HARBOR STAR
SHIPPING SERVICES, INC.

Integrated Annual and Sustainability Report
2020

TABLE OF CONTENTS

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 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 compliant with ISO 9001:2015 for quality management system, ISO 14001:2015 for environmental management system, and OHSAS 45001:2018 for occupational health safety management system. 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 through 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, through 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 EastAsia (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 2020, Harbor Star continued its market dominance rendering its core competence of harbor assist by assisting 4,432 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 February 2020, Harbor Star signed a One (1) year Service Agreement with GNPower Dinginin LTD. Co. that is engaged in the business of developing, constructing, operating, and owning a coal-fired power generation and private port facility in Mariveles, Bataan. Harbor Star will exclusively provide harbor assist services to all vessels calling the terminal.

In June 2020, Harbor Star signed a One (1) year Service Agreement with GNPower Mariveles Coal Plant LTD. Co. which owns and operates a coal-fired power plant in Mariveles, Bataan. Harbor Star will exclusively provide harbor assist services to all vessels calling the terminal.

Also in June 2020, Harbor Star was hired by Nova Ship Tech to tow cement carrier vessel "NACC Vega" from Lugait, Misamis Occidental. The vessel had a main engine problem. Tugboat "Galina" was dispatched and safely towed the ship to Calaca, Batangas.

In July 2020, Harbor Star was hired by AC Energy to clean up the oil spill from Power Barge 102 in Barrio Obrero, Iloilo City. The clean-up was performed by tugboat "Procyon" on both the waters and the coastline, beginning with the inlet areas, followed by the coast, and then any offshore areas to recover and safely disperse any remaining oil residue.

In August 2020, Harbor Star signed a Two (2) year service agreement with Philippine Associated Smelting and Refining Corporation ("PASAR") which processes and exports refined copper and precious metal by-products of international standards in Isabel, Leyte.

In September 2020, Harbor Star participated in the e-bidding and signed a Tug Service Agreement with MCC-Sealand to provide Harbor Assistance at ICTSI Manila, Sta. Clara port in Batangas and Cebu International Port. TUGS was awarded the contract for Two (2) years.

In October 2020, Harbor Star signed a Two (2) year service agreement with Pearl Energy Philippines Operating Inc. ("PEPOI") to provide Harbor Assistance in Mauban Power Plant. TUGS was awarded the contract for Two (2) years.

In December 2020, Harbor Star signed a Two (2) year service agreement with CMA-CGM to provide Harbor Assistance in Manila, Subic, Batangas, Cebu, and Davao.

Finally, in December 2020, Harbor Star's M/T Mimosa towed Bulk Carrier "Eships Dugon" from the vicinity of West Mindoro. The vessel was loaded with coal and was powerless due to main engine problem caused by water entering the engine room and disabling the engine.

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, Harbor Star Subic acquired the 3,600 BPH 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 25 April 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 Cotabato II Electric Cooperative, Inc. (SOCOTECO II)

As of 31 December 2020, ADGI has delivered 35,566,000 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)

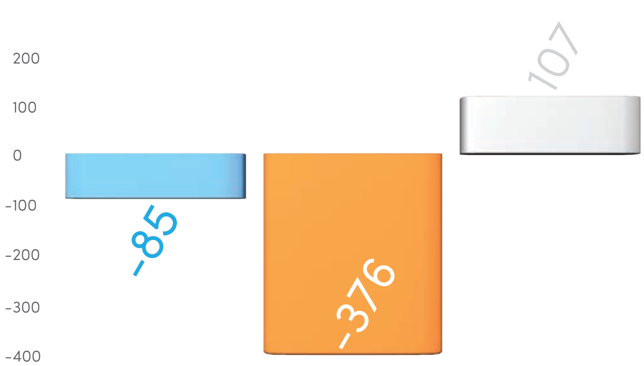
Total Expenses (In Million Pesos)

Total Assets (In Million Pesos)

Total Liabilities (In Million Pesos)

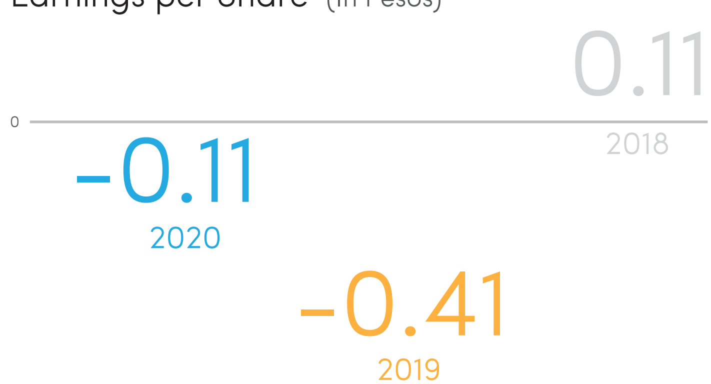
EBITDA (In Million Pesos)

Net Income (In Million Pesos)



Total Liabilities (In Million Pesos)

Earnings per Share (In Pesos)



MISSION • VISION • VALUES

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

The year 2020 was unprecedented and challenging to say the least. Even now, the world is still constantly changing because of the effects of the COVID-19 pandemic on all aspects of life. Despite the negative impact of the lockdowns and quarantines on the shipping and construction industries, we are proud to report that Harbor Star's overall business performance in 2020 showed significant improvement over the previous year.

Operational achievements

I am pleased to report that the increase in revenues combined with effective cost management helped the company trim its losses by 77% to PHP84.93 Million in 2020 from a net loss of PHP376.26 Million in 2019.

Despite the pandemic, Harbor Star was able to increase its revenues for FY 2020 by 21% from PHP1.39 Billion to PHP1.68 Billion. This is attributed to the increases in revenue from power generation, lighterage services and charter hire, salvage income, and other marine services.

A major contributor was the revenue generated by our Santos Solar Plant, which grew to PHP305.4 Million in 2020 from PHP107.1 Million in 2019. This was a direct result of the group's first full year of operations wherein Astroenergy Development Gensan Inc (ADGI) delivered 35,566,000 KWh of electricity to its off-taker, South Cotabato II Electric Cooperative.

Salvage income also saw an increase in revenue from the previous year's PHP31 Million to PHP109 Million in 2020. This was mainly due to oil spill response operations to clean and collect 48,000 liters of fuel and oil from the shores of Barrio Obrero, Iloilo City, and its neighboring barangays.

Other service lines such as the lighterage services, construction, diving, and other marine services contributed PHP131.3 Million in 2020. Most of the income was due to revenue recognized from construction contracts as well as income from port rehabilitation projects.

Subsidiaries, such as Harbor Star Subic Corp. also added PHP52.3 Million to the group's total revenues for the year. The ferry services rendered in the Subic freeport zone complemented the harbor assist income.

These positive results helped to soften the impact of COVID-19 lockdowns on harbor assistance and towing services which declined by 2.3% and 52%, respectively, due to limited operations and movement restrictions.

General and administrative expenses were reduced by 8.6% from PHP344.7 Million in 2019 to PHP315 Million in 2020. However, cost of services increased by 7% from PHP1.11 Billion in 2019 to PHP1.23 Billion in 2020, due to the increased costs of repairs and maintenance, and the depreciation of solar power plant for a first full year of operation.

Despite the modest gains and improvements, we know there is much work to be done as the COVID pandemic will continue to create challenges in the business environment we work in.

The challenges of COVID-19

Due to the COVID-19 pandemic, the Company saw a decrease in ship arrivals which in turn affected Harbor Assist revenues. Ship traffic was further slowed down by low production of factories resulting in the decrease in cargo transport requirements.

Construction activities were also halted during the nationwide lockdowns, resulting in delays in the Company's construction projects.

In response to the challenges, Harbor Star adapted and modified its operations to weather the effects of COVID on the economy and sustain revenue flow. The Company initiated internal cost saving measures requiring departments and unit heads to reduce their fixed cost by 5% to 15%. These were achieved by cutting down on non-essential services, renegotiating contracts with suppliers, merging of office functions and suspension of non-critical activities and programs.

To further mitigate the negative impact of the pandemic, the company also focused on generating more revenue from its other service lines such as its special projects division, which focuses on construction and provision of specialized marine services. The Company also re-examined its investment and expansion activities as it remained focused on strengthening its core competencies.

Looking ahead with cautious optimism

Through hard work, solidarity and excellence, we are in a position to keep our heads above water in these trying and unprecedented times. Our strong performance amidst one of the most difficult periods the world has ever faced has given us the confidence and knowledge we need to stay the course. Despite recent challenges, we look to the long term with much optimism.

We intend to continue to find ways to streamline our operations, right-size our manpower, lower our operating costs, and implement cashflow conservation strategies. Yet, we will continue to increase our client base on our tug assist and construction service lines. We will also conservatively look into other opportunities for growth and diversification.

With a total of 60 vessels covering various local and international ports, the Company will maintain its leadership in the industry through its commitment to quality service, its strong relationships with its clients, and its well-trained work force.

