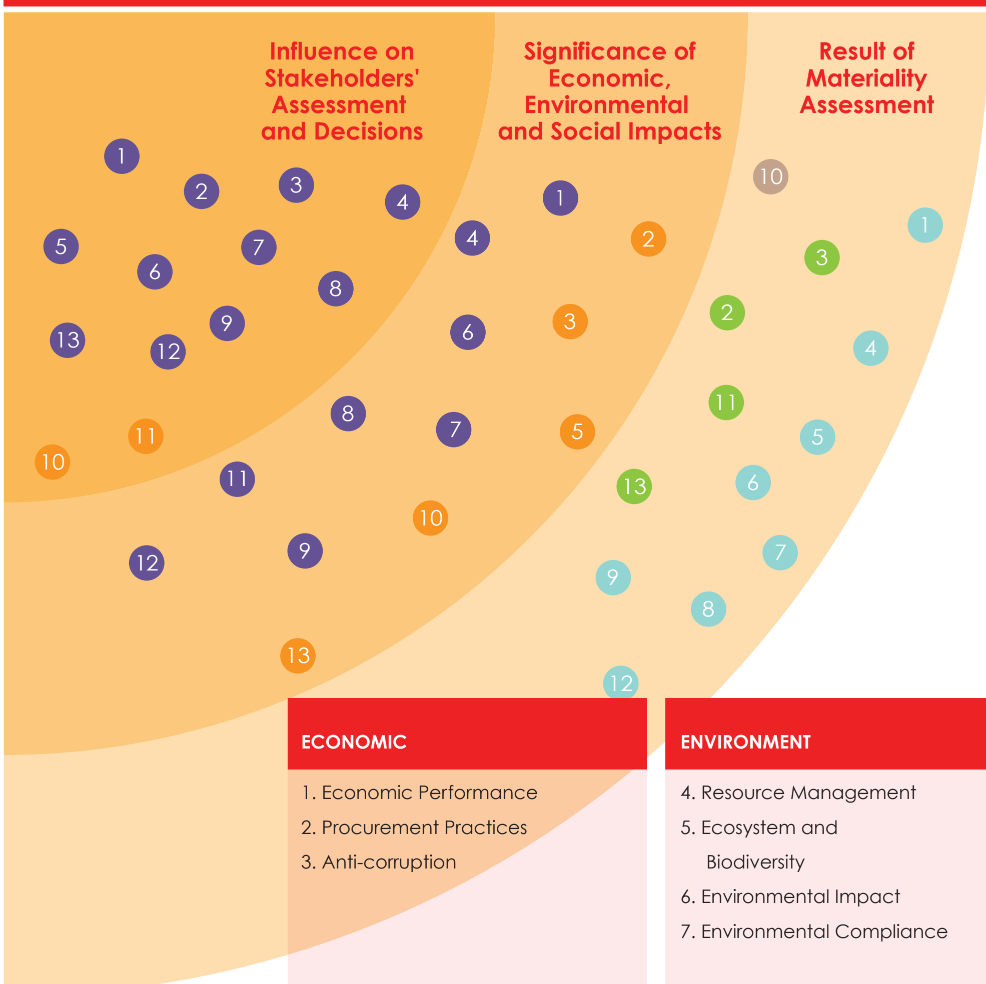
This sustainability framework is crafted for PLCs operating in the Philippines. It is a systematic approach that serves as our guidelines to manage our issues and improve our business practices in achieving the company's sustainability.



Materiality

In identifying the materiality of the topics to be included in the report, we have involved the department heads by providing them a risk assessment form to identify the stakeholders and its significant issues that reasonably have adverse and beneficial impacts to the origination's economic, environmental, and social or those that can influence the decisions of the stakeholders. After collating the contextual issues, top management conducted several dialogues to finalize which topics are considered significant. ***(102-46)***

MATERIALITY MATRIX



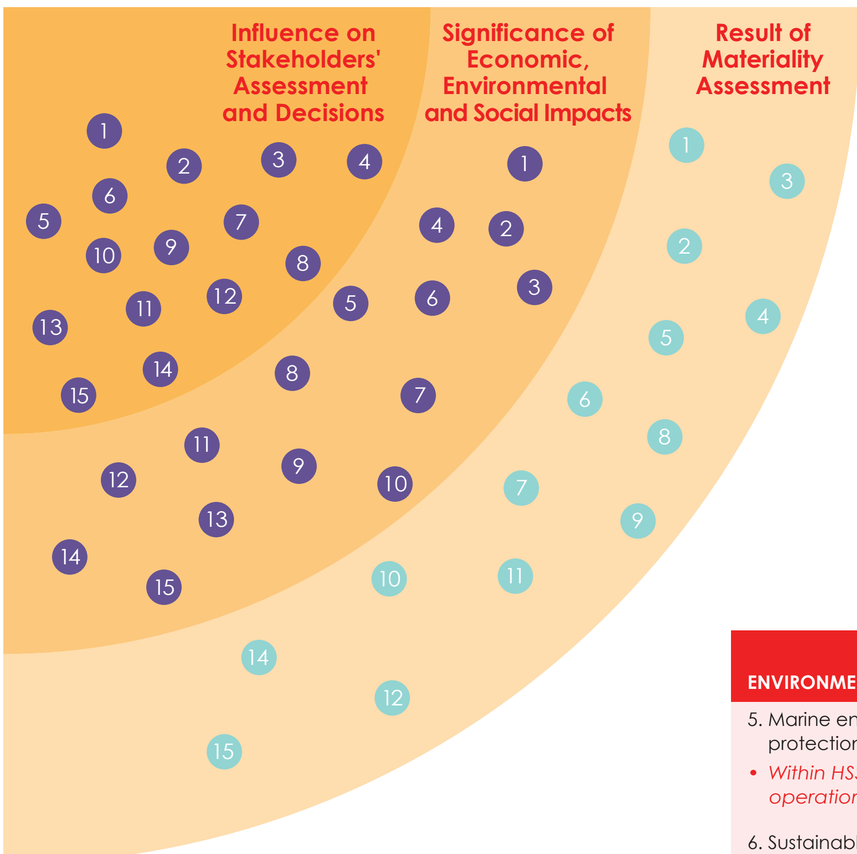
Legends:

H	High
M	Moderate
L	Low
LL	Respond to Request/ Monitor
LH	Keep Informed
HH	Focus Efforts / Key Players

ECONOMIC	ENVIRONMENT	SOCIAL
1. Economic Performance	4. Resource Management	8. Employee Management
2. Procurement Practices	5. Ecosystem and Biodiversity	9. Workplace Conditions, Labor Standards and Human Rights
3. Anti-corruption	6. Environmental Impact	10. Supply Chain Management
	7. Environmental Compliance	11. Relationship with Community
		12. Customer Management
		13. Data Security

Material Topics and Boundaries
(102-46, 102-47)

SUSTAINABILITY FRAMEWORK



Legends:

H	High
M	Moderate
L	Low
LL	Respond to Request/ Monitor
LH	Keep Informed
HH	Focus Efforts / Key players

CORPORATE GOVERNANCE

1. Sustainable value for stakeholders
   - *Within HSSSI and stockholders*

ECONOMIC

2. Business Economic Performance
   - *Within HSSSI*
3. Business Strategic Plans
   - *Within HSSS*
4. Value for Customers
   - *Within HSSSI and Customers*

ENVIRONMENTAL

5. Marine environment protection
   - *Within HSSSI ports of operations*
6. Sustainable operations
   - *Within HSSSI*
7. Environmental Law compliance obligation
   - *Within HSSSI*

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

15. Contribution to UN Sustainable Goals
   - *Within HSSSI and other affected civil societies*

SOCIAL

8. Benefits and compensation
   - *Within HSSSI*
9. Occupational Safety & Health
   - *Within HSSSI*
10. Training & Development
   - *Within HSSSI*
11. Employee Welfare
   - *Within HSSSI*
12. Performance Evaluation
   - *Within HSSSI*
13. Corporate Social Responsibility (CSR)
   - *Within HSSSI and partner community*
14. General Labor Law Compliance Obligation
   - *Within HSSSI*

Stakeholder Engagement

(102-40, 102-42, 102-43, 102-44)

STAKEHOLDER

1 Employees

ALL EMPLOYEES

Relevance to the Organization (102-42)

Workforce/manpower that helps the company meet its vision, mission, and strategic objectives.

Topics / Concerns Raised (102-44)

1. Benefits and compensation
2. Occupational Safety & Health
3. Training & Development
4. Employee Welfare
5. Performance Evaluation
6. Corporate Social Responsibility (CSR)
7. General Labor Law Compliance Obligation
8. Marine Environment Protection

Approach to Stakeholder Engagement (102-43

100% compliance to Occupational Safety & Health Standard;

General Labor Standard; Environmental Laws

Provision of internal and external training based on the Training Needs Analysis (TNA)

Involvement of all employees in CSR activities.

2 Clients or Customers

VESSEL OWNERS/ PORT OPERATORS

Relevance to the Organization (102-42)

Patrons of HSSSI operations

Topics / Concerns Raised (102-44)

1. Value for Customers

Approach to Stakeholder Engagement (102-43)

1. Client call
2. Customer feedback form
2. Continuous improvement of services

3 Investors

STOCKHOLDERS

Relevance to the Organization (102-42)

Contribute capital to the business

Topics / Concerns Raised (102-44)

1. Business economic performance
2. Business strategic plans
3. Sustainable value for stakeholders

Approach to Stakeholder Engagement (102-43)

1. Annual Stockholders Meeting

4 Business partners

SUPPLIERS / SERVICE PROVIDERS / CONTRACTORS

Relevance to the Organization (102-42)

Provide resources and services essentials to the operation

Topics / Concerns Raised (102-44)

1. Value for suppliers

Approach to Stakeholder Engagement (102-43)

1. Supplier Accredita tion and audit
2. Second Party Audit (Supplier's Audit)

MANNING AGENCIES

Relevance to the Organization (102-42)

Provide manpower for an international voyage

Approach to Stakeholder Engagement (102-43)

1. Contract with the manning agency

GROUPS (102-40)

5 Community

LOCAL COMMUNITY PARTNER IN CSR

Relevance to the Organization (102-42)

Helps the company and other stakeholders to be socially accountable

Topics / Concerns Raised (102-44)

Corporate Social Responsibility (CSR)

Approach to Stakeholder Engagement (102-43)

1. Quarterly visitation of the partner community

INDIGENOUS PEOPLE

Approach to Stakeholder Engagement (102-43)

1. Providing work for IP

6 Government

LOCAL GOVERNMENT REGULATORY BODIES; NGOS

Relevance to the Organization (102-42)

Issuance of permit to operate

Topics / Concerns Raised (102-44)

Sustainable operation

Approach to Stakeholder Engagement (102-43)

1. ISO Certification to ensure compliance with legal requirements
2. Attend Conferences

7 Trade Organization

INTERNATIONAL AND LOCAL TRADE UNIONS

Relevance to the Organization (102-42)

Compliance to international standards to get more clients

Topics / Concerns Raised (102-44)

Compliance with the requirements

Approach to Stakeholder Engagement (102-43)

1. Renewal of membership
2. Ensure compliance with the requirements

INSURANCE COMPANY

Relevance to the Organization (102-42)

Insured assets

Topics / Concerns Raised (102-44)

1. Incident/ Accident Reporting

Approach to Stakeholder Engagement (102-43)

1. Insurance claim process

ISO CERTIFYING BODY

Relevance to the Organization (102-42)

Continuous improvement of the management system performance; Fulfillment of legal requirements and other requirements; Achievement of objectives.

Topics / Concerns Raised (102-44)

Maintenance of ISO certification

Approach to Stakeholder Engagement (102-43)

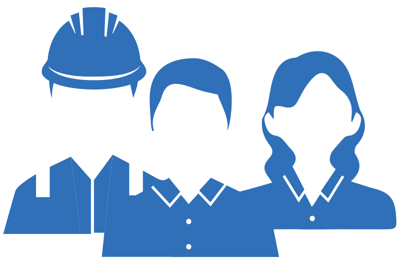
1. Renewal of certification

Sustainable Fleet Operation

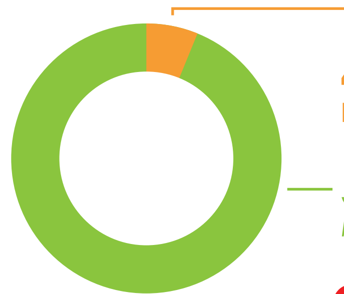
ECONOMIC PERFORMANCE		
Direct Economic Value Generated and Distributed *(201-1)*		
Disclosure	**Amount**	**Units**
Direct economic value generated (revenue)	1,396,054,651	PhP
Direct economic value distributed:		
a. Operating costs	484,899,259	PhP
b. Employee wages and benefits	327,110,576	PhP
c. Payments to suppliers, other operating costs	160,918,320	PhP
d. Dividends given to stockholders and interest payments to loan providers	256,617,636	PhP
e. Taxes given to government	23,292,113	PhP
f. Investments to community (e.g. donations, CSR)	56,835	PhP

EMPLOYEE MANAGEMENT

Employee Data (401-1)



605
Total Number of Employees



48
Female Employees

557
Male Employees

0.0793
Attrition rate

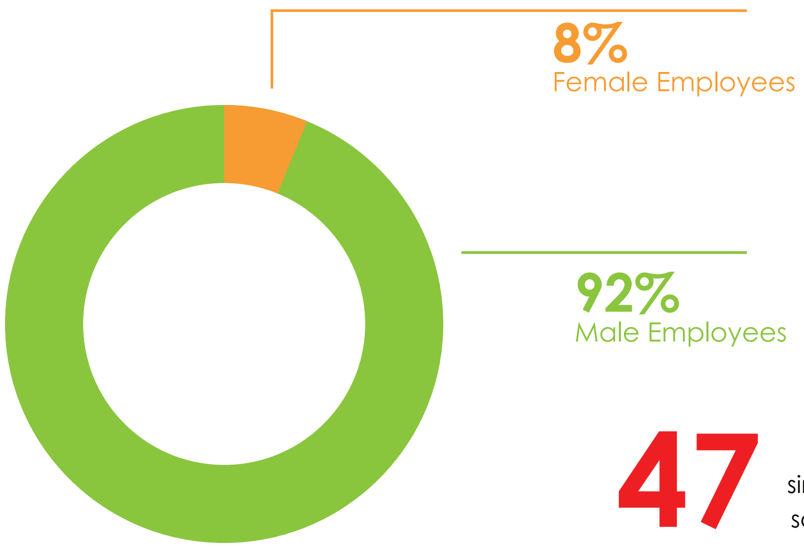
Employee Benefits (401-2)

Disclosure	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	13%	19%
PhilHealth	Y	21%	9%
Pag-ibig	Y	19%	17%
Parental Leaves	Y		2%
Vacation Leaves	Y	98%	94%
Sick Leaves	Y	88%	15%
Medical Benefits (aside from PhilHealth)	Y	79%	
Housing Assistance (aside from Pag- ibig)	N		
Retirement Fund (aside from SSS)	Y		1%
Further Education Support	N		
Company Stock Options	Y		1%
Telecommuting	Y	2%	0
Flexible-working Hours (Others)	Y	100%	100%