We express our gratitude for the continued support from our shareholders, partners, customers, dedicated employees and crew, directors and stakeholders, through which we will overcome the challenges that lie ahead.

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 aritime 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 2020, Harbor Star, including its domestic subsidiaries and affiliates, has established operations in fifteen (15) base ports all over the country, providing services to approximately six thousand five hundred eighty-nine (6,589) ships as of yearend 2020.

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-eight (48) 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 sixty (60) vessels.

Response to COVID-19 Pandemic

In early 2020, the COVID-19 pandemic struck and its impact has been significant for businesses across all industries. In response to the challenges of the pandemic, Harbor Star implemented several measures to adapt to the business issues while ensuring the safety of its employees.

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 was necessarily affected by the low production and manufacture of goods.

The Company's main service line is docking and undocking foreign container vessels calling from various international ports in the Philippines. In response to lack of cargo, some international shipping lines lessened their vessel calls and/or consolidated their calls with other shipping lines. This significantly reduced the foreign vessels calls to the Philippines.

The Company implemented several measures in order to minimize the risk of a decrease in revenues and income. These include internal cost saving measures (e.g. terminating outsourced non-essential services, renegotiating with or changing suppliers, merging of office functions, retrenchment of employees, and suspension of non-office critical activities) and generating more revenue from other service lines.

The Company also adopted a strict and encompassing COVID-19 Pandemic Policy to mitigate the risk of being exposed. The Policy includes screening, social distancing, travel restrictions, and a quarantine procedure for all its employees and persons visiting the Company premises. The Company also has a business continuity plan which provides for a work-from-home process, a skeletal workforce, and a schedule to ensure that the Company will continue to operate in the event of any natural or man-made disaster, such as the present COVID-19 pandemic. The Company office was also transformed into a safer workplace with sanitation facilities, COVID-19 test kits, and personal protective equipments, which would mitigate the exposure of our employees to COVID-19.

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 2020, revenues from harbor assistance amounted to PHP1,030 Million, equivalent to 75% 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.

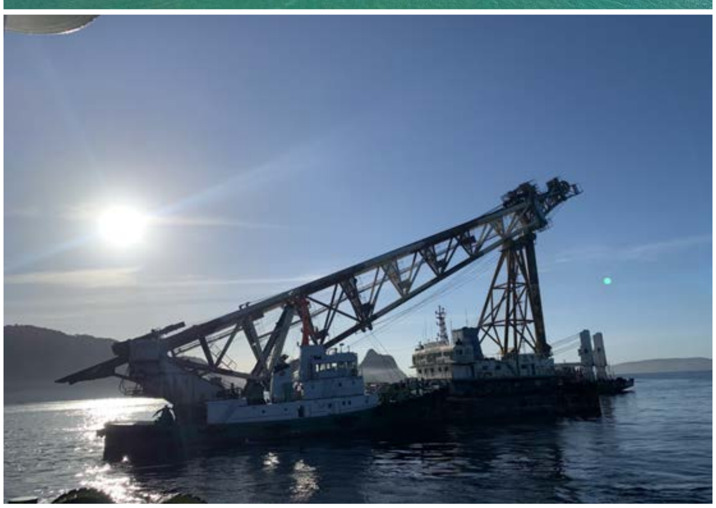
As of 31 December 2020, revenues from lighterage services amounted to PHP110 Million, equivalent to 8% of total revenue.

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 2020, revenues from salvage operations amounted to PHP109 Million, equivalent to 8% 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 2020, revenues from towing services amounted to PHP17 Million, equivalent to 1% 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.

As of 31 December 2020, revenues from other construction, repair and maintenance work amounted to PHP24 Million, equivalent to 2% of total revenue.

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. Fire fighting
g. Offshore tug services

As of 31 December 2020, revenues from other marine services amounted to PHP84 Million, equivalent to 6% of total revenue.

OUR FLEET


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 FALCON
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 WEZEN
M/T ZANIAH

MALAYSIA TUGBOATS

M/T HAMAL
M/T MIZRAM
M/T POLLUX

BARGES

Barge AURIGA
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

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 PROFILES

Geronimo P. Bella, Jr.

60, 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

54, 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, 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

51, Filipino, Director, Corporate Secretary, Chief of Staff to the President, Chief Information Officer and Corporate Information Officer. Mr. Rodriguez is a Director, Corporate Secretary and is the Chief of Staff to the Office of the President of the Corporation. He concurrently holds the position of 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 Masters in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008.

Ramon C. Liwag

64, 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

56, 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.

Gene S. De Guzman

59, Filipino, Independent Director. Mr. De Guzman serves as an Independent Director of Harbor Star Shipping Services, Inc. Currently he is the Vice President and heads the Service Assurance support for the whole PLDT domestic enterprise market, including Global Bilateral partners. He obtained his Bachelor of Science degree in Electrical Engineering from the University of Sto. Tomas in 1983, and pre-Masters at Ateneo School of Business Management in 2001.

Gemma V. Sadiua

55, Filipino, Independent Director. Ms. Sadiua serves as an Independent Director of Harbor Star Shipping Services, Inc. Currently she is the President of Venture Management Systems Inc. She previously led and served in various institutions such as Talent Bridge, Inc., MIASCOR Aviation Products Inc., Pacific Airside Services Inc., ISLA Logistics Corporation, Rapid Airfreight Inc., and Citadel Shipping Services, Inc. She obtained her degree in Business Management in De La Salle University in 1991, and completed post graduate studies in Business Planning in the Asian Institute of Management in 2005.

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 and Corporate Secretary


Ramon C. Liwag
Director


Ryota Nagata
Director


Gene S. De Guzman
Independent Director


Gemma V. Sadiua
Independent Director

KEY OFFICERS

Geronimo P. Bella, Jr.
Chairman of the Board and President

Ricardo Rodrigo P. Bella
Executive Director and Vice President

Ignatius A. Rodriguez
Chief of Staff, Corporate Secretary and CIO

Dany Cleo B. Uson
Treasurer, CFO, and Compliance Officer

Lorenzo C. Caranzo
Operations Division Head

MANAGEMENT TEAM PROFILES

Dany Cleo B. Uson

58, Filipino, Treasurer, Chief Finance Officer & Compliance Officer. Mr. Uson is concurrently the Business Development for Asia Pacific and the Investor Relation Officer. 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

53, 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. He obtained his Bachelor of Science degree in Marine Transportation from Cebu Central Colleges in 1989.

Emmanuel L. Falcunit

42, 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-fledged 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

56, 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 drydocking of manned vessels.

Jay-R L. Castillo

35, Filipino, Quality, Health, Safety, Environment (QHSE) Manager. Mr. Castillo is the QHSE 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

55, 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.

Virginia May P. Bella

46, Filipino, Legal Services Manager. Ms. Bella is the Legal ServicesManager 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.

Elionarda L. Refil

52, 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 andcompleted Ateneo's Leadership and Management Development Program ("LMDP") in 2010.

Adolfo R. Isanan

49, Accounting Manager. Mr. Isanan served as the Accounting Manager & Chief Accountant of Harbor Star from 2001 until 2008 and Comptroller from 2009 until October 2011. In June 2020, Mr. Isanan joined Harbor Star again assuming the post of Accounting Manager. Prior to joining the Company, he was employed in various companies of different industries like manufacturing, shipping, fishing, ship building and construction which he held positions of Accountant and CFO including, Soonly Foods Products Inc, Northstar Shipping & Marine Services Inc & its Subsidiaries, South Star Towage, and Zobel Oil Corporation. He is formerly an Accounting Professor & CPA Reviewer at the University of Manila and National College of Business & Arts with combined academic experience of fifteen (15) years. Mr. Isanan is a Certified Public Accountant by Profession who passed the CPA Licensure Examinations in May 1994. He obtained his Bachelor of Science in Business Administration Major in Accounting at the National College of Business & Arts – Manila in 1992.

Effel T. Santillan

43, 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

32, 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

42, 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

51, 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 several 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 PoliticalScience from Western Mindanao State University in 1991.

Marvin William Trinidad

43, 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.

Elisalde M. Fantillo

49, Engineering & Maintenance Officer-in-Charge. Mr. Fantillo served as a Technical Auditor for one year before becoming the Engineering & Maintenance Officer-in-Charge. Prior to His present position in the Company, He was the Technical Superintendent for GoldenStar Cargo Trade Shipping Corporation from 2018 until 2019, and Maintenance Supervisor for Loadstar Shipping Co. Inc. from 1996 until 2018. Mr. Fantillo obtained his degree in Bachelor of Science in Mechanical Engineering in Technological Institute of the Philippines in 1995 and Bachelor of Science in Marine Engineering in the same University in 1997. He also received a Certificate of Participation in Ship Management Course ISM Internal Audits by ClassNK Academy.