Employee Training and Development (404-1)

Disclosure	Quantity	Unit
Total training hours provided to employees		
a. Female Employees	508	hours
b. Male Employees	3236	hours
Average training hours provided to employees		
a. Female employees	11	hours/employee
b. Male employees	6	hours/employee

Diversity and Equal Opportunity (405-1)



47 single parents but no solo parent IDs; 1 HIV

Number of employees from indigenous communities and/or vulnerable sector*

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety (Disclosure 403-9)

Disclosure	Quantity	Unit
Safe Man-Hours	2,586,198	Man-hours
No. of work-related injuries	2	#
No. of work-related fatalities	0	#
No. of work related ill-health	0	#
No. of safety drills	2	#

Relationship with Community

Significant Impacts on Local Communities (413-1)

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	**Mangrove Planting**	**Gift giving and feeding activity to kids**
Location	Brgy. Banoyo, San Luis Batangas	Brgy.Bangkal, Makati City
Vulnerable groups (if applicable)	Elderly	children between 5 and 12 yrs old
Does the particular operation have impacts on indigenous people? (Y/N)	N	N
Collective or individual rights that have been identified that or particular concern for the community	None	None
Mitigating measures (if negative) **or enhancement measures** (if positive)		

RESOURCE MANAGEMENT

Energy consumption within the organization (Disclosure 302-1)

GAS
Gasoline
0.0042 GJ

DIESEL
Diesel
0.6524 GJ

Electricity
205,873.00
kWh

Water consumption within the organization (Disclosure 303-3, 303-5)

Water Withdrawal
77,017.15
cum

Water Consumption
77,017.15
cum

Recycled and Reused
0
cum

Hazardous Waste (Disclosure 306-4)

Disclosure	Quantity	Unit
Total weight of hazardous waste generated	35100	kg
Total weight of hazardous waste transported	35100	kg

Air Emissions: GHG (Disclosure 305-1, 305-2,305-6)

Disclosure	Quantity	Unit
Direct (Scope 1) GHG Emissions	95 289.01	Tonnes CO2e
Energy indirect (Scope 2) GHG Emissions	0 38.23	Tonnes CO2e
Emissions of ozone-depleting substances (ODS)	0	Tonnes

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

SUSTAINABLE DEVELOPMENT GOALS

ZERO HUNGER

Feeding and gift giving and activity
School Supplies Distribution and
Feeding activity

GOOD HEALTH AND WELL-BEING

Blood Letting Program

School Supplies Distribution and Feeding activity

Harbor Star distributed school supplies and conducted a feeding program for indigenous (Blaan) students from Colot S. Aligado IP High School in Southern Mindanao to share blessings and establish a relationship with the community.

Feeding and gift-giving activity

To give joy to the less privileged children within the community and to celebrate the true spirit of the Yuletide season, Harbor Star extended its blessings to children from Barangay Bangkal where HSSSI's Head Office is located. In coordination with the officials of Barangay Bangkal, selected employees of HSSSI Head Office including Company President Mr. Geronimo Bella, Jr. joined in the distribution of loot bags and packed lunches to indigent children.

Blood Donation Activity

Harbor Star supports one of the main activities of the Philippine Red Cross (PRC) - Blood Services which aim to provide the country with an adequate and safer blood supply from volunteers and non-remunerated blood donors. To contribute to blood-banking efforts and to promote a healthy lifestyle among employees, HSSSI facilitates Blood Donation activities in the Head Office annually.

AFFORDABLE AND CLEAN ENERGY

Solar Power Farm

LIFE BELOW WATER

Adopt-A-Mangrove Program
Participation in Annual Coastal Clean-up

Annual Coastal Clean-up

Together with Ocean Conservancy and the International Coastal Clean-up, Harbor Star participates annually in a worldwide coastal cleanup aimed at combating the global solid waste problem and, the proliferation of marine debris.

Mangrove Planting

Through its Adopt-A-Mangrove Program, Harbor Star works to conserve marine resources and protects people living in coastal areas against natural hazards. In 2011, employees of Harbor Star together with Barangay Banoyo, the Municipality of San Luis, Batangas, the Provincial Government Environment and Natural Resource Office (PGENRO), and the Coastal Conservation and Education Foundation, Inc. (CCEF) planted the first batch of 5,000 propagules (mangrove seedlings). Over the years, Harbor Star has ensured the growth and sustainability of the seedlings through monitoring and replanting of propagules. As a result, there are an estimated 25,000 healthy mangrove plants in the area today.

GRI Content Index

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is presented and the references for Disclosures 102- 40 to 10249 align with appropriate sections in the body of the report.

GRI Standard		Disclosure	Page Number(s), direct answers and/or URLs	Reason for Omission
GRI 101: Foundation 2016				
General Disclosures				
GRI 102: General Disclosures 2016	**Organizational Profile**			
	102-1	Name of the organization	Refer to Annual Report Page 1 : Company Profile	
	102-2	Activities, brands, products, and services	Refer to Annual Report Pages 10 to 11: Operational Highlights	
	102-3	Location of headquarters	Refer to Annual Report Page 126 : Offices	
	102-4	Location of operations	Refer to Annual Report Pages 1 to 3 : Company Profile	
	102-5	Ownership and legal form	Refer to Annual Report Pages 1 to 3 : Company Profile	
	102-6	Markets served	Refer Annual Report Page 125 : HSSSI Base Ports	
	102-7	Scale of the organization	Refer to Page 37	
	102-8	Information on employees and other workers	Refer to Page 37	
	102-9	Supply chain	The company's key focus of the operation is providing maritime services and not a supply chain. However, the company has a supplier/service provider accreditation process to ensure compliance with ISO standards and for sustainable development.	
	102-10	Significant changes to the organization and its supply chain		None to report
	102-11	Precautionary Principle or approach	Since the company is an IMS certified, we are using the ISO standards when planning our processes and projects balancing the three pillars of sustainability.	
	102-12	External initiative	Refer to Page 41	
	102-13	Membership of associations	1. International Salvage Union (ISU) 2. Employer Confederation of the Philippines (ECOP) 3. Philippine Chamber of Commerce	

			and Industry (PCCI) 4. People Management Association of the Philippines (PMAP) 5. Harbor Tugs Association of the Philippines (HTAP) 6. Philippine Inter-island Shipping Association (PISA)	
	Strategy			
	102-14	Statement from senior decision-maker	Refer to Annual Report Page 7 : Message to Our Stockholders	
	Ethics and Integrity			
	102-16	Values, principles, standards, and norms of behavior	Refer to Annual Report Page 6 : Mission, Vision, Corporate Values	
	Governance			
	102-18	Governance structure	Refer to Annual Report Page 16 : Corporate Governance	
	Stakeholder Engagement			
	102-40	List of stakeholder groups	Refer to Pages 34 – 35	
	102-41	Collective bargaining agreements		None to report
	102-42	Identifying and selecting stakeholders	Refer to Pages 34 – 35	
	102-43	Approach to stakeholder engagement	Refer to Pages 34 – 35	
	102-44	Key topics and concerns raised	Refer to Pages 34 – 35	
	Reporting Practice			
	102-45	Entities included in the consolidated financial statements	Parent and Subsidiaries	
	102-46	Defining report content and topic Boundaries	Refer to Page 33	
	102-47	List of material topics	Refer to Page 33	
	102-48	Restatements of information	Refer to Page 31	
	102-49	Changes in reporting	Maiden Report	
	102-50	Reporting period	Refer to Page 31	
	102-51	Date of most recent report	Maiden Report	
	102-52	Reporting cycle	Annual	
	102-53	Contact point for questions regarding the report	Jay-R L. Castillo , QHSE Manager	
	102-54	Claims of reporting in accordance with the GRI Standards	Refer to Page 31	
	102-55	GRI Content Index	Refer to Pages 43 - 45	
	102-56	External assurance		Not applicable
MATERIAL TOPICS				
Economic Performance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile,	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 201: Economic Performance 2016	201-1	Direct Economic Value Generated and Distributed	Refer to Pages 34 - 53	

Environmental Performance				
Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile,	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	Refer to Page 40	
Water				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile,	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 303: Water 2016	303-1	Water withdrawal	Refer to Page 40	
Emission				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile,	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 305: Air Emissions 2016	305-1	Direct (Scope 1) GHG Emissions	Refer to Page 40	
	305-2	Energy indirect (Scope 2) GHG Emissions	Refer to Page 40	
Hazardous Wastes				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 302: Waste 2016	306-4	Hazardous Waste	\ Refer to Page 40	
Social Performance				
Employment				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 401: Employment 2016	401-1	Employee Data	Refer to Page 37	
	401-2	Employee Benefits	Refer to Page 37	
Diversity and Equal Opportunity				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its	Refer to Pages 32 - 33, Annual	

		components	Report Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 405: Diversity and Equal Opportunity	403-9	Occupational Health and Safety	Refer to Pages 38-39	
Local Communities				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile	
GRI 413 : Local Communities 2016	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
	404-1	Employee Training and Development	Refer to Pages 36 - 39	
Occupational Safety and Health				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 403: Occupational Health and Safety	405-1	Diversity and Equal Opportunity	Refer to Pages 38-39	
Training and Education				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 33	
	103-2	The management approach and its components	Refer to Pages 32 - 33, Annual Report Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 34	
GRI 404 : Training and Education	413-1	Significant Impacts on Local Communities	Refer to Pages 38-39	

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

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, 2019 and 2018, 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, 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

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

Report on the Audits of Consolidated Financial Statements

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, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2019;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2019; 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 (PSA). 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.

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 judgements; 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 matters identified in our audit pertain to revenue recognition and impairment of goodwill:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 28.25 to the consolidated financial statements for the discussion of Group's policy on revenue recognition and corresponding details. For the year ended December 31, 2019 the Group has recognized net revenue amounting to P1.4 billion (2018 - P1.4 billion; 2017 - P1.3 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, towing services and energy fees. There is an inherent risk of cut-off across all revenue streams given the Group's centralized accounting function that relies on certain manual systems to process high volume of transactions.	We have addressed the matter by evaluating and validating key controls surrounding revenue recognition process, performing detailed of sales transactions including cut-off review and review of manual adjustments. Our controls 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. We also assessed the consistency of the application of the revenue recognition policy for the Group's various revenue streams and evaluated whether they are in compliance with PFRS 15, Revenue from contracts with customers. Our revenue cut-off procedures resulted in an adjustment which was properly taken up in the Group's financial statements as at December 31, 2019 and 2018.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill	
Refer to Note 28.3 to the consolidated financial statements for the discussion of Group's policy on goodwill. The Group has an existing goodwill arising from its acquisition of Astronergy Development Gensan Inc., Astronergy Development F1 Inc., and Astronergy Development F2 Inc. in 2017 and 2018. Under PFRS, the amount of goodwill is required to be tested annually for impairment. This annual impairment test was significant to our audit since the goodwill amounting to P154.2 million as at December 31, 2019 and 2018 is material to the consolidated financial statements. In addition, management's assessment process is complex and is based on management judgment and assumptions, specifically average revenue growth rate and pre-tax adjusted discount rate, which are affected by expected future market or economic conditions.	Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used in management's valuation. We found the methodology used in valuation to be appropriate and consistently applied. The procedures performed to assess the reasonableness of management's assumptions include, among others, the following: • Forecasted revenue growth We have assessed revenue growth based on the Group's renewable energy supply agreement with its sole customer and solar power plant's actual capacity. • Pre-tax adjustment discount rate The discount rate used in determining value in use is based on internally developed benchmarks using the weighted average cost of capital, with reference to selected comparable companies. • Discounted cash flows In testing the discounted cash flow calculation, we also performed the following: - Tested the mathematical accuracy of the discounted cash flow calculation; - Tested the calculation of the carrying amount of the CGU; and - Checked the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. Based on the work performed, we found the calculations to be appropriate and the assumptions to be consistent and in line with our expectations.

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 PFRS, 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 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.

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 PSA 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.

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 Group's ability 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.

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Isla Lipana & Co.

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 Pocholo C. Domondon.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

pwc

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

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. and Subsidiaries (the "Group") as at and for the year ended December 31, 2019, on which we have rendered the attached report dated June 10, 2020. The supplementary information shown in Annex 68-C, Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration and Ownership Structure as required by Part I Section 4 and Schedules A, B, C, D, E, F, G as required by Part II Section 6 of Rule 68 of the Securities Regulation Code, are presented for purposes of filing with the Securities and Exchange Commission and are not required parts of the basic financial statements. Such supplementary information and schedules are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information and schedules have been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

pwc

Isla Lipana & Co.

Independent Auditor's Report on
Components of Financial Soundness Indicators

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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 10, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	2	99,449,755	316,560,503
Trade and other receivables, net	3	552,913,317	538,165,509
Advances to a related party	21	553,165	7,389,954
Prepayments and other current assets	4	546,847,612	339,526,261
Total current assets		1,199,763,849	1,201,642,227
Non-current assets			
Property and equipment at revalued amounts, net	6	1,609,275,892	1,649,086,913
Property, plant and equipment at cost, net	7	2,539,309,392	590,389,665
Pre-development cost	1.2	-	1,064,590,866
Right-of-use assets, net	22	138,247,262	-
Computer software, net	8	27,859,777	27,789,867
Investment properties	9	47,626,987	47,626,987
Investment in associates	5	116,498,458	100,863,553
Goodwill	1.2	154,207,159	154,207,159
Deferred income tax assets, net	23	24,452,501	-
Other non-current assets, net	10	287,418,370	256,617,184
Total non-current assets		4,944,895,798	3,891,172,194
Total assets		6,144,659,647	5,092,814,421
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	416,692,840	340,416,985
Short-term loans	12	499,750,000	465,000,000
Borrowings, current portion	12	2,045,850,208	1,478,332,994
Lease liabilities, current portion	22	17,014,185	-
Finance lease liability, current portion	22	-	3,776,463
Advances from related parties	21	7,796,910	7,796,910
Income tax payable		-	26,031,418
Total current liabilities		2,987,104,143	2,321,354,770
Non-current liabilities			
Trade payables, net of current portion	11	15,738,600	-
Non-current portion of loans payable	12	331,195	-
Borrowings, net of current portion	12	1,707,246,931	990,980,984
Lease liabilities, net of current portion	22	74,747,877	-
Finance lease liability, net of current portion	22	-	23,309,163
Deferred income tax liabilities, net	23	-	10,268,998
Retirement benefit obligation	20	113,617,579	83,073,916
Total non-current liabilities		1,911,682,182	1,107,633,061
Total liabilities		4,898,786,325	3,428,987,831
Equity			
Attributable to owners of the Parent Company			
Share capital	13	907,857,870	907,857,870
Additional paid-in-capital	13	121,632,762	121,632,762
Revaluation surplus, net of tax	6	80,153,162	98,673,546
Cumulative translation difference	28.24	(6,768,327)	(6,811,095)
Fair value reserve on financial assets at fair value through other comprehensive income		(160,000)	(160,000)
Treasury stock	13	(37,614,990)	(10,853,670)
Retained earnings		181,933,854	548,645,283
		1,247,034,331	1,658,984,696
Non-controlling interest		(1,161,009)	4,841,894
Total equity		1,245,873,322	1,663,826,590
Total liabilities and equity		6,144,659,647	5,092,814,421