Ma. Edith P. Parro

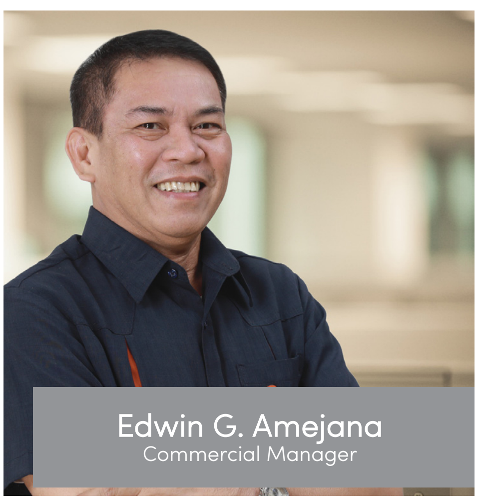
41, Diving, Marine Maintenance and Construction Admin Officer-in-Charge. Honed by time and experience, Ms. Parro served as an HR Supervisor from 2017 until 2019 before becoming the Diving, Marine Maintenance and Construction Admin Officer-in-Charge. Prior to joining Harbor Star, she was engaged and exposed in different facet of Human Resource Management, Training Development and Administrative work of different industries such as Business Process Outsourcing (BPO), Manufacturing and Construction. Companies she has worked with are San R Mining & Construction Corp, Assurant BPO, Infinit Outsourcing Inc and 24/7. Ms. Parro obtained her degree in Bachelor of Science in Psychology in Ateneo de Naga University in 1999.

MANAGEMENT TEAM

Emmanuel L. Falcunit
Operations Manager - Fleet Operations

Rudiardo L. Arcellana
Operations Manager - Salvage, Towage, Lighterage and Special Projects

Jay-R L. Castillo
QHSE Manager



Edwin G. Amejana
Commercial Manager

Virginia May P. Bella
Legal Services Manager

Elionarda L. Refil
General Services Manager


Adolfo R. Isanan
Accounting Manager


Effel T. Santillan
Human Resource Manager


Maria Elizabeth Jean E. Bella
Procurement Manager


Ryan L. Orila
ICT Manager


Ronaldo C. Samong
Business Development Manager
for Visayas and Mindanao


Marvin William Trinidad
Sales and Marketing Officer-in-Charge


Elisalde M. Fantillo
Engineering and Maintenance
Officer-in-Charge


Edith P. Parro
Diving, Marine Maintenance
and Construction Admin OIC

SUSTAINABILITY REPORT 2020

SUSTAINABILITY REPORT

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.

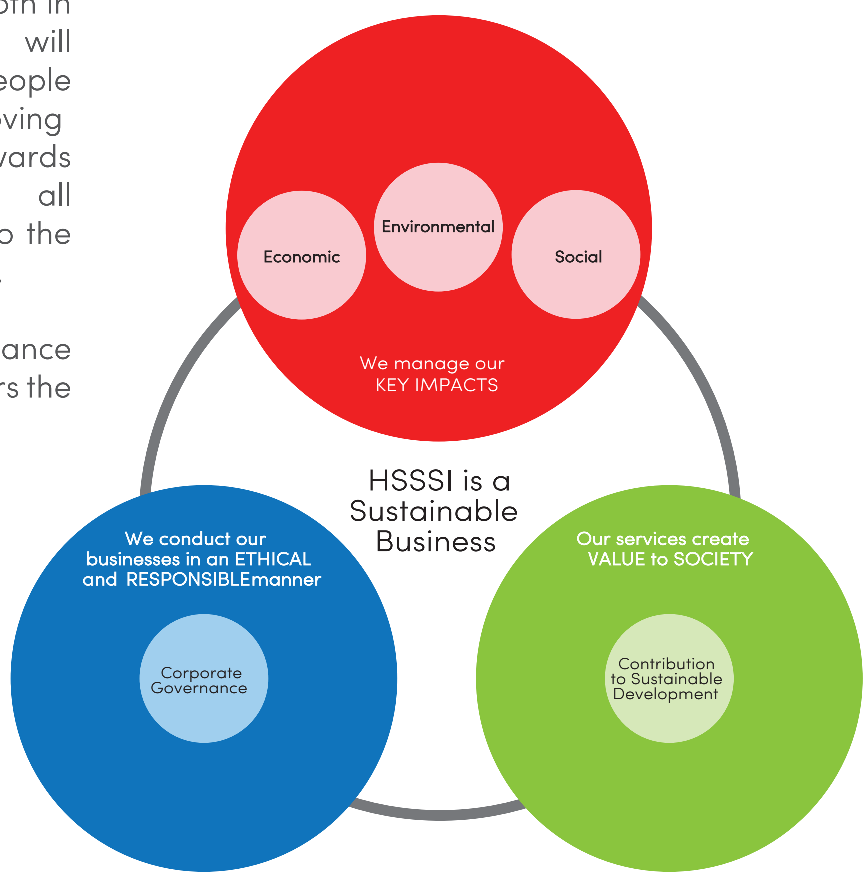
This report has been prepared in accordance with the GRI Standards: Core Option. It covers the period of January to December 2020.

(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.

SUSTAINABILITY FRAMEWORK



Material Topics and Boundaries

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,

	Business Economic Performance	Value for Customers	Employee Engagement
Metric	Direct economic value generated Direct economic value distributed	Market Share	Attrition Rate
Management Approach	Increase Revenue by means of business diversification, joint venture, market penetration, product development Rationalize expenses	Establish transparent and good relationship with the customers. Continuous improvement of services based on the customer's feedback. ISO 9001:2015	Certification Employee Code of Conduct Established HR Policies Established salary structure per position Performance Evaluation Training Plan and Matrix Compliance with General Labor Law

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)

Employee Wellbeing	Environment Protection	Workplace Safety and Health	Compliance to International Standard	Fleet Management
Attrition Rate	Compliance monitoring GHG footprint	Accident Frequency Rate Lost Time Injury Rate	IMS certification	Fleet Efficiency
Compliance Mental Health Policy and Programs Family Welfare Programs	Compliance to environmental laws and regulations ISO 14001: 2015 Certification Establish an Energy Conservation (ENERCON) Committee to identify, monitor and, implement environmental programs related to energy consumption. CSR: Mangrove Planting Implement Preventive Maintenance System (PMS)	Compliance with Occupational Health and Safety (OSH) Standard Developing interdependent culture of safety ISO 45001:2018 Certification Established and ensure compliance of employees to COVID-19 Pandemic Policy	Maintain the IMS Certification (ISO 9001, ISO 14001, and ISO 45001)	Preventive Maintenance System

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

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
9. COVID-19 response

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.

Covid-19 Policy

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
3. 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 Accreditation 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

5 Community

6 Government

7 Trade Organization

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

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

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

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

Business Economic Perfomance

Economic Performance

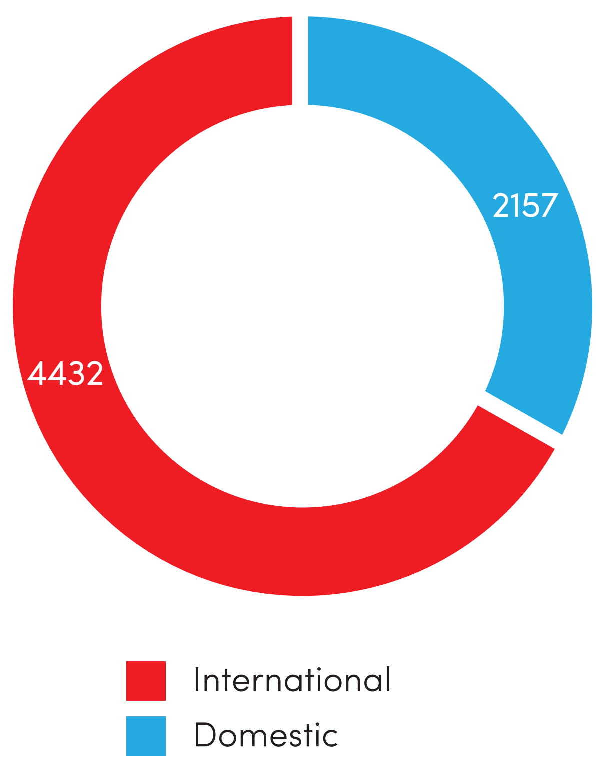
Direct Economic Value Generated and Distributed (201-1)		
Disclosure	Amount	Units
Direct economic value generated (revenue)	1,682,550,411	PHP
Direct economic value distributed:		
a. Operating costs	1,543,715,823	PHP
b. Employee wages and benefits	342,508,366	PHP
c. Payments to suppliers, other operating costs	164,762,879	PHP
d. Dividends given to stockholders and interest payments to loan providers	274,705,862	PHP
e. Taxes given to government	1,521,629	PHP
f. Investments to community (e.g. donations, CSR)	128,800	PHP

Value for Customers

Harbor Star is committed to deliver quality service that meets customer requirements. The company continue to maintain its ISO certifications to ensure compliance to legal and other requirements and ensure continuous improvements of its system towards operational excellence.