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, 2019
(All amounts in Philippine Peso)

	Notes	2019	2018	2017
Service income, net	15	1,396,054,651	1,436,968,376	1,326,908,771
Cost of services	16	(1,111,421,445)	(950,966,767)	(906,461,511)
Gross profit		284,633,206	486,001,609	420,447,260
General and administrative expenses	17	(428,832,806)	(284,536,407)	(233,922,429)
Other income (loss), net	19	(14,618,721)	53,441,515	36,832,595
Operating profit (loss)		(158,818,321)	254,906,717	223,357,426
Finance cost				
Interest expense	12,22	(256,617,636)	(102,350,268)	(53,034,593)
Foreign exchange income (loss) on borrowings	12,24	(28,546)	-	125,257
		(256,646,182)	(102,350,268)	(52,909,336)
Share in profit of associates	5	15,916,905	3,046,290	439,499
Profit (Loss) before income tax		(399,547,598)	155,602,739	170,887,589
Income tax benefit (expense)	23	23,292,113	(48,691,357)	(62,081,927)
Profit (Loss) for the year		(376,255,485)	106,911,382	108,805,662
Other comprehensive income (loss)				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	(11,084,958)	1,284,995	3,444,398
Share in other comprehensive income (loss) of associates	5	(282,000)	(231,000)	408,500
Total other comprehensive income (loss), net of tax		(11,366,958)	1,053,995	3,852,898
Total comprehensive income (loss) for the year		(387,622,443)	107,965,377	112,658,560
Profit (Loss) attributable to:				
Owners of the parent		(370,200,311)	99,240,852	102,850,817
Non-controlling interest		(6,055,174)	7,670,530	5,954,845
		(376,255,485)	106,911,382	108,805,662
Total comprehensive income (loss) attributable to:				
Owners of the parent		(381,567,269)	100,294,847	106,703,715
Non-controlling interest		(6,055,174)	7,670,530	5,954,845
		(387,622,443)	107,965,377	112,658,560
Earnings (Loss) per share				
Basic and diluted	14	(0.41)	0.11	0.11

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, 2019
(All amounts in Philippine Peso)

		Equity attributable to owners of the Parent Company									
	Notes	Share capital (Note 13)	Treasury stock (Note 13)	Additional paid-in capital (Note 13)	Revaluation surplus (Note 6)	Cumulative translation difference (Note 28.24)	Fair value reserve on financial assets at fair value through other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1, 2017		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	20	-	-	-	-	-	-	3,444,398	3,444,398	-	3,444,398
Share of other comprehensive income of associate	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	6	-	-	-	(31,585,946)	-	-	31,585,946	-	-	-
Transactions with owners											
Declaration of stock dividends	13	302,619,290	-	-	-	-	-	(302,619,290)	-	-	-
Non-controlling interest from business acquisition	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	28.24	-	-	-	-	(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
Comprehensive Income											
Profit for the year		-	-	-	-	-	-	99,240,852	99,240,852	7,670,530	106,911,382
Other comprehensive income											
Remeasurements on retirement benefits, net of tax	20	-	-	-	-	-	-	1,284,995	1,284,995	-	1,284,995
Share of other comprehensive loss of associate	5	-	-	-	-	-	-	(231,000)	(231,000)	-	(231,000)
Total comprehensive income		-	-	-	-	-	-	100,294,847	100,294,847	7,670,530	107,965,377
Depreciation transfer of revaluation surplus	6	-	-	-	(18,498,776)	-	-	18,498,776	-	-	-
Transaction with owners											
Acquisition of treasury shares	13	-	(10,853,670)	-	-	-	-	-	(10,853,670)	-	(10,853,670)
Translation adjustments	28.24	-	-	-	-	290,280	-	4,238,165	4,528,445	-	4,528,445
Transaction with NCI	1.2	-	-	-	-	-	-	(83,342,728)	(83,342,728)	18,695,948	(64,646,780)
Balances at December 31, 2018, as previously reported		907,857,870	(10,853,670)	121,632,762	98,673,546	(6,811,095)	(160,000)	548,645,283	1,658,984,696	4,841,894	1,663,826,590
Impact of adoption of PFRS 16	22	-	-	-	-	-	-	(2,893,557)	(2,893,557)	-	(2,893,557)
Balances at December 31, 2018, as restated		907,857,870	(10,853,670)	121,632,762	98,673,546	(6,811,095)	(160,000)	545,751,726	1,656,091,139	4,841,894	1,660,933,033
Comprehensive loss											
Loss for the year		-	-	-	-	-	-	(370,200,311)	(370,200,311)	(6,055,174)	(376,255,485)
Other comprehensive income											
Remeasurements on retirement benefits, net of tax	20	-	-	-	-	-	-	(11,084,958)	(11,084,958)	-	(11,084,958)
Share of other comprehensive loss of associate	5	-	-	-	-	-	-	(282,000)	(282,000)	-	(282,000)
Total comprehensive income		-	-	-	-	-	-	(381,567,269)	(381,567,269)	(6,055,174)	(387,622,443)
Depreciation transfer of revaluation surplus	6	-	-	-	(18,520,384)	-	-	18,520,384	-	-	-
Transactions with owners										-	
Acquisition of treasury shares	13	-	(26,761,320)	-	-	-	-	-	(26,761,320)	-	(26,761,320)
Translation adjustments	28.24	-	-	-	-	42,768	-	(770,987)	(728,219)	52,271	(675,948)
Balances at December 31, 2019		907,857,870	(37,614,990)	121,632,762	80,153,162	(6,768,327)	(160,000)	181,933,854	1,247,034,331	(1,161,009)	1,245,873,322

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, 2019
(All amounts in Philippine Peso)

	Notes	2019	2018	2017
Cash flows from operating activities				
Profit (Loss) before income tax		(399,547,598)	155,602,739	170,887,589
Adjustments for:				
Depreciation and amortization	6,7,8,10,16,17	418,503,707	290,335,950	279,388,593
Provision for impairment of trade receivables	3	76,728,154	7,950,572	1,719,356
Provision for assessment	17	28,672,234	-	-
Retirement benefit expense	18,20	16,332,353	13,154,118	12,225,905
Provision for impairment of input VAT	10,17	9,058,444	6,470,663	2,156,888
Provision for impairment of advances to a related party	17,21	7,389,948	-	-
Amortization of right-of-use assets	22	19,129,320	-	-
Direct write-off of accounts receivable	17	5,534,061	-	-
Provision for construction receivables	4,19	2,940,464	-	-
Unrealized foreign exchange loss (gain), net	24	1,755,520	(1,633,099)	3,612,176
Gain on reversal of finance lease liability	19	(2,363,989)	-	-
Share in profit of associate	5	(15,916,905)	(3,046,290)	(439,499)
Loss on sale of property, plant and equipment	19	-	56,871,044	18,670
Interest income	2,19	(886,384)	(418,559)	(392,425)
Interest expense	12,22	256,617,636	102,350,268	53,034,593
Operating profit before changes in working capital		423,946,965	627,637,406	522,211,846
Decrease (Increase) in:				
Trade and other receivables		(97,584,617)	(152,363,409)	4,917,032
Prepayments and other current assets		(218,587,862)	(190,984,208)	(57,279,748)
Advances to a related party		(553,159)	399,994	1,600,000
Other non-current assets		(45,732,478)	(50,184,615)	(36,896,957)
Increase (Decrease) in:				
Trade and other payables		1,082,811,469	61,602,477	14,553,393
Advances from related parties		(8,211,843)	7,796,910	(82,825,013)
Cash generated from operations		1,136,088,475	303,904,555	366,280,553
Interest received		886,384	418,559	392,425
Income taxes paid		(25,155,047)	(76,472,775)	(75,740,701)
Retirement obligation paid	20	(1,624,345)	(544,400)	(1,187,400)
Net cash provided by operating activities		1,110,195,467	227,305,939	289,744,877
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment		-	29,857,636	269,465
Dividends received	5	-	800,000	-
Acquisition of investment properties	9	-	(4,150,000)	(19,407,936)
Acquisition of subsidiary and associates, net of cash acquired	1.2	-	(276,908,036)	(20,509,425)
Acquisition of property, plant and equipment and computer software	6,7,8	(2,302,051,107)	(510,358,815)	(381,440,200)
Increase in pre-development cost	1.2	-	(739,339,124)	(304,476,559)
Net cash used in investing activities		(2,302,051,107)	(1,500,098,339)	(725,564,655)
Cash flows from financing activities				
Proceeds from borrowings	12	3,993,012,609	3,385,777,118	995,909,349
Payment of finance lease liabilities	22	-	(3,557,070)	(3,350,424)
Payment of lease liabilities	22	(26,535,598)	-	-
Acquisition of treasury shares	13	(26,761,320)	(10,853,670)	-
Net proceeds from (payments of) short-term loans	12	34,750,000	(95,000,000)	370,000,000
Interest paid	12	(283,221,324)	(98,340,623)	(49,108,473)
Interest payments on lease liabilities	22	(6,225,067)	-	-
Payments of borrowings	12	(2,708,926,799)	(1,986,876,860)	(569,647,365)
Net cash provided by financing activities		976,092,501	1,191,148,895	743,803,087
Net increase (decrease) in cash		(215,763,139)	(81,643,505)	307,983,309
Cash balance				
Beginning of year		316,560,503	398,114,751	89,661,565
Effect of foreign exchange rate changes on cash		(1,347,609)	89,257	469,877
End of year	2	99,449,755	316,560,503	398,114,751

Harbor Star Shipping Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2019 and 2018 and
for each of the three years in the period ended December 31, 2019
(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, 2019, the Parent Company has 121 shareholders, 120 of which holds at least 100 common shares (2018 - 122). The Group's major shareholders are its own directors holding 68.87% of its total issued shares and the remaining 31.13% of total issued shares as at December 31, 2019 and 2018 are held by the public.

The Group'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 622 employees as at December 31, 2019 (2018 - 578 employees).

1.2 Significant developments

On July 17, 2014, the Parent Company's Board of Directors (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 was not executed in 2019 due to unsuitable market conditions. In 2020, the Parent Company no longer plans to proceed with this offering.

The Parent 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.

Acquistion of Astronergy Development Gensan Inc. (ADGI); Astronergy Development F1 Inc. (ADF1) and Astronergy Development F2 Inc. (ADF2)

On October 6, 2017, the Parent Company's BOD resolved to acquire 60% shareholdings of ADGI, an entity engaged in power generation through renewable energy through HSEC, 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, ADGI, 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 was initially expected to be completed by the 2nd quarter of 2018 but due to delays the expected completion has been moved to 2nd quarter of 2019.

On March 15, 2018, the Parent Company's BOD resolved to acquire the following shares of stocks through HSEC, its subsidiary:

- 40% additional shareholdings of ADGI
- 100% shareholdings of Astronergy Development F1 Inc. (ADF1)
- 100% shareholdings of Astronergy Development F2 Inc. (ADF2)

On April 12 and October 18, 2018, HSEC acquired the remaining 25% and 15% shareholdings of ADGI which represents 250,000 and 150,000 shares of stock, respectively for a total of P75,108,479. The acquisition resulted in the reversal of NCI and a charge to retained earnings amounting to P18,695,948 and P83,342,728, respectively. The acquisition of the remaining shares of stocks made ADGI a wholly-owned subsidiary of HSEC.

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

The details of the fair value of the net liabilities acquired at acquisition dates are as follows:

	Amounts
Current assets	
Trade and other receivables	246,658
Prepayment and other current assets	22,330
Total current assets	268,988
Non-current assets	
Pre-development expenditures	20,775,183
Leasehold rights	21,288,472
Property, plant and equipment	289,456
Other non-current assets	15,262,309
Total non-current assets	57,615,420
Total assets	57,884,408
Current liabilities	
Trade and other payable	560,793
Advances from related party	82,773,010
Total liabilities	83,333,803
Net liabilities	25,449,395

The total consideration given with respect to the acquisition of ADGI's 60% shares and 100% shares of ADFI and ADF2 is P147,453,712. Provisional goodwill amounting to P48,603,347 recognized in 2017 was then subsequently adjusted in 2018 to P154,207,159 which considered likewise subsequent acquisition that pertains to the same PPA.

The summary of this determination is presented below:

	Amounts
Consideration transferred	147,453,712
Non-controlling interest	(18,695,948)
Total	128,757,764
Add: 100% of the net liabilities acquired	25,449,395
Goodwill	154,207,159

The goodwill is attributable to the continuing operations of the acquired businesses. It will not be deductible for tax purposes. As at December 31, 2018, the value of goodwill has been identified provisionally, thus, no impairment test has been performed. Subsequently, in 2019 the PPA was finalized with no further adjustment to the values of the asset and goodwill acquired.

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

ADF1 and ADF2 have their own ancillary permits and contracts to support the expansion of the 25 MW ADGI solar power plant to 75MW.

Cash paid for the acquisitions

Cash paid for the acquisition of 60% of ADGI amounting to 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. In 2018, the cash paid was subsequently adjusted by P20,161,428 due to adjustments in purchase price.

Cash paid for the acquisition of the and 100% of ADF1 and ADF2 amounting to P147,053,712 is presented net of cash from acquired subsidiaries in the consolidated statement of cash flows for the year ended December 31, 2018.

The consolidated statements of total comprehensive income for the years ended December 31, 2018 and 2017 include the results of operation of ADGI, ADF1 and ADF2, from the acquisition dates to December 31, 2018 and 2017. In 2018, ADF1 and ADF2's contribution to the Group's profit or loss amounted to P142,106 loss.

Had it been that the business combination occurred at January 1, 2018 and 2017, the aggregate revenues, profit or loss and total comprehensive income of combined entities for years ended December 31, 2018 and 2017 would have been the same.

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. As at December 31, 2019 pre-development cost amounting to P1,833,391,594 was reclassified to property, plant and equipment (Note 7).

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

	2019	2018
Beginning Balance	1,064,590,866	325,251,742
PFRS 16 adoption adjustment	3,136,961	-
Beginning balance as restated	1,067,727,827	325,251,742
Additions	759,001,090	739,339,124
Less: Reclassified to Property, Plant and Equipment	(1,826,728,917)	-
	-	1,064,590,866

ADGI's 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 sustained. On July 27, 2019, ADGI has started the commercial operation of its solar power plant in Sitio Changco, Brgy. Bawing, General Santos City, South Cotabato with a capacity of 25MW.

On May 29, 2019, ADGI has received the Certificate of Approval of Increase in Capital Stock from the SEC. The authorized capital stock was increased from P2,000,000 divided into 2,000,000 shares with a par value of P1 each to P600,000,000 divided into 600,000,000 shares with a par value of P1. Subsequently, HSEC, the parent company of ADGI, has subscribed to an additional 300,000,000 shares with a par value of P1 for a total of P300,000,000. HSEC has settled P92,000,000 from the subscribed amount through application of its advances of deposit for future subscription.