As of 31 December 2020, Harbor Star, including its domestic subsidiaries and affiliates, has established operations in sixteen (16) base ports all over the country, providing services to approximately six thousand five hundred eighty-nine (6,589) ships as of yearend 2020. 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.

No. of Vessels Assisted



Employee Engagement and Well-Being

Mental Health Initiatives

The core of every strong organization is its people. Harbor Star subscribes to this and, as such, it has invested time and resources to ensure that the men and women of the company get the support they need, physically and mentally.

Thus, Harbor Star actively promotes both good health and excellent well-being among its personnel. We strive to achieve work-life balance among our people. Mental health -- how they think, feel, and act as they face life's many situations -- is a matter that gets priority from management.

In 2020, Harbor Star conducted two (2) webinars on mental health for all employees. We collaborated with United Coconut Planters Life Assurance Company, our health insurance provider, to facilitate this webinar. It was attended by office-based and sea-based employees via Zoom.

In this webinar, employees learned how to recognize signs that someone in the organization needs help -- for instance, less-than-expected production, difficulty meeting deadlines, frequent absences, emotional outbursts, and withdrawal. Participants were trained on how best to approach these situations, instead of simply ignoring them. A combination of increased attention and awareness and mental health resourcesand access to treatment can impact this important issue.

The other webinar related to mental health was about "Find your CALM amid the CHAOS," last September 18, 2020.

The webinar took note of the dire situation that pandemic has left on many. In the case of Harbor Star seafarers, some were unable to go home to their families as scheduled. They had to stay on-board the vessel until the government established protocols.

During this time, Harbor Star created a Facebook group exclusive for all seafarers and conducted various activities thru zoom and FB live sessions to stay connected with them 24/7. These sessions were done once or twice a week and included fun activities, sharing of experiences, discussion on work and non-work related issues.

Currently, we are coming up with a more defined program on mental health which aims to:

- create a workplace environment that promotes the mental wellbeing of all employees;
- tackle workplace factors that may negatively affect mental wellbeing, and develop management skills to promote mental well-being and manage mental health problems effectively;
- develop a culture based on trust, support, and mutual respect within the workplace;
- provide support and assistance for employees experiencing mental health difficulties.

Employee Management

Employee Data (401-1)

581
Total Number of Employees

541
Total Number of Male Employees

40
Total Number of Female Employees

13%
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	33%	13%
Philhealth	Y	13%	4%
Pag-ibig	Y	25%	22%
Parental leaves	Y	7.69%	1.10%
Vacation leaves	Y	100%	58%
Sick leaves	Y	100%	16%
Medical benefits (aside from PhilHealth)	Y	75%	7%
Housing assistance (aside from Pag- ibig)	N		
Retirement fund (aside from SSS)	Y		1%
Further education support	N		
Company stock options	Y	10%	4%
Telecommuting	Y	85%	9%
Flexible-working Hours	Y	100%	17%
Work From Home Arrangement	Y	85%	9%

Employee Training and Development (401-1)		
Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees	254.50	Hours
b. Male employees	6347.51	Hours
Average training hours provided to employees		
a. Female employees	6.36	Hours/Employee
b. Male employees	11.73	Hours/Employee

Diversity and Equal Opportunity (405-1)		
Disclosure	Quantity	Units
% of Female Workers in the Workforce	7	%
% of Male Workers in the Workforce	93	%
Number of employees from indigenous communities and/or vulnerable sector*	36 - single parents but no solo parent IDs; 1 HIV	#

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)	Location	Vulnerable Groups (if Applicable)	Does the particular operation have impact on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Mangrove Planting	Brgy. Banoyo, San Luis Batangas	Elderly	N	None	

Environmental Protection and Sustainable Operations

Harbor Star is committed to comply with the environmental requirements to protect the marine environment and reduce the carbon footprint of our operation to mitigate climate change. The company is aware of its responsibility in protecting the environment and also the community that might be affected by the adverse impact of the climate change and its operation.

Most of the environmental parameters of Harbor Star such as electricity consumption, water consumption, fuel consumption, solid and hazardous waste disposal are all decreased compared to 2019 however the Company believes that it is inappropriate to compare it with 2020 data due to the telecommuting or work from home set-up of employees, limited business travels and decrease of vessel's arrival during the COVID-19 pandemic.

However, Harbor Star will continue to improve environmental performance as the Company has ongoing replacement of energy efficiency lightings such as LED lighting in all of its offices. All air conditioning units and lightings are off during break time and after office hours to reduce energy consumption. The company is also implementing shoreline connection and tug-to-tug connection to reduce the fuel consumption. In 2021, Harbor Star will establish an Energy Conservation Committee (ENERCON) who will be responsible in monitoring and implementation of the energy conservation and carbon footprint reduction programs.

Resource Management

Energy Consumption within the Organization (302-1)

DIESEL 0.6998GJ

Electricity 271,442,48 kWh

Water Consumption within the Organization (303-3, 303-5)

Water Withdrawal 34,831.82 m^3

Water Consumption 34,831.82 m^3

Recycled and Reused 0

Energy Consumption within the Organization (306-4)		
Disclosure	Quantity	Units
Total Weight of Hazardous Waste Generated	22,300	Kg
Total Weight of Hazardous Waste Transported	22,300	Kg

Air Emissions: GHG (305-1, 305-2, 305-6)		
Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	18,720.53	Tonnes CO2e
Energy Indirect (Scope 2) GHG Emissions	165.38	Tonnes CO2e

Workplace Safety and Health

Employee's Safety and Health

The employee's health and safety is the utmost priority of Harbor Star. The Company has its own group of people who monitor and implement the occupational health and safety policies and procedures. Harbor Star continue to develop an interdependent culture of safety wherein employees will soon develop a behavior to act as a brother's keeper. The company opens a reporting structure of reporting of unsafe condition and practices through Hazard Reporting and Correction Program wherein employees are given an opportunity to do the hazard hunting and be responsible of their own findings to ensure the close out. Harbor Star recognizes that its people are its most vital resource thus the Company requires their involvement through participation and consultation during incident investigation, Hazard Identification Risk Assessment and Control (HIRAC), review of procedures and policies and other occupational health and safety programs.

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. Hazardous Waste Operations & Emergency Response (HAZWOPER)
13. Behavior Based Safety
14. Chemical Safe Handling
15. Work Improvements in Small / Medium Enterprises (WISE)
16. Work Improvements On-board
17. 8-hour OSH Training
18. Safety Management System (SMS) Manual
19. COVID Response Training
20. Mental Health Awareness

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety (403-9)		
Disclosure	Quantity	Units
Safe Man-Hours	3,662,066	Man-Hours
Number of Work-Related Injuries	4	#
Number of Work-Related Fatalities	0	#
Number of Work-Related Ill-Health	0	#
Number of Safety Drills	0	#

Harbor Star worked with zero fatalities and 1 Lost Time Injury this 2020 having our Lost Time Injury Rate (LTIR) is 0.05 (for every 200,000 manhours worked). Property damage frequency rate (PDFR) is 0.49 (for every 200,000 man-hours worked), which is 56% decreased compared to 2019.

Compliance to International Standards and Maintenance

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 ISO 45001:2018 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 complied with the reportorial requirements of the Department of Labor and Employment (DOLE). Maintaining an injury and illness free workplace while conserving and preserving the environment.

Harbor Star has secured certificate of no-violation to Occupational Health and Safety standards and, no pending case related to violation of environmental requirements.

Moving forward, as the industry moves toward higher standards of safety, maintenance, and employee development, the Company would continuously do its part in investing in our workforce to be at par with the global industry standards.


DNV·GL

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 10000366723-MSC-JAS-ANZ-PHL
Initial certification date: 14 August 2009
Valid: 09 September 2020 - 14 August 2021

This is to certify that the management system of

Harbor Star Shipping Services, Inc.
2224 A. Bonifico St., Corner Pres. Sergio Osmena Highway, 1233, 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:
ISO 45001:2018

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

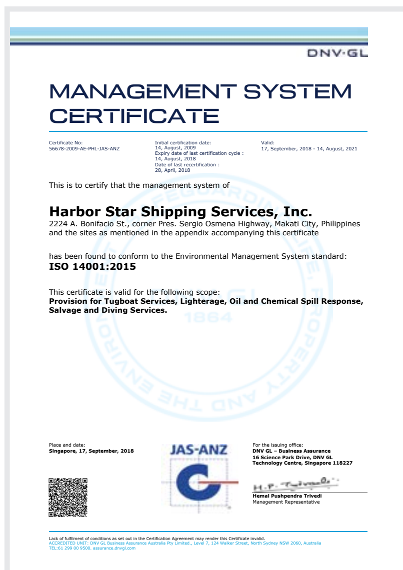
Place and date:
Singapore, 09 September 2020

JAS-ANZ

For the issuing office:
DNV GL - Business Assurance
16 Science Park Drive, DNV GL Technology Centre118227, Singapore

Saravanan Gopal
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 2 9922 1966. www.dnvgl.com/assurance


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.

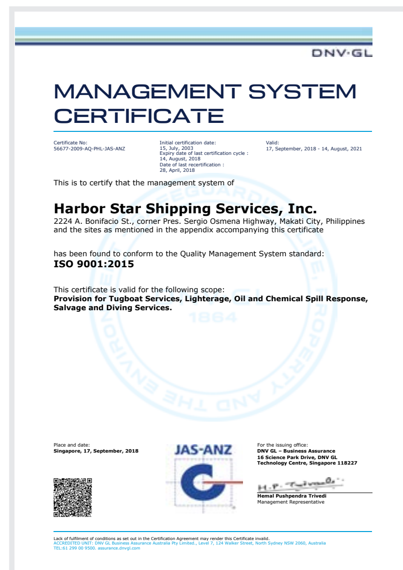
Place and date:
Singapore, 17, September, 2018

JAS-ANZ

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

JAS-ANZ

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

Hemal Pushpendra Trivedi
Management Representative

SUSTAINABLE DEVELOPMENT GOALS

14 LIFE BELOW WATER

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 50,000 healthy mangrove plants in the area today.

7 AFFORDABLE AND CLEAN ENERGY

Harbor Star Energy (Solar Power Farm)

As of 31 December 2020, ADGI has delivered 35,566,000 KWh of electricity to SOCOTECO II.

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				
	Organizational Profile			
GRI 102: General Disclosures 2016	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 12 to 15: Operational Highlights	
	102-3	Location of headquarters	Refer to Annual Report Inside Back Cover: 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 129 : HSSSI Base Ports	
	102-7	Scale of the organization	Refer to Page 38: Employee Management	
	102-8	Information on employees and other workers	Refer to Page 38: Employee Management	
	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	
	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 44: U.N. SDGs	
	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 9 : Message to Our Stockholders	
	Ethics and Integrity			
	102-16	Values, principles, standards, and norms of behavior	Refer to Annual Report Page 8 : Mission, Vision, Corporate Values	
	Governance			
	102-18	Governance structure	Refer to Annual Report Pages 17-22 : Corporate Governance	
	Stakeholder Engagement			
	102-40	List of stakeholder groups	Refer to Pages 34 – 35	
	102-41	Collective bargaining agreements		
	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 32	
	102-47	List of material topics	Refer to Page 32	
	102-48	Restatements of information	Refer to Page 32	
	102-49	Changes in reporting	Included COVID-19 Response Established Energy Conservation Committee (ENERCON) Committee	
	102-50	Reporting period	Refer to Page 31	
	102-51	Date of most recent report	2019 Sustainability Report (published in 2020)	
	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 45 - 48	
	102-56	External assurance	None	
MATERIAL TOPICS				
Economic Performance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 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 Page 36	

Environmental Performance

Energy

GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
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 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
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 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
	305-1	Direct (Scope 1) GHG Emissions	Refer to Page 40	
GRI 305: Air Emissions 2016	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 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
GRI 306: 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 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Page 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
	401-1	Employee Data	Refer to Page 38	
GRI 401: Employment 2016	401-2	Employee Benefits	Refer to Page 38	

Occupational Safety and Health				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
GRI 403: Diversity and Equal Opportunity	403-9	Occupational Safety and Health	Refer to Pages 41-42	
Training and Education				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
GRI 404 : Training and Education	404-1	Employee Training and Development	Refer to Page 39	
Diversity and Equal Opportunity				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Refer to Page 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
GRI 405: Occupational Health and Safety	405-1	Diversity and Equal Opportunity	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 32	
	103-2	The management approach and its components	Refer to Pages 32 - 33 Refer to Pages 1 - 3 : Company Profile	
	103-3	Evaluation of the management approach	Refer to Pages 32 - 33	
GRI 413 : Local Communities 2016	413-1	Significant Impacts on Local Communities	Refer to Page 39	

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Harbor Star Shipping Services, Inc. and its Subsidiaries is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, 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
EXECUTIVE VICE PRESIDENT

(Original Signed)
MR. DANY CLEO B. USON
CHIEF FINANCE OFFICER/TREASURER

pwc

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, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2020 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, 2020 and 2019;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2020;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2020;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2020; 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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph

Our Audit Approach

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

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

Key audit matters

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

Key audit 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, 2020 the Group has recognized net revenue amounting to P1.7 billion (2019 - P1.4 billion; 2018 - P1.4 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 tests 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, 2020 and 2019.

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

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, respectively. 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, 2020 and 2019 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 (WACC), with reference to selected comparable companies. We have involved our valuation experts to independently assess the reasonableness of the inputs used in the WACC calculation with reference to comparable companies. • Other key assumptions We compared other key assumptions such as terminal growth rate to externally derived data. Further, we tested the reasonableness of costs and expenses based on historical results and future economic outlook.

Key Audit Matter	How our audit addressed the Key Audit Matter
	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.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
Page 4

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.

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 5, 2021 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 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
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 January 21, 2023

Makati City
May 10, 2021

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, 2020, on which we have rendered the attached report dated May 10, 2021. The supplementary information shown in Annex 68-C, Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration and A Map Showing the Relationships between and among the Parent Company and its Subsidiaries and Associates as required by Part I Section 5 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 5, 2021 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 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
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 January 21, 2023

Makati City
May 10, 2021

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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated May 10, 2021. 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 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 5, 2021 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 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
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 January 21, 2023

Makati City
May 10, 2021

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	2	272,482,354	99,449,755
Trade and other receivables, net	3	742,962,145	552,913,317
Advances to a related party	21	-	553,165
Prepayments and other current assets	4	298,087,640	546,847,612
Total current assets		1,313,532,139	1,199,763,849
Non-current assets			
Property and equipment at revalued amounts, net	6	1,435,466,294	1,609,275,892
Property, plant and equipment at cost, net	7	2,331,965,971	2,539,309,392
Right-of-use assets, net	22	78,064,029	138,247,262
Computer software, net	8	23,576,028	27,859,777
Investment properties	9	48,540,371	47,626,987
Investments in associates	5	198,030,532	116,498,458
Goodwill	1.2	154,207,159	154,207,159
Deferred income tax assets, net	23	33,776,867	24,452,501
Other non-current assets, net	10	296,852,142	287,418,370
Total non-current assets		4,600,479,393	4,944,895,798
Total assets		5,914,011,532	6,144,659,647
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	474,918,043	416,692,840
Short-term loans	12	498,000,000	499,750,000
Borrowings, current portion	12	2,292,303,962	2,045,850,208
Lease liabilities, current portion	22	5,044,918	17,014,185
Advances from related parties	21	7,815,256	7,796,910
Income tax payable		315,421	-
Total current liabilities		3,278,397,600	2,987,104,143
Non-current liabilities			
Trade payables, net of current portion	11	11,732,037	15,738,600
Non-current portion of loans payable	12	69,289	331,195
Borrowings, net of current portion	12	1,300,387,582	1,707,246,931
Lease liabilities, net of current portion	22	35,587,910	74,747,877
Retirement benefit obligation	20	124,458,585	113,617,579
Total non-current liabilities		1,472,235,403	1,911,682,182
Total liabilities		4,750,633,003	4,898,786,325
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	70,903,774	80,153,162
Cumulative translation difference	28.24	(6,580,388)	(6,768,327)
Fair value reserve on financial assets at fair value through other comprehensive income		(160,000)	(160,000)
Treasury shares	13	(37,614,990)	(37,614,990)
Retained earnings		93,971,704	181,933,854
		1,150,010,732	1,247,034,331
Non-controlling interest		13,367,797	(1,161,009)
Total equity		1,163,378,529	1,245,873,322
Total liabilities and equity		5,914,011,532	6,144,659,647

The notes on pages 1 to 67 are integral part of these consolidated financial statements.