On December 3, 2019, Energy Regulatory Commission (ERC) granted the Certificate of Compliance (COC No. 19-12-M-00188M) to ADGI after having found to comply with all the requirements in the 2014 Revised COC Rules, the Philippine Grid Code, the Philippine Distribution Code, the Wholesale Electricity Spot Market (WESM) Rules and related laws, orders and regulations. The COC shall be valid for a period of five (5) years, from December 31, 2019 to December 2, 2024, and its application for renewal shall be filed at least six (6) months before its expiration date.

Other significant investments in 2018

On April 20, 2018, the Parent Company subscribed to 97% or equivalent to 48,500 shares of the 50,000 authorized shares of Harbor Star East Asia (Myanmar) Limited (HSEAM) and paid 50% of the subscription amounting to P1,354,522 which gave the Parent Company 100% controlling interest over HSEAM.

HSEAM was incorporated on February 6, 2018 in The Republic of the Union of Myanmar in accordance with Myanmar Companies Act under Registration and Permit no. 1054FC/2017-2018 (YGN) as a Private Company. HSEAM is engaged in providing consultancy and support services, underwater, marine and maritime- related business in Myanmar. The period of the validity of permit is from February 6, 2018 to February 5, 2023.

On August 16, 2018, the Parent Company subscribed to 31% (218,464 shares) of the 705,924 authorized shares of Hi-Energy Marine Services, Inc. (HEMSI) and paid 100% of the subscription amounting to P85,368,973. As a result, HEMSI became an associate.

HEMSI was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 13, 2012 primarily to engage in towage, mooring, maritime commerce and navigation.

Other significant investments in 2019

On September 20, 2019, the Parent Company subscribed to 29% or equivalent to 5,799 shares of the 100,000 authorized shares of Harbor Star East Asia (Thailand) Co. (HSEAT). The total subscribed amount of P49,651 is has yet to be paid as at December 31, 2019. The subscribed shares of 29% and a seat in the BOD gave the Parent Company controlling interest over HSEAT.

HSEAT was incorporated and registered with The Partnership and Company Registration Office of Bangkok Metropolis in Thailand on September 20, 2019. HSEAT is primarily engaged in providing transportation and warehousing in Thailand.

Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Subdistrict, Bangna District, Bangkok.

Other business updates

On January 29, 2020, the Maritime Industry Authority (MARINA) issued its first endorsement that it has no objection to the amendment of the Second Article of the Articles of Incorporation of TUGS authorizing it to engage in operation of maritime schools/ educational/training facilities. This is in line with the process of applying for an amendment on AOI with SEC based on the BOD resolution issued last March 6, 2017. The application for amendment of AOI is still under process with the SEC.

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; HSEAM; ADGI; ADF1 and ADF2, collectively referred to as the “Group”.

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

	Relationship	% of interest held 2019	2018	Registered place of business/ Country of incorporation	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%	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.
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)	100%	100%	Philippines	In 2018, HSEC completed full subscription to total share of ADGI, 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.
Astronergy Development F1 Inc. (ADF1)	Subsidiary (indirect)	100%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F1 Inc., an entity engaged in power generation through renewable energy (Note 1.2). ADF1has not started commercial operations as at December 31, 2019. Its registered address, which is also its principal place of business, is at 2224 A. Bonifacio Street corner President Sergio Osmeña Highway, Bangkal, Makati City, Philippines.
Astronergy Development F2 Inc. (ADF2)	Subsidiary (indirect)	100%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F2 Inc., an entity engaged in power generation through renewable energy (Note 1.2). ADF1has not started commercial operations as at December 31, 2019. Its registered address, which is also its principal place of business, is at 2224 A. Bonifacio Street corner President Sergio Osmeña Highway, Bangkal, Makati City, Philippines.
Harbor Star East Asia (Myanmar) Limited (HSEAM)	Subsidiary	100%	100%	Myanmar	During 2018, HSSSI acquired 97% ownership of HSEAM, an entity providing consultancy and support services including underwater, marine and maritime related business (Note 1.2).

	Relationship	% of interest held 2019	2018	Registered place of business/ Country of incorporation	Main activity
					Its registered address, which is also its principal place of business, is at No. Level 8 A, Union Financial Center, Corner of Mahabandoola and Thein Phyu Road, Botahtaung Township, Yangon.
Harbor Star East Asia (Thailand) Co., Ltd. (HSEAT)	Subsidiary	29%	-	Thailand	HSEAT was incorporated and registered in Thailand on September 20, 2019, primarily engage in providing transportation and warehousing in Thailand. Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Sub-district, Bangna District, Bangkok.
Hi-Energy Marine Services, Inc. (HEMSI)	Associate	31%	31%	Philippines	During 2018, HSSSI acquired 31% ownership of HEMSI, an entity engaged in towage, mooring, maritime commerce and navigation. Its registered address, which is also its principal place of business, is at Rm. 306, Velco Center cor. Senior Oca and Delgado Sts., South Port Area, Manila.
Great Eastern Tug Corporation (GETC)	Associate	20%	20%	Philippines	GETC was incorporated and registered with the Philippine 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.

HSEAT, although assessed as having controlling interest is not included in consolidation since it is not a material component to the Group as at December 31, 2019.

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 Board of Directors (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, 2019 and 2018.

Assessment of control over subscribed shares of HSEAT is disclosed in Note 1.2.

Non-controlling interest

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

	2019	2018
Total current assets	125,999,907	129,763,351
Total non-current assets	139,188,030	13,156,614
Total current liabilities	273,157,341	96,911,084
Total non-current liabilities	-	43,110,364
Net capital deficiency	(7,969,404)	(2,945,945)
Total revenue	79,555,792	24,931,318
Total expenses	(90,565,201)	45,228,909
Total income (loss) for the year	(11,009,409)	13,301,349
Total comprehensive income (loss) for the year	(11,009,409)	13,301,349
Net cash used in operating activities	188,237,998	(73,820,821)
Net cash provided by financing activities	(59,066,367)	79,721,202

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 June 5, 2020. There were no events subsequent to date of the consolidated financial statements up to opinion date, June 10, 2020, 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:

	2019	2018
Cash in banks	91,252,861	304,617,127
Cash equivalents	6,141,850	10,124,640
Cash on hand	2,055,044	1,818,736
	99,449,755	316,560,503

Interest income earned from cash in banks and cash equivalents for the year ended December 31, 2019 amounted to P886,384 (2018 - P418,559; 2017 - P392,425) (Note 19).

The carrying values of cash and cash equivalents represent maximum exposure to credit risk other than cash on hand. While cash and cash equivalents are also subject to the impairment of PFRS 9, the identified impairment loss was immaterial.

Note 3 - Trade and other receivables, net

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

	2019	2018
Trade receivables	427,419,698	525,102,517
Allowance for impairment of trade receivables	(70,536,709)	(25,164,430)
	356,882,989	499,938,087
Advances to officers, employees and others	221,665,231	33,061,841
Deposit bond	8,521,638	8,057,630
Allowance for impairment of advances to employees and others	(34,156,541)	(2,892,049)
	552,913,317	538,165,509

Advances to officers and employees represent outstanding balances with existing employees and regular collections are made through liquidation and salary deduction. As at December 31, 2019, advances to officers representing key management personnel amounted to P75,682,901 (2018 - nil) (Note 21).

The Group has a deposit bond with the Bureau of Customs related to importations.

The carrying value of trade and other receivables as at December 31, 2019 and 2018 approximates its fair value as at reporting date.

Allowance for impairment

The Group applies Philippine Financial Reporting Standards (PFRS) 9 simplified approach in measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of service fees over a period of 36 to 60 months before January 1, 2019 and 2018 and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the inflation rate in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in such rates.

The Group's financial assets are categorized based on the Group's collection experience with the counterparties as follows:

a. High performing - settlements are obtained from counterparty following the terms of the contracts without much collection effort.
b. Underperforming - more than 60 days past due but expected to be collected after some reminders/ followups.
c. Credit impaired - more than 360 days past due and unlikely to be collected despite reminders/ followups.

On that basis, the loss allowance from trade receivables as at December 31, 2019 and 2018 (on adoption of PFRS 9) was determined as follows:

	Current	Up to 6 months past due	6 to 12 months past due	Over 12 months past due	Total
Expected loss rate	Within 0% to 1%	Within 0% to 3%	Within 0% to 3%	Within 1% to 100%	
2019					
Trade receivables	290,693,095	55,482,789	45,379,267	35,864,547	427,419,698
Loss allowance	33,805,884	764,867	101,411	35,864,547	70,536,709
2018					
Trade receivables	237,989,539	216,069,391	45,879,157	25,164,430	525,102,517
Loss allowance	1,945,359	3,987,150	586,555	18,645,366	25,164,430

Movements in the provision for impairment of trade and other receivables for the years ended December 31 follow:

	Notes	2019	2018
Beginning of year		28,056,479	20,105,907
Provision, net	17	76,728,154	7,950,572
Cumulative translation adjustment	28.24	(91,383)	-
End of year		104,693,250	28,056,479

For the year ended December 31, 2019, a net provision for impairment of trade and other receivables amounting to P76,728,154 (2018 - P7,950,572; 2017 - P1,719,356 reversal/credited) was charged to general and administrative expenses (Note 17), as a result of management's assessment of collectability. Of this amount, P21,227,953 is for impairment of advances to inactive employees of the Parent Company in 2019 (2018 and 2017 - nil).

The Group has directly written off trade receivables of P5,534,061 in 2019 (2018 and 2017 - nil) (Note 17).

Critical accounting estimates and assumptions

Recoverability of trade and other receivables

The allowance for impairment related to the Group's trade and other receivables is based on assumptions about risk of default and expected loss rates. The Group uses estimates in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed above.

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	2019	2018
Construction receivables		170,230,644	242,270,335
Allowance for construction receivables	19	(2,940,464)	-
		167,290,180	242,270,335
Advances to suppliers		293,820,180	20,699,300
Prepayments		42,807,739	52,020,149
Input value-added tax (VAT), net	10	27,088,735	18,894,556
Refundable deposits	22	15,840,778	3,817,530
Others		-	1,824,391
		546,847,612	339,526,261

Allowance for construction receivables amounting to P2,940,464 as of December 31, 2019 pertain to uncollectible portion of uncompleted projects charged to other expenses (Note 19).

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 associates

Investments in associates as at December 31 consist of:

	2019	2018
GETC	14,965,723	14,498,937
HEMSI	101,532,735	86,364,616
	116,498,458	100,863,553

The movement of investments in associate for the years ended December 31 are as follows:

	Note	2019	2018
Beginning of year		100,863,553	13,479,290
Additions	1.2	-	85,368,973
Share in net profit		15,916,905	3,046,290
Share in other comprehensive loss		(282,000)	(231,000)
Dividends		-	(800,000)
End of year		116,498,458	100,863,553

(a) GETC

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

	2019	2018	2017
Beginning of year	14,498,937	13,479,290	12,631,291
Share in net profit	811,729	2,794,391	439,499
Share in other comprehensive income (loss)	(282,000)	(231,000)	408,500
Share in adjustments to equity	(62,943)	(743,744)	-
Dividends received	-	(800,000)	-
End of year	14,965,723	14,498,937	13,479,290

Set out below is the summarized financial information of GETC at December 31:

	2019	2018	2017
Total current assets	25,715,520	15,963,086	48,029,731
Total non-current assets	49,343,215	56,821,724	19,674,137
Total current liabilities	230,119	290,127	307,418
Net assets or equity	74,828,616	72,494,683	67,396,450
Total revenue	14,520,000	25,811,667	11,112,821
Total profit for the year	4,058,645	13,971,955	2,197,495
Total other comprehensive income (loss)	(1,410,000)	(1,155,000)	2,042,500
Total comprehensive income	2,648,645	12,816,955	4,239,995

	2019	2018	2017
Net assets, January 1	72,494,683	67,396,450	63,156,455
Profit for the year	4,058,645	13,971,955	2,197,495
Other comprehensive income (loss)	(1,410,000)	(1,155,000)	2,042,500
Dividends declared	-	(4,000,000)	-
Adjustment to equity	(314,712)	(3,718,722)	-
Net assets, December 31	74,828,616	72,494,683	67,396,450
Group's share in %	20%	20%	20%
Group's share in net assets	14,965,723	14,498,936	13,479,290

(b) HEMSI

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

	2019	2018
Beginning of year	86,364,616	-
Investment in HEMSI	-	85,368,973
Share in net profit	15,168,119	995,643
End of year	101,532,735	86,364,616

Set out below is the summarized financial information of HEMSI at December 31:

	2019	2018
Total current assets	138,456,360	114,842,721
Total non-current assets	151,025,666	166,823,389
Total current liabilities	56,564,671	40,054,035
Total non-current liabilities	85,825,057	122,273,975
Net assets or equity	147,092,298	119,338,100
Total revenue	252,927,907	294,173,588
Total profit for the year	32,414,682	9,956,436
Total comprehensive income	32,414,682	9,956,436

	2019	2018
Net assets, January 1	278,595,535	109,381,664
Profit for the year	32,414,682	9,956,436
Goodwill	-	159,257,435
Adjustment to equity	16,514,737	-
Net assets, December 31	327,524,954	278,595,535
Group's share in %	31%	31%
Group's share in net assets	101,532,735	86,364,616

Critical accounting judgment

Impairment of investment in associates

The Group's investment in associates 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, 2019 and 2018, 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 associates 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	2019	2018
As at January 1			
Revalued amount		3,504,162,041	3,469,394,434
Accumulated depreciation		(1,855,075,128)	(1,797,343,661)
Net carrying amount		1,649,086,913	1,672,050,773
Year ended December 31			
Opening net carrying amount		1,649,086,913	1,672,050,773
Additions		178,934,233	180,487,845
Disposals			
Cost		-	(227,419,743)
Accumulated depreciation		-	139,098,533
Reclassification from property and equipment at cost	7	-	81,488,630
Depreciation	16	(218,745,254)	(196,619,125)
Closing net carrying amount		1,609,275,892	1,649,086,913
At December 31			
Revalued amount		3,683,096,274	3,503,951,166
Accumulated depreciation		(2,073,820,382)	(1,854,864,253)
Net carrying amount		1,609,275,892	1,649,086,913

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	2019	2018
As at January 1			
Cost		2,469,560,579	2,435,003,846
Accumulated depreciation		(961,435,873)	(930,342,104)
Net carrying amount		1,508,124,706	1,504,661,742
Year ended December 31			
Opening net carrying amount		1,508,124,706	1,504,661,742
Additions		178,934,233	180,487,845
Disposals			
Cost		-	(227,419,743)
Accumulated depreciation		-	139,098,533
Reclassification from property and equipment at cost	7	-	81,488,630
Depreciation		(192,287,564)	(170,192,301)
Closing net carrying amount		1,494,771,375	1,508,124,706
At December 31			
Cost		2,648,494,812	2,469,560,578
Accumulated depreciation		(1,153,723,437)	(961,435,872)
Net carrying amount		1,494,771,375	1,508,124,706

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

	Note	2019	2018
Beginning of year		140,962,208	167,389,031
Amortization of revaluation increment through depreciation		(26,457,691)	(26,426,823)
End of year, gross of tax		114,504,517	140,962,208
Deferred income tax liability (at 30%)	23	(34,351,355)	(42,288,662)
End of year, net of tax		80,153,162	98,673,546

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12). As at December 31, 2019, the Group's tugboats used as collaterals have net carrying amount of P1,091,472,846 (2018 - P1,640,319,058).