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, 2020
(All amounts in Philippine Peso)

	Notes	2020	2019	2018
Service income, net	15	1,682,550,411	1,396,054,651	1,436,968,376
Cost of services	16	(1,228,754,317)	(1,111,421,445)	(950,966,767)
Gross profit		453,796,094	284,633,206	486,001,609
General and administrative expenses	17	(314,961,506)	(344,714,704)	(276,585,835)
Net impairment losses on financial assets	3,21	(100,154,554)	(84,118,102)	(7,950,572)
Other income (loss), net	19	67,265,192	(14,618,721)	53,441,515
Operating profit (loss)		105,945,226	(158,818,321)	254,906,717
Finance cost				
Interest expense	12,22	(274,705,862)	(256,617,636)	(102,350,268)
Foreign exchange income (loss) on borrowings	12,24	-	(28,546)	-
		(274,705,862)	(256,646,182)	(102,350,268)
Share in profit of associates	5	82,309,037	15,916,905	3,046,290
Profit (Loss) before income tax		(86,451,599)	(399,547,598)	155,602,739
Income tax benefit (expense)	23	1,521,629	23,292,113	(48,691,357)
Profit (Loss) for the year		(84,929,970)	(376,255,485)	106,911,382
Other comprehensive income (loss)				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	2,017,509	(11,084,958)	1,284,995
Share in other comprehensive income (loss) of associates	5	-	(282,000)	(231,000)
Total other comprehensive income (loss), net of tax		2,017,509	(11,366,958)	1,053,995
Total comprehensive income (loss) for the year		(82,912,461)	(387,622,443)	107,965,377
Profit (Loss) attributable to:				
Owners of the parent		(99,229,074)	(370,200,311)	99,240,852
Non-controlling interest		14,299,104	(6,055,174)	7,670,530
		(84,929,970)	(376,255,485)	106,911,382
Total comprehensive income (loss) attributable to:				
Owners of the parent		(97,211,565)	(381,567,269)	100,294,847
Non-controlling interest		14,299,104	(6,055,174)	7,670,530
		(82,912,461)	(387,622,443)	107,965,377
Earnings (Loss) per share				
Basic and diluted	14	(0.11)	(0.41)	0.11

The notes on pages 1 to 67 are integral part of these consolidated financial statements.

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, 2020
(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, 2018		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 income 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	-	-	-
Transactions 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		-	-	-	-	-	-	(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		-	-	-	-	-	-	(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 loss											
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 loss		-	-	-	-	-	-	(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
Comprehensive loss											
Loss for the year		-	-	-	-	-	-	(99,229,074)	(99,229,074)	14,299,104	(84,929,970)
Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Remeasurements on retirement benefits, net of tax	20	-	-	-	-	-	-	2,017,509	2,017,509	-	2,017,509
Share of other comprehensive loss of associate	5	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	-	(97,211,565)	(97,211,565)	14,299,104	(82,912,461)
Depreciation transfer of revaluation surplus	6	-	-	-	(9,249,388)	-	-	9,249,388	-	-	-
Translation adjustments	28.24	-	-	-	-	187,939	-	27	187,966	229,702	417,668
Balances at December 31, 2020		907,857,870	(37,614,990)	121,632,762	70,903,774	(6,580,388)	(160,000)	93,971,704	1,150,010,732	13,367,797	1,163,378,529

The notes on pages 1 to 67 are integral part of these consolidated financial statements.

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, 2020
(All amounts in Philippine Peso)

	Notes	2020	2019	2018
Cash flows from operating activities				
Profit (Loss) before income tax		(86,451,599)	(399,547,598)	155,602,739
Adjustments for:				
Depreciation and amortization	6,7,8,10,16,17	445,085,097	418,503,707	290,335,950
Net impairment losses on financial assets	3,21	100,154,554	84,118,102	7,950,572
Provision for loss on construction advances	4,19	21,580,622	2,940,464	-
Amortization of right-of-use assets	22	19,262,991	19,129,320	-
Retirement benefit expense	18,20	16,512,770	16,332,353	13,154,118
Provision for impairment of input VAT	10,17	9,058,444	9,058,444	6,470,663
Amortization of computer software	8	6,797,074	-	-
Direct write-off of accounts receivable	17	6,825,051	5,534,061	-
Provision for assessment	17	601,902	28,672,234	-
Reversal of property and equipment		6,165	-	-
Unrealized foreign exchange loss (gain), net	24	311,648	1,755,520	(1,633,099)
Loss on sale of property, plant and equipment	19	(4,771,817)	-	56,871,044
Gain on reversal of finance lease liability	19	(8,703,120)	(2,363,989)	-
Share in profit of associate	5	(82,309,037)	(15,916,905)	(3,046,290)
Interest income	2,19	(404,660)	(886,384)	(418,559)
Interest expense	12,22	274,705,862	256,617,636	102,350,268
Operating profit before changes in working capital		718,261,947	423,946,965	627,637,406
Decrease (Increase) in:				
Prepayments and other current assets		227,179,350	(218,587,862)	(190,984,208)
Advances to a related party		(1,183,533)	(553,159)	399,994
Other non-current assets		(18,492,216)	(45,732,478)	(50,184,615)
Trade and other receivables		(290,173,736)	(97,584,617)	(152,363,409)
Increase (Decrease) in:				
Trade and other payables		131,450,147	1,082,811,469	61,602,477
Advances from related parties		570,766	(8,211,843)	7,796,910
Cash generated from operations		767,612,725	1,136,088,475	303,904,555
Interest received		404,660	886,384	418,559
Income taxes paid		(8,351,961)	(25,155,047)	(76,472,775)
Retirement obligation paid	20	(2,789,610)	(1,624,345)	(544,400)
Net cash provided by operating activities		756,875,814	1,110,195,467	227,305,939
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment		11,037,179	-	29,857,636
Dividends received	5	776,963	-	800,000
Acquisition of investment properties	9	(913,384)	-	(4,150,000)
Acquisition of subsidiary and associates, net of cash acquired	1.2	-	-	(276,908,036)
Acquisition of property, plant and equipment and computer software	6,7,8	(237,350,078)	(2,302,051,107)	(510,358,815)
Increase in pre-development cost	1.2	-	-	(739,339,124)
Net cash used in investing activities		(226,449,320)	(2,302,051,107)	(1,500,098,339)
Cash flows from financing activities				
Proceeds from borrowings	12	185,222,121	3,993,012,609	3,385,777,118
Payment of finance lease liabilities	22	-	-	(3,557,070)
Payment of lease liabilities	22	(5,628,886)	(26,535,598)	-
Acquisition of treasury shares	13	-	(26,761,320)	(10,853,670)
Net proceeds from (payments of) short-term loans	12	(1,750,000)	34,750,000	(95,000,000)
Interest paid	12	(179,176,315)	(283,221,324)	(98,340,623)
Interest payments on lease liabilities	22	(1,193,385)	(6,225,067)	-
Payments of borrowings	12	(354,684,359)	(2,708,926,799)	(1,986,876,860)
Net cash provided by (used) financing activities		(357,210,824)	976,092,501	1,191,148,895
Net increase (decrease) in cash		173,215,670	(215,763,139)	(81,643,505)
Cash balance				
Beginning of year		99,449,755	316,560,503	398,114,751
Effect of foreign exchange rate changes on cash		(183,071)	(1,347,609)	89,257
End of year	2	272,482,354	99,449,755	316,560,503

The notes on pages 1 to 67 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2020 and 2019 and
for each of the three years in the period ended December 31, 2020
(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 at December 31, 2020, the Parent Company has 120 shareholders, 110 of which holds at least 100 common shares (2019 - 120). The Group's major shareholders are its own directors holding 68.87% of its total issued shares and the remaining 31.12% of total issued shares as at December 31, 2020 and 2019 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 581 employees as at December 31, 2020 (2019 - 622 employees).

1.2 Significant developments

Acquisition 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, a new subsidiary. On the same date, which became the acquisition date, a total of 599,997 shares were 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 the 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. 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 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 goodwill is attributable to the continuing operations of the acquired businesses. It will not be deductible for tax purposes.

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

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

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 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.

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 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.

In 2020, ADGI commenced commercial operations for the entire year. On January 26, 2021, SOCOTECO II and ADGI filed an Application on ERC Case No. 2013-2017 RC seeking the Commission's approval of their Renewable Energy Supply Agreement (RESA) for issuance of final authority and collection for the supply of power based on the RESA as at December 31, 2020. ADGI has submitted to the ERC all documents to support their claims and is waiting for final ruling from the ERC.

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 the 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 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 the SEC based on the BOD resolution issued last March 6, 2017. On July 7, 2020, the SEC approved the amendment of the AOI.

On February 2, 2021, the BOD has been informed that HSEAT would be closed due to continuing expenses with no operations. On April 23, 2021, the BOD has been informed that HSEAM would be suspending its operations while the Group is complying with the requirements to permanently wind-up.

On September 8, 2020, the Parent Company has been accredited by the Philippine Contractors Accreditation Board (PCAB) for General Building and Engineering. The Parent Company is licensed to perform both private and public construction work which includes building, rehabilitating and repairing roads, piers, terminations and other infrastructure.

On March 17, 2021, the Parent Company has subscribed 33% (29,999,997 shares) of the 90,000,000 authorized shares of Harbor Star Construction Corporation (HSCC) and paid 100% of the subscription amounting to P30,000,000, which gave the Parent Company 100% controlling interest over HSCC.

On April 23, 2021, the SEC has approved the Certificate of Incorporation of HSCC. HSCC's primary purpose is to engage in the business of general building construction and other allied business including the constructing, developing, repairing, altering, enlarging, removing, restoring, designing, or otherwise engaging in any construction jobs of all description or works.

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 2020	2019	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. 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 is at Unit 202 Midway Court Building, EDSA Mandaluyong, Metro Manila and principal place of business is at 2224 A. Bonifacio St. corner Pres. Sergio Osmeña Highway, Brgy. Bangkal, Makati City.