Critical accounting estimates

Useful lives of property, plant and equipment at revalued amount

The Group's management determines the estimated useful lives for its property, plant 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, plant 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, plant 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 at substantially comparable prices. The Company is considering revaluing its tugboats in 2020.

Note 7 - Property, plant and equipment at cost, net

Details of property, plant 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
At January 1, 2018									
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
Year ended December 31, 2018									
Opening 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
Additions	-	157,158,459	899,972	3,869,643	31,111,918	891,027	685,456	162,870,912	357,487,387
Disposal									
Cost	-	-	-	-	-	(286,534)	-	-	(286,534)
Accumulated depreciation	-	-	-	-	-	177,079	-	-	177,079
Reclassification (Note 6)	-	4,332,164	68,313,773	-	-	-	-	(154,134,567)	(81,488,630)
Depreciation	-	(56,133,158)	(7,087,100)	(9,079,287)	(17,367,326)	(505,415)	(2,443,904)	-	(92,616,190)
Translation adjustments	-	-	-	-	(376,967)	914	-	-	(376,053)
Closing net carrying amount	39,556,011	336,649,050	64,874,096	19,459,660	45,708,390	936,368	7,058,219	76,147,871	590,389,665
At December 31, 2018									
Cost	39,556,011	574,601,257	96,006,650	59,513,806	176,458,404	5,071,873	12,185,456	76,147,871	1,039,541,328
Accumulated depreciation	-	(237,952,207)	(31,132,554)	(40,054,146)	(130,466,657)	(4,135,505)	(5,127,237)	-	(448,868,306)
Cumulative translation adjustments	-	-	-	-	(283,357)	-	-	-	(283,357)
Net carrying amount	39,556,011	336,649,050	64,874,096	19,459,660	45,708,390	936,368	7,058,219	76,147,871	590,389,665
Year ended December 31, 2019									
Opening net carrying amount, as previously reported	39,556,011	336,649,050	64,874,096	19,459,660	45,708,390	936,368	7,058,219	76,147,871	590,389,665
PFRS 16 adoption (Note 22)									
Cost	-	(68,674,654)	-	-	-	-	-	(4,832,145)	(73,506,799)
Accumulated depreciation	-	7,471,548	-	-	-	-	-	-	7,471,548
Opening net carrying amount, as restated	39,556,011	275,445,944	64,874,096	19,459,660	45,708,390	936,368	7,058,219	71,315,726	524,354,414
Additions	-	84,424,364	1,919,621,170	6,066,510	149,664,858	1,119,464	74,643	51,073,741	2,212,044,750
Disposal									
Cost	-	-	-	-	(714,379)	-	-	-	(714,379)
Accumulated depreciation	-	-	-	-	714,379	-	-	-	714,379
Reclassification	-	104,245,347	-	-	-	-	-	(104,245,347)	-
Write-off	-	-	-	-	-	-	-	-	-
Depreciation	-	(107,538,846)	(51,698,462)	(7,906,487)	(26,537,762)	(617,967)	(2,510,268)	-	(196,809,792)
Translation adjustments	-	-	-	-	(270,441)	(9,539)	-	-	(279,980)
Closing net carrying amount	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392
At December 31, 2019									
Cost	39,556,011	694,596,314	2,015,627,820	65,580,316	325,408,883	6,191,337	12,260,099	18,144,120	3,177,364,900
Accumulated depreciation	-	(338,019,505)	(82,831,016)	(47,960,633)	(156,290,040)	(4,753,472)	(7,637,505)	-	(637,492,171)
Cumulative translation adjustments	-	-	-	-	(553,798)	(9,539)	-	-	(563,337)
Net carrying amount	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392

As at December 31, 2019, building and building improvements include capitalized cost on solar power plant amounting to P1,826,728,917.

As at December 31, 2019, the cost of fully depreciated property, plant and equipment still used in operation amounted to P182,383,434 (2018 - P134,625,345).

As at December 31, 2019, the Group's unpaid acquisitions of property, plant and equipment amounted to P43,640,685 (2018 - P28,678,250).

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

	Notes	2019	2018	2017
Cost of services	16	180,375,997	69,981,038	48,040,347
General and administrative expenses	17	16,112,903	22,635,152	14,756,657
Other income (loss), net	19	320,892	-	-
		196,809,792	92,616,190	62,797,004

In July 2019, ADGI started its commercial operations and recognized depreciation expense of P43.85 million in relation to the solar power plant capitalized.

Construction-in-progress as at December 31, 2018 mainly comprise of tugboats and barge being prepared for intended use which were capitalized in 2019. Construction-in-progress as at December 31, 2019 mainly comprise of additional office space being prepared for its intended use.

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 12) amounted to P9.9 million and P222.3 million, respectively as at December 31, 2019 (2018 - P12.9 million and P331.9 million, respectively).

As at December 31, 2018, net carrying value of barge held under finance lease amounted to P70,994,036. On January 1, 2019, the net carrying value of the acquisition cost of the barge amounting to P61,203,106 was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

On January 1, 2019, construction-in-progress cost related to the bareboat charter agreement amounting to P P4,832,145 was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

Reclassification of pre-development cost is disclosed in Note 1.2.

Critical accounting estimates

Useful lives of property, plant and equipment at cost

The Group's management determines the estimated useful lives for its property, plant 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, plant 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, plant 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, plant 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, plant and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2019 and 2018, 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, plant and equipment may not be recoverable.

Note 8 - Computer software, net

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

Year ended December 31, 2018	
Opening net carrying amount	27,828,669
Additions	1,061,833
Amortization (Note 17)	(1,100,635)
Closing net carrying amount	27,789,867
At December 31, 2018	
Cost	29,686,748
Accumulated amortization	(1,896,881)
Net carrying value	27,789,867
Year ended December 31, 2019	
Opening net carrying amount	27,789,867
Additions	1,397,104
Amortization (Note 17)	(1,327,194)
Closing net carrying amount	27,859,777
At December 31, 2019	
Cost	31,083,852
Accumulated amortization	(3,224,075)
Net carrying value	27,859,777

Note 9 - Investment properties

As at December 31, 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:

	2019	2018
Beginning of year	47,626,987	43,476,987
Additions	-	4,150,000
End of year	47,626,987	47,626,987

The estimated fair value of the investment properties as at December 31, 2019 amounted to P284.9 million (2019 - P281.0 million) based on the recent selling price per square meter and land reclassification to industrial in 2017.

Direct operating expenses amounting to P4.6 million (2018 - nil), pertaining to professional expenses to obtain an Environmental Compliance Certificate (ECC) and real property tax, were incurred related to the investment properties for the years ended December 31, 2019. There was no income earned related to the investment properties for the years ended December 31, 2019 and 2018.

There was no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2019, 2018 and 2017.

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, 2019 and 2018, 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	2019	2018
Input VAT, net of output VAT		294,978,325	243,220,956
Allowance for impairment of input VAT		(50,926,358)	(41,867,914)
Input VAT, net		244,051,967	201,353,042
Performance bond		2,186,512	9,799,638
Lease guarantee deposit	22	55,000	4,356,032
Financial asset at fair value through other comprehensive income (FVOCI)		810,000	810,000
Leasehold rights, net		40,265,240	40,298,472
Others		49,651	-
		287,418,370	256,617,184

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 Parent Company has existing leasehold rights for a piece of land in San Vicente, Palawan for 25 years with a carrying value amounting to P19.8 million (2018 - P19.0 million).

The movements in leasehold rights for the years ended December 31 are as follows:

	Note	2019	2018
Cost			
As at January 1		19,010,000	1,350,000
Additions		1,588,235	17,660,000
As at December 31		20,598,235	19,010,000
Accumulated amortization			
As at January 1		-	-
Amortization	17	(769,929)	-
As at December 31		(769,929)	-
Net book value		19,828,306	19,010,000

ADF1 and ADF2 have existing rights over a property in General Santos City for 25 years. Details of leasehold rights as at December 31 is as follows:

	Note	2019	2018
Cost			
As at January 1 and December 31		21,288,472	21,288,472
Accumulated amortization			
As at January 1		-	-
Amortization	17	(851,538)	-
As at December 31		(851,538)	-
Net book value		20,436,934	21,288,472

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

	Note	2019	2018
Beginning of year		41,867,914	35,397,251
Provision for impairment	17	9,058,444	6,470,663
End of year		50,926,358	41,867,914

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 based on long-term forecasts, 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, 2019, P27,088,735, presented under "Prepayments and other current assets" in the statement of financial position (2018 - P52,020,149) (Note 4), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P244,051,967 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2018 - P201,353,042).

Management believes that the net 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:

	2019	2018
Current		
Trade payables	197,676,965	227,842,528
Accrued expenses		
Construction costs	71,931,276	-
Fuel	25,662,531	16,543,211
Interest	25,292,372	11,236,634
Marketing	12,178,560	7,404,762
Tug assistance	11,884,592	11,390,219
Others	2,363,703	25,687,277
Advances from customers	-	10,363,257
Unearned income	16,940,552	7,822,614
Advances from officers and employees	10,611,723	8,693,163
Payable to government agencies	4,205,057	4,526,544
Provisions	37,945,509	-
Others	-	8,906,776
	416,692,840	340,416,985
Non-current		
Trade payable	15,738,600	-

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

In 2019, HSSC entered into a purchase agreement with one supplier for the purchase of tugboat with the balance bearing an interest rate of 2.87 % to be settled in twenty-four (24) monthly installments. For the year-ended December 31, 2019, total interest expense charged to total comprehensive income amounted to P641,813 (2018 - nil).
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 business expenses which are expected to be settled in the subsequent year.

Accrued construction costs pertain to unliquidated expenses pertain to advances of employees from operations in relation to the construction projects of the Parent Company.

Unearned income pertains to advance collection from customers. Unearned revenue amounting to P7,882,614 as at January 1, 2019 was recognized as service income in 2019 (2018 - P7,570,882)

Provisions pertains to provision on separation pay, discounts and rebates and assessments.
The Parent Company has outstanding advances from officers amounting to P1,516,258 in 2019 (2018 - nil) (Note 21).

Note 12 - Short-term loans and borrowings

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

	2019	2018
Current		
Short-term loans	499,750,000	465,000,000
Current portion of long-term borrowings	2,045,850,208	1,478,332,994
Non-current		
Non-current portion of loans payable	331,195	-
Long-term borrowings	1,707,246,931	990,980,984
	4,253,178,334	2,934,313,978

Movement of long-term borrowings during the year is as follows:

	2019	2018
Beginning balance	2,469,313,978	1,070,413,720
Proceeds	3,993,012,609	3,385,777,118
Payments	(2,708,926,799)	(1,986,876,860)
Total	3,753,399,788	2,469,313,978
Unrealized foreign exchange loss	28,546	-
Ending balance	3,753,428,334	2,469,313,978

Parent Company

As at December 31, 2019 and 2018, the Parent Company's unsecured short-term loans from local banks bear interest rates ranging from 5.0% to 6.7% and have maturity of one (1) to three (3) months from reporting date.

As at December 31, 2019 and 2018, the Parent Company's long-term borrowings bear annual interest rates 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 agreements require compliance by the Parent Company to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2019, the Parent Company is in the process of securing waivers for debt covenants not complied with as at reporting date. Consequently, certain long-term borrowings were presented as current amounting to P112,500,000.

Parent Company's short-term loans and long-term borrowings were obtained specifically for working capital purposes and to finance capital expenditures that are non-qualifying assets.

ADGI

On January 19, 2018, ADGI secured an Omnibus Loan Agreement with Development Bank of the Philippines (DBP) for a principal amount of P1.59 billion available in the form of advance term loan or Import Letter of Credit payable in 12 years or 42 quarterly amortizations. The purpose of the borrowing is to finance the construction of the 26.88 megawatt solar power plant in General Santos City.

As at December 31, 2019, ADGI has obtained long-term borrowings bear annual interest rate ranging from 5.20% to 6.50% (2018 - 6.5% to 8.65%) and are payable in various installments maturing on April 19, 2030.

The long-term borrowing agreement requires compliance by the ADGI to certain various covenants including, among others, the maintenance of financial ratios after a year of commercial operations. As at December 31, 2019, these debt covenants are not yet applicable as commercial operations only started in July 2019.

Total interest expense from Group borrowings charged to profit or loss for the year ended December 31, 2019 amounted to P249,887,364 (2018 - P102,350,268; 2017 - P53,034,593). Subsequent to the start of commercial operations in July 2019, borrowing cost are no longer capitalized. Total interest expense capitalized amounted to P52,157,946.

The fair values of long-term borrowings approximate their carrying values as at December 31, 2019 and 2018.

Net debt reconciliation

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

	Notes	2019	2018
Cash and cash equivalents	2	97,394,711	314,741,767
Short-term loans	12	(499,750,000)	(465,000,000)
Borrowings, current portion	12	(2,045,850,208)	(1,478,332,994)
Borrowings, net of current portion	12	(1,707,246,931)	(990,980,984)
Non-current portion of loans payable	12	(331,195)	-
Interest payable	11	(25,292,372)	(11,236,634)
Unrealized foreign currency exchange loss	12	(28,546)	-
Lease liability, current portion	22	(17,014,185)	-
Lease liability, net of current portion	22	(74,747,877)	-
Finance lease liability, net of current portion	22	-	(23,309,163)
Net debt		(4,272,866,603)	(2,654,118,208)

Net foreign exchange adjustments for the year ended December 31, 2018 is not material. Total borrowings denominated in foreign currency as at December 31, 2019 amounted to P797,328 (2018 - P2,388,839).

Note 13 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2019 and 2018 are as follows:

	2019	2018
Common shares at P1 par value share		
Authorized	2 billion	2 billion
Issued and outstanding	907,857,870	907,857,870

As discussed in (Note 1.1), on October 29, 2012, the Parent Company submitted its Registration Statement to the Philippine SEC. On October 30, 2013, the IPO of the Parent 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 Parent 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 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 October 31, 2017 (Note 25). This is considered as a non-cash financing activity.

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

(a) Dividend declaration

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.

No dividends were declared for the years ended December 31, 2019 and 2018.

(a) Treasury stocks

On September 24, 2018, the Group's BOD approved the share buyback program which was implemented in 2019 and 2018 as follows:

Trade Date	Date Paid	Shares	Per share	Amounts
Year 2018				
October 8, 2018	October 11, 2018	300,000	2.66	797,200
October 10, 2018	October 15, 2018	300,000	2.72	815,800
October 11, 2018	October 16, 2018	637,000	2.57	1,637,890
October 16, 2018	October 19, 2018	500,000	2.50	1,250,000
October 17, 2018	October 22, 2018	500,000	2.54	1,269,250
October 18, 2018	October 23, 2018	180,000	2.60	467,700
October 22, 2018	October 25, 2018	320,000	2.85	912,000
October 24, 2018	October 29, 2018	90,000	2.79	251,100
October 25, 2018	October 30, 2018	200,000	2.79	558,100
October 26, 2018	October 31, 2018	60,000	2.77	165,900
October 30, 2018	November 6, 2018	60,000	2.80	167,700
November 6, 2018	November 9, 2018	140,000	2.88	402,500
November 19, 2018	November 22, 2018	139,000	3.18	441,630
November 20, 2018	November 23, 2018	100,000	3.24	324,000
November 27, 2018	December 3, 2018	100,000	3.47	346,500
December 7, 2018	December 12, 2018	40,000	3.30	131,800
December 10, 2018	December 13, 2018	100,000	3.06	305,600
December 11, 2018	December 14, 2018	200,000	3.05	609,000
		3,966,000		10,853,670

Trade Date	Date Paid	Shares	Per share	Amounts
Year 2019				
December 12, 2018	January 4, 2019	110,000	2.97	326,720
January 18,2019	January 23, 2019	300,000	3.00	899,500
January 30, 2019	Febraury 4, 2019	265,000	2.84	752,570
January 31, 2019	Febraury 6, 2019	80,000	2.80	224,000
March 7, 2019	March 12, 2019	1,600,000	2.80	4,480,000
March 8, 2019	March 13, 2019	3,000,000	2.85	8,550,000
March 12, 2019	March 15, 2019	3,000,000	2.99	8,970,000
April 30, 2019	May 6, 2019	150,000	2.79	417,800
May 2, 2019	May 7, 2019	150,000	2.85	427,500
May 3, 2019	May 8, 2019	150,000	2.82	423,100
May 8, 2019	May 14, 2019	300,000	2.60	779,010
May 9, 2019	May 15, 2019	62,000	2.59	160,710
May 10, 2019	May 16, 2019	138,000	2.54	350,410
		9,305,000		26,761,320
		13,271,000		37,614,990

Note 14 - Earnings (Loss) 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:

	2019	2018	2017
Net income (loss) attributable to Parent Company	(370,200,311)	99,240,852	102,850,817
Weighted average number of common shares - basic and diluted	899,721,152	907,123,856	907,857,870
Basic and diluted earnings (loss) per share	(0.41)	0.11	0.11

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:

	2019	2018	2017
Over time			
Harbor assistance, net of discounts	1,054,400,631	971,873,553	1,049,202,992
Lighterage services	103,338,093	127,299,870	91,432,697
Towing services	36,927,505	19,023,887	64,407,902
Salvage income	31,855,709	210,094,818	77,161,337
Others	62,389,873	108,676,248	44,703,843
	1,288,911,811	1,436,968,376	1,326,908,771
Point in time			
Revenue on generation of solar power	107,142,840	-	-
	1,396,054,651	1,436,968,376	1,326,908,771

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 P123.0 million (2018 - P116.0 million; 2017 - P117.6 million).

The Parent Company has a claim amounting to $8 million USD for the completed salvage of MV Diamond Highway in June 2019 which has been endorsed for arbitration proceedings. Accordingly, the Parent Company recognized salvage income amounting to P29.4 million which represents collectible portion as at reporting date based on preliminary discussions with counterparties. The hearing in September 2020 will determine final claimable amount from the vessel and cargo owners.

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	2019	2018	2017
Depreciation	6,7	412,263,609	266,600,163	264,046,565
Personnel costs	18	214,258,577	211,024,430	208,749,994
Fuel and lubricants		211,362,481	199,458,024	181,255,629
Insurance		53,390,235	48,939,736	39,120,738
Outside services		40,419,797	64,613,760	40,792,774
Charter hire		32,567,761	6,267,389	4,082,708
Rent	22	24,739,717	5,078,369	2,552,475
Supplies and construction supplies		24,210,201	60,923,514	65,849,705
Port expense		20,509,006	12,198,867	11,191,975
Repairs and maintenance		15,984,637	17,582,342	21,478,917
Transportation and travel		8,161,788	10,660,517	5,028,592
Communications, light and water		4,395,658	2,976,982	6,097,289
Professional fees		4,121,782	11,449,248	8,722,550
Taxes and licenses		2,814,464	3,464,288	2,417,391
Others		42,221,732	29,729,138	45,074,209
		1,111,421,445	950,966,767	906,461,511

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

Note 17 - General and administrative expenses

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

	Notes	2019	2018	2017
Personnel costs	18	112,851,999	104,681,711	84,933,136
Provision for impairment of trade and other receivables	3	76,728,154	7,950,572	1,719,356
Transportation and travel		37,097,074	40,397,271	31,334,433
Taxes and licenses		34,950,465	21,464,057	21,881,423
Provision for assessment	11	28,672,234	-	-
Professional fees		24,078,867	16,799,755	12,091,228
Depreciation and amortization	7, 10	22,096,491	23,735,787	15,342,028
Representation and entertainment		20,329,567	14,896,205	15,753,760
Provision for impairment of input VAT	10	9,058,444	6,470,663	2,156,888
Provision for advances to a related party	21	7,389,948	-	-
Insurance		5,909,178	1,500,580	2,167,725
Outsourced services		5,892,389	6,573,813	4,876,422
Write-off of receivable	3	5,534,061	-	-
Supplies and construction materials		5,436,284	5,280,424	5,587,820
Communications		5,319,131	7,321,945	6,512,346
Advertising and promotions		4,519,679	9,571,995	7,238,490
Rent	22	4,227,435	5,061,971	3,498,727
Repairs and maintenance		3,954,901	3,098,655	2,262,041
Utilities		2,631,120	2,213,057	1,624,005
Amortization of right-of-use assets	22	1,624,841	-	-
Amortization of computer software	8	1,327,194	-	-
Registration and membership fees		272,807	500,208	5,524,112
Fuel and lubricants		59,051	3,479,355	2,684,671
Others		8,871,492	3,538,383	6,733,818
		428,832,806	284,536,407	233,922,429

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	2019	2018	2017
Cost of services				
Salaries and wages		116,375,001	118,263,703	105,169,402
Crew expense		38,194,581	41,402,575	61,985,633
Tug and barge operations		20,750,245	19,888,998	19,414,758
Retirement benefit expense	20	11,361,937	9,035,412	8,558,134
Other employee benefits		27,576,813	22,433,742	13,622,067
	16	214,258,577	211,024,430	208,749,994
General and administrative expenses				
Salaries and wages		94,288,958	88,694,796	71,746,221
Retirement benefit expense	20	4,970,416	4,118,706	3,667,771
Other employee benefits		13,592,625	11,868,209	9,519,144
	17	112,851,999	104,681,711	84,933,136
		327,110,576	315,706,141	293,683,130

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

Note 19 - Other income (loss), net

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

	Notes	2019	2018	2017
Gain on reversal of finance lease liability		2,363,989	-	-
Interest income	2	886,384	418,559	392,425
Insurance claims		-	49,520,158	28,560,624
Ship management		-	400,000	2,000,000
Provision on construction receivables	4	(2,940,464)	-	-
Foreign exchange loss, net	24	(20,606,210)	(7,796,659)	(9,913,783)
Loss on sale of property and equipment		-	(56,871,044)	(18,670)
Others		5,677,580	67,770,501	15,811,999
		(14,618,721)	53,441,515	36,832,595

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

Others pertain to cost recharges and non-routine 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 present value of defined benefit obligation amounted to P113,617,579 and P83,073,916 as at December 31, 2019 and 2018, respectively.

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:

	2019	2018
Beginning of year	83,073,916	71,749,193
Current service cost	10,392,867	9,116,522
Interest cost	5,939,486	4,037,596
Benefits paid	(1,624,345)	(544,400)
Remeasurement (gain) loss due to:		
Experience adjustments	5,208,112	3,412,057
Changes in financial assumptions	10,627,543	(3,480,242)
Changes in demographic assumptions	-	(1,216,810)
End of year	113,617,579	83,073,916

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

	2019	2018
Current service cost	10,392,867	9,116,522
Net interest cost	5,939,486	4,037,596
Retirement benefit expense	16,332,353	13,154,118

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

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

	Note	2019	2018
Due to change in financial assumptions		10,627,543	(3,480,242)
Due to experience		5,208,112	3,412,057
Due to change in demographic assumption		-	(1,216,810)
Remeasurement loss (gain)		15,835,655	(1,284,995)
Deferred income tax benefit	23	(4,750,697)	-
Remeasurement gain, net of tax		11,084,958	(1,284,995)

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	2019	2018
Beginning of year		8,090,862	9,375,857
Remeasurement gain for the year		(15,835,655)	(1,284,995)
Deferred income tax effect	23	4,750,697	-
End of year, net of tax		(2,994,096)	8,090,862

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

	2019	2018
Less than one year	35,123,039	4,748,745
More than one year to five years	13,292,114	44,351,025
More than five years to 10 years	72,553,004	64,617,290
More than 10 years to 15 years	67,446,756	64,725,816
More than 15 years to 20 years	95,161,966	103,534,337
More than 20 years	209,269,210	268,598,246
Total expected payments	492,846,089	550,575,459

The average duration of the defined benefit obligation at the end of the reporting period is 17.19 years (2018 - 18.57 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 2019 are consistent with those applied in 2018.

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:

	2019	2018
Discount rate	4.93%	7.36%
Salary growth rate	5.00%	6.00%

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

	2019			2018		
	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%	(8,094,011)	9,448,123	1%	(5,587,976)	6,472,151
Salary growth rate	1%	9,916,874	(8,661,238)	1%	6,924,180	(6,082,275)

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.

HSEC, HSSC and ADGI provides for the estimated retirement benefits based on the retirement due under Republic Act (RA) No. 7641, the Retirement Pay Law. Under the Retirement Pay Law, the retirement benefit obligation is computed as one-half of monthly salary for every year of service, a fraction of six months being considered as one whole year. The term one-half of monthly salary shall mean 15 days plus the one-twelfth of the 13th month, and the cash equivalent of not more than five days service incentive leaves.

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	2019	2018	2017
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

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

	Terms and conditions	Notes	2019	2018
Advances to related party, net of provision:				
Entity under common control	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		553,165	7,389,954
Officers	These are unsecured, non-interest bearing and are subject to liquidation.	3	75,682,901	-
Advances from related parties:				
Officers	These are unsecured, non-interest bearing, due on demand and are to be paid in cash.	11	9,313,168	7,796,910

Key management compensation and benefits

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

	Terms and conditions	2019	2018	2017
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.	84,067,198	81,348,674	81,186,301
Retirement benefits	Retirement benefits are determined and payable in accordance with policies disclosed in Note 28.19. These will be settled upon retirement of key management.	5,390,789	999,767	999,767
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	1,182,119	-	-
		90,640,106	82,348,441	82,186,068

As of December 31, 2019, amounts due from to and from key management personnel are reflected as part of advances to officers (Notes 3 and 11) and retirement benefit obligation. There are no amounts due from or payable to key management personnel, other than retirement benefit obligation as of December 31, 2018.

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, 2019, 2018 and 2017.

Receivable from a related party, a foreign entity has been determined to be uncollectible, hence, fully provided for an allowance amounting to P7,389,948 (2018 - nil) (Note 3).

The following related party transactions and balances were eliminated for the purpose of preparing the consolidated financial statements for the years ended December 31:

	2019	2018	2017
Advances to related parties	1,266,026,741	1,421,904,061	989,860,726
Advances from related parties	1,476,259,237	1,421,904,061	989,860,726
Investment in subsidiaries and associate	(519,192,305)	222,475,585	59,080,724
Service income	-	-	7,218,274
Cost of services	(4,251,699)	7,579,866	8,186,627
Other income, net	3,866,210	7,579,866	15,404,901

There are no unrealized gains and losses eliminated in the consolidation.

Note 22 - Leases

The Group adopted PFRS 16, "Leases" beginning January 1, 2019. The lease accounting for lessee changed upon adoption of PFRS 16, "Leases". The Group has adopted PFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as at January 1, 2019 (Note 28.1).

From January 1, 2019 (PFRS 16)

(a) Long-term lease agreements

(i) Office space and warehouse lease

The Parent Company entered into two (2) operating lease agreement for its Cebu and Davao branch office space. The Cebu Branch office is located at Unit No. 1 Benley Building, J. de Veyra Street, North Reclamation Area, Cebu City. The lease term of the Cebu Branch office covers a period of two (2) years from February 15, 2019 to February 14, 2021 subject to renewal upon agreement by both parties. The Davao Branch office is located at DR 2 Ground Floor Building 1, Insular Village One Commercial Area, Lanang, Davao City. The lease term of the Davao branch office covers a period of one (1) year from April 1, 2019 to March 31, 2020 subject to renewal upon option of the lessee. As at December 31, 2019, the required security deposit amounted to P50,400 (2018 - nil). These are presented as refundable deposits under "Prepayments and other current assets" in the separate statements of financial position.

The Parent Company entered into an operating lease agreement for the lease of 200 square meter warehouse space in SOS Mabini Storage Facility, Mabini, Batangas. The lease term initially covers a period of one (1) year from January 9, 2019 to January 4, 2020 which was subsequently renewed for another year to end on January 4, 2021. The lease agreement is renewable for another year upon agreement by both parties.

(ii) Barge Queen Jade

The Parent Company entered into a lease agreement covering Barge Queen Jade with the Development Bank of the Philippines (DBP) on February 27, 2014. The lease term covers a period of ten (10) years with an annual interest rate of 6%. The first monthly lease payment commencing on September 15, 2014 until September 15, 2024. The lease agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,301,032 at the inception of the contract. This was presented within "Other non-current assets" in the consolidated statement of financial position as at December 31, 2018 (Note 11). On January 1, 2019, the lease guarantee deposit was reclassified as part of the right-of-use asset upon adoption of PFRS 16 as it will be applied as final payment at te end of the lease term.

As at December 31, 2018, net carrying value of barge held under finance lease amounted to P61,203,106. On January 1, 2019, the carrying value of the barge was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

(iii) Bareboat charter

The Parent Company entered into two (2) standard bareboat charter lease agreement covering the lease of Crest 2801, a barge, and Crest Opal, a tugboat, with Pacific Crest Pte. Ltd. on September 21, 2018. The lease term covers a period of twelve months (12) months from delivery of the barge and tugboat on October 31, 2018 until October 31, 2019. The lease is renewable annually upon mutual agreement by both parties. The Parent Company has issued a letter of intent to lease the barge and tugboat for a period of five (5) years from the commencement of the lease.

(iv) Land

On April 12, 2016, ADGI entered into a forest land use agreement with the Department of Environment and Natural Resources (DENR). The agreement provides ADGI with the exclusive right to occupy, manage and develop approximately one hundred fifty-six (156) hectares of forestland in Sitio Chanco, Barangay Bawing, General Santos City, South Cotabato, for the solar power plant project for a period of twenty-five (25) years to expire on April 12, 2041. The agreement is renewable for another twenty-five (25) years subject to mutual agreement by both parties. ADGI shall pay an annual lease of P468,000 upon the signing of the agreement to be increased cumulatively by 10% every year.