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). ADF1 has not started commercial operations as at December 31, 2020. 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). ADF2 has not started commercial operations as at December 31, 2020. 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). 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%	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, 2020 and 2019.

Critical accounting judgments

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

The Parent Company follows the guidance of Philippine Financial Reporting Standards (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, 2020 and 2019.

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

(b) 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.

	2020	2019
Total current assets	178,915,406	125,999,907
Total non-current assets	125,958,745	139,188,030
Total current liabilities	286,427,538	273,157,341
Equity (Capital deficiency)	18,446,613	(7,969,404)
Total revenue	119,625,723	79,555,792
Total expenses	(93,627,370)	(90,565,201)
Total income (loss) for the year	25,998,353	(11,009,409)
Total comprehensive income (loss) for the year	25,998,353	(11,009,409)
Net cash used in operating activities	61,310,961	188,237,998
Net cash provided by financing activities	5,321,253	(59,066,367)

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 May 10, 2021.

Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2020	2019
Cash in banks	263,745,222	91,252,861
Cash equivalents	6,726,775	6,141,850
Cash on hand	2,010,357	2,055,044
	272,482,354	99,449,755

Interest income earned from cash in banks and cash equivalents for the year ended December 31, 2020 amounted to P404,660 (2019 - P886,384; 2018 - P418,559) (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:

	2020	2019
Trade receivables	724,407,286	427,419,698
Allowance for impairment of trade receivables	(169,265,262)	(70,536,709)
	555,142,024	356,882,989
Advances to officers, employees and others	208,471,960	221,665,231
Allowance for impairment of advances to employees and others	(23,625,837)	(34,156,541)
	184,846,123	187,508,690
Deposit bond	-	8,521,638
Others	2,973,998	-
	742,962,145	552,913,317

Advances to employees represent outstanding balances with existing employees and regular collections are made through liquidation and salary deduction.

As at December 31, 2020, advances to officers representing key management personnel amounted to P77,925,701 (2019 - P75,682,901) (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, 2020 and 2019 approximates its fair value as at reporting date.

Allowance for impairment

The Group applies 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, 2020 and 2019 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.

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

	Note	2020	2019
Beginning of year		104,693,250	28,056,479
Provision, net		98,417,856	76,728,154
Write-off		(10,036,539)	-
Cumulative translation adjustment	28.24	(183,468)	(91,383)
End of year		192,891,099	104,693,250

For the year ended December 31, 2020, a net provision for impairment of trade and other receivables amounting to P98,417,856 (2019 - P76,728,154; 2018 - P7,950,572) was charged to net impairment losses on financial assets in the statements of total comprehensive income, as a result of management's assessment of collectability. Of this amount, P2,397,884 is for impairment of advances to officers, employees and others of the Group in 2020 (2019 - P34,156,541; 2018 - nil). In 2020, the Group wrote off previously provided uncollectible advances to officers, employees and others amounting to P12,928,588.

In 2020, the Group has directly written off trade receivables amounting to P6,825,051 (2019 - P5,534,061; 2018 - 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	2020	2019
Construction advances		221,340,500	170,230,644
Allowance for construction advances	19	(24,521,086)	(2,940,464)
		196,819,414	167,290,180
Prepayments		53,781,704	42,807,739
Advances to suppliers		41,169,286	293,820,180
Refundable deposits	22	3,902,556	15,840,778
Input value-added tax (VAT), net	10	2,414,680	27,088,735
		298,087,640	546,847,612

Construction advances pertain to advances to suppliers, contractors and employees related to construction projects subject to liquidation.

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.

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

Movements in the provision for impairment of construction advances for the years ended December 31 are as follows:

	Note	2020	2019
Beginning of year		2,940,464	-
Provision for loss on construction advances	19	21,580,622	2,940,464
End of year		24,521,086	2,940,464

Allowance for construction advances pertain to impaired portion of uncompleted projects charged to other expenses (Note 19).

Note 5 - Investments in associates

Investments in associates as at December 31 consist of:

	2020	2019
GETC	15,242,514	14,965,723
HEMSI	182,788,018	101,532,735
	198,030,532	116,498,458

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

	2020	2019	2018
Beginning of year	116,498,458	100,863,553	13,479,290
Additions	-	-	85,368,973
Share in net profit	82,309,037	15,916,905	3,046,290
Share in other comprehensive loss	-	(282,000)	(231,000)
Dividends	(776,963)	-	(800,000)
End of year	198,030,532	116,498,458	100,863,553

(a) GETC

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

	2020	2019	2018
Beginning of year	14,965,723	14,498,937	13,479,290
Share in net profit*	276,791	748,786	2,050,647
Share in other comprehensive loss	-	(282,000)	(231,000)
Dividends received	-	-	(800,000)
End of year	15,242,514	14,965,723	14,498,937

**Share in net profit include share in prior year adjustment to equity*

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

	2020	2019	2018
Total current assets	34,508,667	25,715,520	15,963,086
Total non-current assets	41,879,265	49,343,215	56,821,724
Total current liabilities	175,361	230,119	290,127
Net assets or equity	76,212,571	74,828,616	72,494,683
Total revenue	11,375,000	14,520,000	25,811,667
Total profit for the year	1,246,456	4,058,645	13,971,955
Total other comprehensive loss	-	(1,410,000)	(1,155,000)
Total comprehensive income	1,246,456	2,648,645	12,816,955

	2020	2019	2018
Net assets, January 1	74,828,616	72,494,683	67,396,450
Profit for the year	1,246,456	4,058,645	13,971,955
Other comprehensive loss	-	(1,410,000)	(1,155,000)
Dividends declared	-	-	(4,000,000)
Adjustment to equity	137,499	(314,712)	(3,718,722)
Net assets, December 31	76,212,571	74,828,616	72,494,683
Group’s share in %	20%	20%	20%
Group’s share in net assets	15,242,514	14,965,723	14,498,936

(b) HEMSI

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

	2020	2019	2018
Beginning of year	101,532,735	86,364,616	-
Investment in HEMSI	-	-	85,368,973
Share in net profit*	82,032,246	15,168,119	995,643
Dividends received	(776,963)	-	-
End of year	182,788,018	101,532,735	86,364,616

**Share in net profit include share in prior year adjustment to equity*

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

	2020	2019	2018
Total current assets	375,000,219	138,456,360	114,842,721
Total non-current assets	176,188,530	151,025,666	166,823,389
Total current liabilities	72,858,602	56,564,671	40,054,035
Total non-current liabilities	47,918,811	85,825,057	122,273,975
Net assets or equity	430,411,336	147,092,298	119,338,100
Total revenue	693,132,647	252,927,907	294,173,588
Total profit for the year	292,320,115	32,414,682	9,956,436
Total comprehensive income	292,320,115	32,414,682	9,956,436

	2020	2019	2018
Net assets, January 1	327,524,954	278,595,535	109,381,664
Profit for the year	292,350,115	32,414,682	9,956,436
Goodwill	-	-	159,257,435
Dividends declared	(2,506,332)	-	-
Adjustment to equity	(27,699,966)	16,514,737	-
Net assets, December 31	589,668,771	327,524,954	278,595,535
Group's share in %	31%	31%	31%
Group's share in net assets	182,797,319	101,532,735	86,364,616

Critical accounting judgment

Impairment of investments in associates

The Group's investments 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 investments in associates and the amount and timing of recorded provision for any period.

As at December 31, 2020 and 2019, 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 as at December 31 are as follows:

	Note	2020	2019
As at January 1			
Revalued amount		3,683,096,274	3,504,162,041
Accumulated depreciation		(2,073,820,382)	(1,855,075,128)
Net carrying amount		1,609,275,892	1,649,086,913
Year ended December 31			
Opening net carrying amount		1,609,275,892	1,649,086,913
Additions		49,148,377	178,934,233
Disposal			
Cost		(76,106,973)	-
Accumulated depreciation		69,868,566	-
Depreciation	16	(216,719,568)	(218,745,254)
Closing net carrying amount		1,435,466,294	1,609,275,892
At December 31			
Revalued amount		3,656,137,678	3,683,096,274
Accumulated depreciation		(2,220,671,384)	(2,073,820,382)
Net carrying amount		1,435,466,294	1,609,275,892

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:

	2020	2019
As at January 1		
Cost	2,648,494,812	2,469,560,579
Accumulated depreciation	(1,153,723,437)	(961,435,873)
Net carrying amount	1,494,771,375	1,508,124,706
Year ended December 31		
Opening net carrying amount	1,494,771,375	1,508,124,706
Additions	49,148,376	178,934,233
Cost	(76,106,973)	-
Accumulated depreciation	69,868,566	-
Depreciation	(203,506,156)	(192,287,564)
Closing net carrying amount	1,334,175,188	1,494,771,375
At December 31		
Cost	2,621,536,215	2,648,494,812
Accumulated depreciation	(1,287,361,027)	(1,153,723,437)
Net carrying amount	1,334,175,188	1,494,771,375

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

	Note	2020	2019
Beginning of year		114,504,517	140,962,208
Amortization of revaluation increment through depreciation		(13,213,411)	(26,457,691)
End of year, gross of tax		101,291,106	114,504,517
Deferred income tax liability (at 30%)	23	(30,387,332)	(34,351,355)
End of year, net of tax		70,903,774	80,153,162

Amortization of revaluation increment, net of tax in 2018 amounted to P18,498,776.