(b) Short-term lease agreements

(i) Office space

The Parent Company and subsidiaries have various operating lease agreements covering office spaces for provincial branches for periods ranging from six (6) months to one (1) year which can be extended or renewed upon mutual agreement by both parties.

(ii) Other variable lease agreements

The Parent Company also entered into various operating lease agreements with third parties for rental of generator set, equipment, boats, truck, car, housing and other items as the need arises during the normal course of its business operations. The lease term covers a period ranging for one (1) day to less than one (1) year.

Rent expense from the foregoing lease agreements recognized in profit or loss for the years ended December 31, 2019 are as follows:

	Notes	Amount
Cost of services	16	24,739,717
General and administrative expenses	17	4,227,435
		28,967,152

These short-term lease agreements require the Parent Company to pay the refundable deposits which are presented within prepayments and other current assets (Note 4) in the separate statement of financial position. As at December 31, 2019 and 2018, refundable deposits amounted to P1.9 million and P1.6 million, respectively (Note 4).

These lease agreements were considered as short-term and low value lease under PFRS 16, "*Leases*" because the lease term is less than 12 months.

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(c) Amounts recognized in the consolidated statement of financial position

For 2019, leased assets and lease liability are presented as a separate line items in the consolidated statement of financial position. As at December 31, 2019, the carrying amount of right-of-use asset related to the lease agreements above is shown below:

	Notes	Office space and warehouse	Barge	Land	Total
Cost					
Adoption of PFRS 16 at January 1, 2019		-	142,863,878	20,956,053	163,819,931
Additions		1,714,867	-	-	1,714,867
Reclassification		-	4,301,032	-	4,301,032
December 31, 2019		1,714,867	147,164,910	20,956,053	169,835,830
Accumulated amortization					
Adoption of PFRS 16 at January 1, 2019		-	9,944,522	2,514,726	12,459,248
Amortization	16,17	786,599	17,504,479	838,242	19,129,320
December 31, 2019		786,599	27,449,001	3,352,968	31,588,568
Net carrying amount					
Adoption of PFRS 16 at January 1, 2019		-	132,919,356	18,441,327	151,360,683
December 31, 2019		928,268	119,715,909	17,603,085	138,247,262

Movements in the lease liabilities for the year ended December 31, 2019 follow:

	Amount
Lease liabilities	
Adoption of PFRS 16 at January 1, 2019	116,077,588
Additions	1,714,867
Principal payments	(26,535,598)
Interest payments	(6,225,067)
Interest expense	6,730,272
Lease liability - December 31, 2019	91,762,062

Lease liabilities	
Current	17,014,185
Non-current	74,747,877
	91,762,062

(d) Amounts recognized in the statements of total comprehensive income

Amounts recognized in the consolidated statement of total comprehensive income for the year ended December 31, 2019 related to the lease agreements above follow:

	Notes	Amount
Amortization expense of right-of-use asset	16,17	19,129,320
Expense relating to short-term lease	16,17	28,967,152
Interest expense on lease liability		6,730,272
		58,826,744

The total cash outflows for leases for the year ended December 31, 2019 amounted to P32,760,665.

(e) Discount rate

The lease payments for office space and warehouse lease and barge are discounted at 5.23% to 7.03% which is Group's incremental range of borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(f) Extension and termination options

Extension and termination options are included in the lease agreements of the Group. These are used to maximize the operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable upon mutual agreement by both parties unless specifically stated that extension and termination is at the option of the lessee.

(g) Reconciliation of operating lease commitments and lease liability

The reconciliation between the operating lease commitments disclosed in applying PAS 17, "Leases" at December 31, 2018 discounted using the Group's incremental borrowing rate and the lease liability recognized as at January 1, 2019 follows:

		Amount
Operating lease commitments, December 31, 2018		
Finance lease		31,626,526
Operating lease		215,575
Add:	Forest land use agreement	44,477,344
	Contract price	85,462,377
Less:	Short-term leases recognized on a straight-line basis as expense	(191,975)
	Application of lease guarantee deposit	(2,403,354)
	Discounting effect using weighted average incremental borrowing at (5.23% to 7.03%)	(38,673,743)
	Construction in progress	(4,411,562)
	Others	(23,600)
Lease liability, January 1, 2019		116,077,588

Prior to January 1, 2019 (PAS 17)

(a) Finance lease

The carrying amount of barge subject to finance lease amount to P70,994,036 as at December 31, 2018 (Note 7).

The commitments in relation to above finance lease agreement as at December 31, 2018 are payable as follows:

	Amount
Not later than 1 year	5,157,030
Later than 1 year but not more than 5 years	20,628,122
More than 5 years	5,841,374
Minimum lease payments	31,626,526
Future finance charges	(4,540,900)
Total finance lease liabilities	27,085,626

The present value of finance lease liability as at December 31, 2018 are as follows:

	Amount
Not later than 1 year	3,776,463
Later than 1 year but not more than 5 years	17,583,238
More than 5 years	5,725,925
	27,085,626

(b) Operating lease

The Parent Company and subsidiaries have various non-cancellable operating lease agreements covering certain container 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.

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

	Notes	2019	2018
Cost of services	16	5,078,369	2,552,475
General and administrative expenses	17	5,061,971	3,498,727
		10,140,340	6,051,202

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2018 amounted to P215,575.

Critical accounting judgment

(a) Classification of leases

Prior to 2019, 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.

(b) Incremental borrowing rate of lease liabilities

Payments for leases of properties and office equipment are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. Where third party financing cannot be obtained, the Group uses the government bond yield, adjusted for the (1) credit spread specific to each entity under the Group and (2) security using the right-of-use asset.

(c) Extension and termination options of lease agreements

Extension and termination options are included in a number of property, plant and equipment leases of the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Extension options are considered in the bareboat charter lease agreement of the Parent Company based on the letter of intent.

(d) Determining lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group considers the factors below as the most relevant in assessing the options:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Note 23 - Income tax expense

All the companies in the Group are subject to normal corporate income tax of 30% except for HSSC and ADGI. HSSC is registered under Republic Act No. 7227, otherwise known as Bases Conversion and Development Act of 1992, that enables it to be under Gross Income Taxation (GIT) of 5%. ADGI is registered under the Renewable Act 9531, an Act Promoting The Development, Utilization, and Commercialization of Renewable Energy Resources and For Other Purposes, that provides for fiscal incentives including income tax holiday.

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

	Note	2019	2018
DIT assets			
Retirement benefit obligation		33,965,385	24,922,175
Allowance for impairment of receivables		21,562,563	7,549,329
Provision for service discounts		2,089,739	-
Provision for tax assessment		1,649,318	-
Provision for loss on construction receivable		882,139	-
Provision for separation pay		692,243	-
Unrealized foreign exchange loss, net		435,824	-
		61,277,211	32,471,504
DIT liabilities			
Unrealized foreign exchange gain, net		-	(451,840)
Lease liability		(2,473,355)	-
Revaluation increment on property and equipment	6	(34,351,355)	(42,288,662)
		(36,824,710)	(42,740,502)
DIT assets (liabilities), net		24,452,501	(10,268,998)

The maturity of DIT assets and liabilities are as follows:

	2019	2018
DIT assets:		
Expected to be recovered within 12 months	27,311,826	-
Expected to be recovered more than 12 months	33,965,385	32,471,504
	61,277,211	32,471,504
DIT liabilities		
Expected to be settled within 12 months	(2,473,355)	(8,338,599)
Expected to be settled more than 12 months	(34,351,355)	(34,401,903)
	(36,824,710)	(42,740,502)
	24,452,501	(10,268,998)

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of deferred income tax assets related to net operating loss carryover (NOLCO) for the years ended December 31, 2019 which could be carried over as deductible expense from taxable income for three (3) consecutive years following the year of incurrence are as follows:

	Year of incurrence	Year of expiration	2019
	2017	2020	3,372,620
	2018	2021	16,050,226
	2019	2022	214,996,550
			234,419,396
Applicable tax rates			5%, 10% and 30%
			63,876,7823

Where higher than normal income tax, the individual companies in the Group are required to pay Minimum Corporate Income Tax (MCIT) equal to 2% of gross profit as required by the Tax Reform Act of 1997. This amount may separately be offset against normal income tax liabilities for the three (3) immediately succeeding taxable years. The details of deferred income tax asset on MCIT for the years ended December 31, 2019 which could be carried forward on an annual basis and credited against normal income tax payable within three (3) immediately succeeding years from the period when the MCIT was paid until 2022 amounted to P5,403,066 (2018 - nil).

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors, including the companies' ability to generate taxable income within the NOLCO and MCIT period. Management has considered these factors in reaching its conclusion on the realizability of the deferred income tax assets. The Parent Company did not recognize deferred income tax assets in respect of its NOLCO and MCIT as it does not expect that future taxable profits will be available against which these can be utilized.

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

	Note	2018	2017
Beginning of year		(10,268,998)	(21,704,001)
DIT credited to profit or loss		29,970,802	11,435,003
DIT credited to other comprehensive income	20	4,750,697	-
End of year		24,452,501	(10,268,998)

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

	2019	2018	2017
Current	6,678,689	60,126,360	80,185,770
Deferred	(29,970,802)	(11,435,003)	(18,103,843)
	(23,292,113)	48,691,357	62,081,927

The reconciliation between income tax expense (benefit) 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:

	2019	2018	2017
Income tax expense (benefit) computed	(106,589,878)	44,611,979	51,266,277
Adjustments to income tax resulting from:			
Unrecognized NOLCO	60,638,636	-	-
Non-deductible expenses	17,187,413	5,058,546	11,055,212
Unrecognized MCIT	5,403,066	-	-
Unrecognized movement in deferred tax	3,686,828	-	-
Final income tax expense	1,275,623	-	-
Limitation on interest expense	79,097	45,150	-
Interest income subjected to final tax	(197,826)	(110,431)	(107,712)
Share in net income of associates	(4,775,072)	(913,887)	(131,850)
Income tax expense (benefit)	(23,292,113)	48,691,357	62,081,927

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 other than on the Parent Company's MCIT and NOLCO.

Note 24 - Foreign currency denominated monetary assets and liabilities

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

	2019			2018	
	In USD	In JPY	In MYR	In USD	In JPY
Assets					
Cash	337,433	2,114,237		1,047,162	2,114,237
Trade and other receivables	684,826	-		-	-
Advances to related parties	-	-	16,323,044		
	1,022,259	2,114,237	16,323,044	1,047,162	2,114,237
Liabilities					
Trade and other liabilities	(1,240,000)	(68,000,000)	-	(85,000)	(42,451,066)
Advances from related parties	(22,500)	-	-	-	-
Borrowings	(15,714)	-	-	(47,143)	-
	(1,278,214)	(68,000,000)	16,323,044	(132,143)	(42,451,066)
Net foreign currency assets (liabilities)	(255,955)	(65,885,763)	16,323,044	915,019	(40,336,829)
Year-end exchange rates	50.74	0.46	12.28	52.72	0.48
Peso equivalent	(12,987,157)	(30,307,451)	200,446,980	48,239,802	(19,361,678)

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

	Note	2019	2018	2017
Realized foreign exchange loss		(18,850,690)	(9,429,758)	(6,301,607)
Unrealized foreign exchange gain (loss)		(1,755,520)	1,633,099	(3,612,176)
	19	(20,606,210)	(7,796,659)	(9,913,783)

Unrealized foreign exchange loss on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2019 is P28,546 (2018 - nil; 2017 - P125,257 gain).

Note 25 - 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). No stock dividends were declared as at December 31, 2019 and 2018.

As at December 31, 2019, pre-development cost amounting to P1,826,728,917 was reclassified to property, plant and equipment (Note 7).

Note 26 - 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

- Recoverability of trade and other receivables (Note 3)
- Revaluation of tugboats (Note 6)
- Useful lives of property, plant and equipment (Notes 6 and 7)
- Retirement benefit obligation (Note 20)
- Incremental borrowing rate (Note 22)

(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)
- Impairment of investment in associates (Note 5)
- Impairment of property, plant and equipment (Note 7)
- Impairment of investment properties (Note 9)
- Recoverability of input VAT (Note 10)
- Classification of leases (Note 22)
- Determining lease terms (Note 22)
- Extension and termination options of lease agreements (Note 22)
- Current and deferred income tax (Note 23)

Note 27 - Financial risk and capital management

27.1 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.

27.2 Components of financial assets and liabilities

(a) Financial assets

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

	Notes	2019	2018
Cash	2	99,449,755	316,560,503
Trade receivables, gross	3	427,419,698	525,102,517
Construction receivables, gross	4	170,230,644	242,270,335
Deposit bond	3	8,521,638	8,057,630
Advances to related parties	21	553,165	7,389,954
Refundable deposits	4	15,840,778	3,817,530
Financial assets at fair value through other comprehensive income (FVOCI)	10	810,000	810,000
		722,825,678	1,104,008,469

Trade receivables are presented gross of allowance for impairment amounting to P70,536,709 as at December 31, 2019 (2018 - P25,164,430) (Note 3).

Advances to officers and employees amounting to P155,790,667 as at December 31, 2019 (2018 - P33,061,841) are considered non-financial assets as these are mainly subject to liquidation (Note 3).

Lease guarantee deposits amounting to P4,356,032 as at December 31, 2019 and 2018 are also considered as non-financial asset as these will be applied as final payment at the end of the lease term (Notes 10 and 22).

Construction receivables are presented gross of allowance for loss on construction receivables amounting to P2,940,464 as at December 31, 2019 (2018 - nil) (Note 4).

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

(b) Financial liabilities

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

	Notes	2018	2017
Trade and other payables	11	323,615,955	328,067,827
Short-term loans	12	499,750,000	465,000,000
Borrowings	12	3,753,428,334	2,469,313,978
Lease liabilities	22	91,762,062	-
Finance lease liability	22	-	27,085,626
		4,668,556,351	3,289,467,431

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

	Note	2018	2017
Accrued construction costs	11	71,931,276	-
Unearned income	11	16,940,552	7,822,614
Payable to government agencies	11	4,205,057	4,526,544
		93,076,885	12,349,158

27.3 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, 2019, if the US Dollar had weakened/strengthened by 3.76% (2018 - 5.61%) with all other variables held constant, pre-tax loss for the year and equity would have been P487,758 lower/higher (2018 - P1,894,032), mainly as a result of net foreign exchange gains (losses) on translation of US Dollar-denominated net foreign currency monetary liabilities.

For the year ended December 31, 2019, if the Japanese Yen had strengthened/weakened by 4.17% (2018 - 7.98% weakened/strengthened) with all other variables held constant, pre-tax loss for the year and equity would have been P1,262,810 lower/higher (2018 - P1,070,137 lower/higher), mainly as a result of net foreign exchange gains (losses) 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 financial assets at fair value through other comprehensive income in the consolidated statement of financial position.

At December 31, 2019 and 2018, 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.

27.4 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	High performing	Underperforming		Credit impaired
December 31, 2019						
Cash and cash equivalents	2	97,394,711	97,394,711	-	-	-
Trade receivables	3	427,419,698	256,887,211	54,717,922	45,277,856	70,536,709
Deposit bond	3	8,521,638	8,521,638	-	-	-
Advances to related party	21	553,165	553,165	-	-	-
Refundable deposits	4	15,840,778	15,840,778	-	-	-
		549,729,990	379,197,503	54,717,922	45,277,856	70,536,709
December 31, 2018						
Cash and cash equivalents	2	314,741,767	314,741,767	-	-	-
Trade receivables	3	525,102,517	237,989,539	216,069,391	45,879,157	25,164,430
Deposit bond	3	8,057,630	8,057,630	-	-	-
Advances to related party	21	7,389,954	7,389,954	-	-	-
Refundable deposits	4	3,817,530	3,817,530	-	-	-
		859,109,398	571,996,420	216,069,391	45,879,157	25,164,430

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 2019 and 2018.

As at December 31, 2019 and 2018, 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 P2,536,663. The fair value of the maritime lien amounted to P12,025,458.

Credit quality of fully performing financial assets

(a) High performing

(i) Cash in banks

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

	2019	2018
Universal banks	73,188,238	205,459,983
Commercial banks	24,206,473	109,281,784
	97,394,711	314,741,767

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P2,055,044 as at December 31, 2019 (2018 - P1,818,736) (Note 2).

(ii) Trade and other receivables

There is no concentration of credit risk with respect to trade and other receivables as the Group has a large number of customers. To minimize credit risk, the Group transacts only with counterparties with good credit standing. As at December 31, 2019, trade receivables amounting to P256,887,211 (2018 - P237,989,539) are fully performing thus, collectible.

(iii) Deposit bond

Deposit bond amounting to P8,521,638 (2018 - P8,057,630) that are neither past due nor impaired pertains to deposit made to the Bureau of Customs for the imported materials, which are refundable within 12 months.

(iv) Advances to related parties

Advances to related parties amounting to P553,165 as at December 31, 2019 (2018 - P7,389,954) 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, 2019 and 2018 and no provision for impairment is required.

(v) Refundable deposits

Refundable deposits amounting to P15,840,778 as at December 31, 2019 (2018 - P3,817,530) 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) Underperforming

Underperforming trade receivables as at December 31, 2019 amounting to P99,995,778 (2018 - P261,948,548) are related to a number of independent customers with delay in payments but 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.

(c) Credit impaired

As at December 31, 2019, trade receivables amounting to P70,536,709 (2018 - P25,164,430) 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.

27.5 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 to 12 months	More than one year
December 31, 2019					
Trade and other payables	11	339,354,555	323,615,955	-	15,738,600
Short-term loans	12	505,929,139	269,855,382	236,073,757	-
Borrowings	12	4,516,937,059	397,136,579	1,749,266,638	2,370,533,842
Lease liabilities	22	123,400,321	5,290,180	15,878,536	102,231,605
		5,485,621,074	995,898,096	2,001,218,931	2,488,504,047
December 31, 2018					
Trade and other payables	11	328,067,827	328,067,827	-	-
Short-term loans	12	470,502,000	470,502,000	-	-
Borrowings	12	2,515,820,765	6,358,895	1,455,909,131	1,053,552,739
Finance lease liability	22	31,626,526	1,289,258	3,867,772	26,469,496
		3,346,017,118	806,217,980	1,459,776,903	1,080,022,235

Short term loans and borrowings as at December 31, 2019 include the undiscounted cash flows on future interest payable of P6,179,139 and P763,508,725, respectively (2018 - P5,502,000 and P46,456,787, 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.

As of December 31, 2019, the Group has undrawn credit lines with local banks.

27.6 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, 2019 and 2018.

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:

	2019	2018
Total debt	4,777,040,641	3,301,816,589
Total equity	1,173,649,496	1,567,122,245
Debt-to-equity ratio	4.07:1	2.11:1

As at December 31, 2019, the Parent Company has not complied with certain financial ratios including debt to equity and debt service cover ratio that resulted in the reclass of a portion of loans to current.

The Parent Company has debt-to-equity ratio of 231% and debt-service cover ratio of 10.62%.

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

	Notes	2019	2018
Trade and other payables	11	432,431,440	340,416,985
Short-term loans	12	499,750,000	465,000,000
Borrowings	12	3,753,097,139	2,469,313,978
Lease liabilities	22	91,762,062	-
Finance lease liability	22	-	27,085,626
		4,777,040,641	3,301,816,589

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

	Note	2019	2018
Share capital	13	907,857,870	907,857,870
Additional paid-in capital	13	121,632,762	121,632,762
Retained earnings attributable to the owners of Parent Company		181,933,854	548,645,283
Financial asset at fair value through other comprehensive income		(160,000)	(160,000)
Treasury stock		(37,614,990)	(10,853,670)
		1,173,649,496	1,567,122,245

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, 2019 and 2018.

Note 28 - 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.

28.1 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 Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property and equipment - tugboats and fair value measurement of financial assets at fair value through other comprehensive income.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are summarized in Note 26.

Changes in accounting policy and disclosures

(a) New and amended standards and interpretations adopted by the Group

There are a number of new accounting standards, amendments and interpretations that have been published that are mandatory for December 31, 2019 reporting periods. None of these standards, amendments and interpretations have a significant impact on the Group's financial statements except for:

PFRS 16, Leases

PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under 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 consideration.

On adoption of PFRS 16, applying the modified retrospective approach, the Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of financial position as at December 31, 2018.

In applying PFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
c) accounted for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
d) excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying PAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The effects of adoption of PFRS 16 on the Group's financial statements as at January 1, 2019 are as follows:

	Notes	Increase (decrease)
Right-of-use-assets, net	22	151,360,683
Leased liabilities	22	116,077,588
Pre-development cost	1.2	3,136,961
Retained earnings		(2,893,557)

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of PFRS 16.

Philippine Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation explains how to recognize, and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment,
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

Based on the Group's assessment, the interpretation did not result to significant changes on its current recognition and measurement of deferred and current income tax assets and liabilities.

PAS 19 (Amendments), Employee Benefits - Plan Amendment, Curtailment or Settlement (effective January 1, 2019)

The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). The adoption did not have a significant impact on the Group's financial statements.

(b) New standards, amendments and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for December 31, 2019 reporting period and have not been early adopted by the Group. None of these, standards, amendments and interpretation is expected to have a significant impact on the Group's financial statements but the more relevant ones are as follows:

Definition of Material - Amendments to PAS 1 and PAS 8 (effective January 1, 2020)

The IASB has made amendments to PAS 1 *Presentation of Financial Statements* and PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the *Conceptual Framework for Financial Reporting*, clarify when information is material and incorporate some of the guidance in PAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

None of these amendments are expected to have significant impact on the Group's consolidated financial statements.

Revised Conceptual Framework for Financial Reporting (effective January 1, 2020)

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The above is not expected to have significant impact on the Group's consolidated financial statements.

28.2 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 PFRS 9 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 subsidiaries 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 within 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.

28.3 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.

28.4 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.

28.5 Investments and other financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity. The Group recognizes a financial instrument in the consolidated statements of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group only holds financial assets classified as financial assets at amortized cost as at December 31, 2019 and 2018 which comprise cash and cash equivalents (Note 28.4), trade and other receivables (Note 28.8), advances to related parties (Note 28.29), financial assets at fair value through other comprehensive income and refundable deposits in the consolidated statements of financial position.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value.

Subsequent to initial recognition, measurement depends on the Group's business model for managing the asset and cash flow characteristic of the asset. For financial assets at amortized cost, interest income, if any, from these financial assets is included within other income in the statement of total comprehensive income using the effective interest rate method. Impairment losses are presented as separate line item in profit or loss.

Where the Group's management has elected to present fair value gains and losses on investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance. The Group applies the ECL model to measure the impairment for all financial assets at FVOCI and at amortized costs.

The Group calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. ECL are measured through an allowance at an amount equal to:

- the 12-month ECL (that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime ECL (that result from all possible default events over the life of the financial instrument).

Financial liabilities

(a) Classification

The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and other financial liabilities. As at December 31, 2019 and 2018, the Group's financial liabilities are limited to other financial liabilities at amortized cost.

The Group's trade and other payables (excluding payable to government agencies, unliquidated expenses and unearned income) (Note 28.15), advances from related parties (Note 28.29), short-term loans and borrowings (Note 28.16), finance lease liabilities and lease liabilities (Note 28.27) are classified under other financial liabilities at amortized cost.

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. Other financial liabilities include accrued expenses. These are included in current liabilities except for maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

(b) Initial recognition and derecognition

Financial liabilities are initially recognized at fair value of the consideration received plus directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(c) Subsequent measurement

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

28.6 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 Parent Company has right to offset intercompany payables and receivables as at December 31, 2019. Total intercompany receivables offset against payables amounts to P72,831,949 (2018 - nil).

28.7 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 financial asset at FVOCI 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 28.5) 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.

28.8 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.

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of loss is recognized within general and administrative expenses in profit or loss. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written off against the allowance account for receivables. If in a subsequent period, the amount of 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. Reversal 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 the amounts previously written off are credited to general and administrative expenses in profit or loss.

Other relevant policies including impairment on receivables are disclosed in Note 28.5.

28.9 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) and leasehold rights.

Input VAT 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.

Leasehold rights are recognized at cost which approximates purchase price or total consideration. Leasehold rights with definite life is amortized over the period of the contract while leasehold rights that have indefinite life, are carried at cost less impairment, if any.

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.

28.10 Property, plant and equipment

All property, plant 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, plant 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, plant 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 28.14).

An item of property, plant 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.

28.11 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 28.14.

28.12 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. Portion of the pre-development cost pertaining to property, plant and equipment still under construction are subsequently transferred to "Property, plant and equipment at cost" upon completion.

28.13 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. Land is not depreciated.

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, plant 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.

28.14 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, plant and equipment, computer software, investment properties, input VAT, investment in associate and leasehold rights, 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.

28.15 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.

28.16 Borrowings and borrowing cost

(a) 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.

(b) 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.

28.17 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.

28.18 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, plant 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.

28.19 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.

28.20 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.

28.21 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.

28.22 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.

28.23 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.

28.24 Foreign currency transactions and translation

(a) 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.

(b) 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.

(c) 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, 2019, cumulative loss on translation differences recognized in equity amounted to P6,768,327 (2018 - P6,811,095).

28.25 Revenue recognition

Revenue is measured based on the consideration specified in a contract with customer. The Group recognizes revenue when it transfers control over service to a customer.

(a) Sale of services

The Group provides (i) harbor assistance, (ii) lighterage services (iii) towing services and (iv) salvage income. These services are provided on a time-basis or as a fixed-price contract, net of any subsequent discounts. Discounts are considered as part of the transaction price when granting such is highly probable. Contract terms of services are generally range from less than a year. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

(b) Revenue on generation and sale of solar energy

The Group is engaged in the generation and sale of solar energy. Revenue is recognized monthly based on the transmission of solar energy to its sole customer. Revenue is recognized when the solar energy is delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Revenue is also recognized based on the price agreed with the costumer and is only recognized to the extent that it is probably that a significant reversal will not occur. No element of financing is deemed present as the sale are made with a credit of ten (10) to 15 days.

(c) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(d) Contract assets and liabilities

Services are normally billed to the customer one month in advance. The customer pays the fixed amount based on the billing. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognized. If the total payments received to date exceed the performance obligation fulfilled, a contract liability is recognized and is presented as unearned revenue. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

<u>Other income</u>

(a) 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.

The Group recognizes on a net basis when it satisfies its promise to facilitate the service over a period of time when it is not a principal in a contract. For all the construction contracts, the Group does not control the service before as it is transferred to the customer. The Group is also is not solely responsible for the service and discretion in establishing contract prices. The indicators therefore support that the Group is not the principal for the construction contracts.

(b) 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.

(c) Dividend income

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

28.26 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.

28.27 Leases where Group is a lessee

<u>From January 1, 2019 (PFRS 16)</u>

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(a) Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense 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.

(b) Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use assets are depreciated over the underlying asset's useful life.

(c) Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(d) Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Prior to January 1, 2019 (PAS 17)

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, plant and equipment. Leases of property, plant 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, plant 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 28.10.

28.28 Earnings per share

(a) 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.

(b) 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, 2019, 2018 and 2017.

28.29 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.

28.30 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, 2019, the Group has two (2) operating business segments which pertains to revenue and related economic activities arising from harbor assistance including those of Jetty construction services and renewable energy. In 2017, the Group started to venture into renewable energy by establishing HSEC and acquiring ADGI, then ADF1 and ADF2 in 2018.

Below are the segments of the Group:

As at and for the year ended December 31, 2019

	Harbor assistance	Renewable energy	Elimination	Total
Revenue	1,288,911,811	107,142,840	-	1,396,054,651
Segment result	(154,427,225)	(4,776,585)	385,489	(158,818,321)
Share in net profit of associate	15,916,905	-	-	15,916,905
Finance costs	(214,571,492)	(42,074,690)	-	(256,646,182)
Income tax benefit	23,292,113	-	-	23,292,113
Loss for the year	(329,789,699)	(46,851,275)	385,489	(376,255,485)
Segment assets	4,998,321,120	2,813,344,210	(1,667,005,683)	6,144,659,647
Segment liabilities	(3,621,286,121)	(2,753,759,441)	1,476,259,237	(4,898,786,325)
Capital expenditures	502,024,031	1,916,499,863	-	2,418,523,894
Depreciation and amortization	369,053,633	43,553,801	-	412,607,434
Non-cash expenses other than depreciation and amortization	-	-	-	-

As at and for the year ended December 31, 2018

	Harbor assistance	Renewable energy	Elimination	Total
Revenue	1,436,968,376	-	-	1,436,968,376
Segment result	271,306,560	(15,599,843)	(800,000)	254,906,717
Share in net profit of associate	3,046,290	-	-	3,046,290
Finance costs	(102,350,268)	-	-	(102,350,268)
Income tax expense	(48,691,357)	-	-	(48,691,357)
Profit for the year	123,311,225	(15,599,843)	(800,000)	106,911,382
Segment assets	4,742,914,335	1,886,185,498	(1,536,285,412)	5,092,814,421
Segment liabilities	(2,979,142,439)	(1,871,749,443)	1,421,904,051	(3,428,987,831)
Capital expenditures	538,504,316	739,871,873	-	1,278,376,189
Depreciation and amortization	288,680,321	1,655,629	-	290,335,950
Non-cash expenses other than depreciation and amortization	-	-	-	-

28.31 Subsequent events (or Events after the reporting date)

The shipping industry is among the identified industries to be severely affected by the COVID-19 pandemic. The quarantine of factory workers as well as restricted travel in China stifled production. Being a key piece in the delivery of goods and commodities in the supply chain, shipping is necessarily affected by the low production and manufacture of goods. The Group's main service line is docking and undocking foreign container vessels calling the various international ports in the Philippines. In response to lack of cargo, some international shipping lines have lessened their vessel calls and/or have consolidated their calls with other shipping lines. We therefore see a reduction in the number of foreign vessels calling the Philippines during this time. We however remain optimistic that the volumes will return since China appears to have controlled the spread of the virus and business will return to normal in the coming months, if not increase to make up for the previous lag in production.

HSSSI BASE PORTS

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