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12). As at December 31, 2020, the Group's tugboats used as collaterals have a net carrying amount of P1,147,785,508 (2019 - P1,091,472,846).

In 2020, the Group sold a tugboat with a carrying value of P6,238,407 for a total consideration of P10,000,000 resulting in a gain amounting to P3,761,593 (Note 19). The total consideration was received in cash during the year. No tugboat was disposed of in 2019.

Critical accounting estimates

(a) Useful lives of property and equipment at revalued amounts

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

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

(b) 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 an independent valuation specialist 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 a 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 Group is considering revaluing its tugboats in 2021.

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

Details of property, plant and equipment as at December 31 are as follows:

	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, 2019									
Cost	39,556,011	505,926,603	96,006,650	59,513,806	176,458,404	5,071,873	12,185,456	71,315,726	966,034,529
Accumulated depreciation	-	(230,480,659)	(31,132,554)	(40,054,146)	(130,466,657)	(4,135,505)	(5,127,237)	-	(441,396,758)
Cumulative translation adjustments	-	-	-	-	(283,357)	-	-	-	(283,357)
Net carrying amount	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
Opening net carrying amount	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
Cost	-	-	-	-	(714,379)	-	-	-	(714,379)
Accumulated depreciation	-	-	-	-	714,379	-	-	-	714,379
Reclassification	-	104,245,347	-	-	-	-	-	(104,245,347)	-
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
Year ended December 31, 2020									
Opening 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
Additions	-	3,716,516	350,375	5,092,905	12,091,797	331,251	4,230,541	-	25,813,385
Reversal	-	-	-	-	-	(6,165)	-	-	(6,165)
Disposal	-								
Cost	-	-	-	(1,616,864)	-	-	-	-	(1,616,864)
Accumulated depreciation	-	-	-	1,589,910	-	-	-	-	1,589,910
Depreciation	-	(87,678,215)	(96,569,155)	(7,008,532)	(33,731,435)	(837,621)	(2,540,571)	-	(228,365,529)
Translation adjustments	-	-	-	-	(5,046,245)	288,087	-	-	(4,758,158)
Closing net carrying amount	39,556,011	272,615,110	1,836,578,024	15,677,102	141,879,162	1,203,878	6,312,564	18,144,120	2,331,965,971
At December 31, 2020									
Cost	39,556,011	698,312,830	2,015,978,195	69,056,357	337,500,680	6,516,423	16,490,640	18,144,120	3,201,555,256
Accumulated depreciation	-	(425,697,720)	(179,400,171)	(53,379,255)	(190,021,475)	(5,591,093)	(10,178,076)	-	(864,267,790)
Cumulative translation adjustments	-	-	-	-	(5,600,043)	278,548	-	-	(5,321,495)
Net carrying amount	39,556,011	272,615,110	1,836,578,024	15,677,102	141,879,162	1,203,878	6,312,564	18,144,120	2,331,965,971

In 2019, the Group's pre-development cost from the ADGI acquisition amounting to P1.83 billion was reclassified to property, plant and equipment, upon start of ADGI's operations. Pre-development cost 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, 2020, building and building improvements include capitalized costs on solar power plant amounting to P1.78 billion (2019 - P1.87 billion).

In 2019, it was assessed based on internal evaluations that they will be able to utilize the solar power plant for up to 20 years. In 2020 during its first full year of operations, ADGI management has reassessed the useful life of solar power plant. Based on internal evaluations, they will be able to utilize the solar power plant between 10 and 30 years which is also aligned with industry practice. As such, the management has approved the change in estimated useful life of solar power plant from 20 years to between 10 and 30 years.

The change in estimated useful life is considered to be a change in accounting estimate accounted for prospectively by recognizing the effect of the change in the period change and future periods until the end of the useful life. The net effect of the change in useful life is a decrease in depreciation expense amounting to P3.1 million annually starting 2020.

As at December 31, 2020, the cost of fully depreciated property, plant and equipment still used in operation amounted to P100,722,449.53 (2019 - P182,383,434).

As at December 31, 2020, the Group's unpaid acquisitions of property, plant and equipment amounted to P27,640,821 (2019 - P43,640,685).

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

	Notes	2020	2019	2018
Cost of services	16	204,530,997	176,013,876	69,981,038
General and administrative expenses	17	19,050,321	20,475,024	22,635,152
Other income (loss), net	19	4,784,211	320,892	-
		228,365,529	196,809,792	92,616,190

In July 2019, ADGI started its commercial operations and recognized depreciation expense of P43.85 million in relation to the solar power plant capitalized. In 2020, total depreciation amounted to P88.60 million.

In 2020, the ADGI reversed furniture and fixtures acquired in 2019 and its corresponding accounts payable amounting to P6,165 upon return of the furniture to the supplier.

Construction-in-progress as at December 31, 2020 and 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 P8.4 million and P271.0 million, respectively as at December 31, 2020 (2019 - P9.9 million and P222.3 million).

In 2020, the Parent Company sold a transportation equipment with a carrying value of P26,955 for a total consideration of P1,037,179 resulting in a gain amounting to P1,010,224 (Note 19). The total consideration was received in cash during the year. In 2019, the Parent Company has disposed of diving and oil spill equipment with a carrying value of nil. No gain or loss on disposal was recognized in 2019.

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

(a) Impairment of property, plant and equipment

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, 2020 and 2019, 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.

(b) Decommissioning cost

As at reporting date, ADGI is still discussing with lessor and confirming its contractual obligation to dismantle facilities upon termination of its lease agreement. Hence, management has assessed any obligation to be less likely as at reporting date.

Note 8 - Computer software, net

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

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
Year ended December 31, 2020	
Opening net carrying amount	27,859,777
Additions	2,513,325
Amortization (Note 17)	(6,797,074)
Closing net carrying amount	23,576,028
At December 31, 2020	
Cost	33,597,177
Accumulated amortization	(10,021,149)
Net carrying value	23,576,028

Management assessed that there are no indicators that computer software is impaired as at December 31, 2020 and 2019.

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 are as follows:

	2020	2019
Beginning of year	47,626,987	47,626,987
Additions	913,384	-
End of year	48,540,371	47,626,987

The estimated fair value of the investment properties as at December 31, 2020 and 2019 amounted to P321.9 million and P284.9 million, respectively, based on the recent selling price per square meter and land reclassification to industrial in 2017.

Direct operating expenses amounting to P2.0 million (2019 - P4.6 million), pertaining to the payment for revocable permit application and professional fee of Lemery property, were incurred for the year ended December 31, 2020. There was no income earned related to the investment properties for the years ended December 31, 2020 and 2019.

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, 2020 and 2019, 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	2020	2019
Input VAT, net of output VAT		315,165,251	294,978,325
Allowance for impairment of input VAT		(59,984,802)	(50,926,358)
Input VAT, net		255,180,449	244,051,967
Performance bond		2,112,522	2,186,512
Lease guarantee deposit	22	55,000	55,000
Financial asset at fair value through other comprehensive income (FVOCI)		810,000	810,000
Leasehold rights, net		38,643,773	40,265,240
Refundable deposits		50,398	
Others		-	49,651
		296,852,142	287,418,370

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

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

	Note	2020	2019
Beginning of year		50,926,358	41,867,914
Provision for impairment	17	9,058,444	9,058,444
End of year		59,984,802	50,926,358

The Group's leasehold rights pertain to the following:

(a) The Parent Company has existing leasehold rights for a piece of land in San Vicente, Palawan for 25 years.

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

	Note	2020	2019
Cost			
As at January 1		20,598,235	19,010,000
Additions		-	1,588,235
As at December 31		20,598,235	20,598,235
Accumulated amortization			
As at January 1		(769,929)	-
Amortization	17	(769,929)	(769,929)
As at December 31		(1,539,858)	(769,929)
Net book value		19,058,377	19,828,306

(b) ADF1 and ADF2 have existing rights over a property in General Santos City for 25 years.

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

	Note	2020	2019
Cost			
As at January 1 and December 31		21,288,472	21,288,472
Accumulated amortization			
As at January 1		(851,538)	-
Amortization	17	(851,538)	(851,538)
As at December 31		(1,703,076)	(851,538)
Net book value		19,585,396	20,436,934

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, 2020, P2,414,680, presented under "Prepayments and other current assets" in the statement of financial position (2019 - P27,088,735) (Note 4), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P255,180,449 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2019 - P244,051,967).

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 as at December 31 consist of:

	Note	2020	2019
Current			
Trade payables		255,834,692	197,676,965
Accrued expenses			
Interest		105,249,113	25,292,372
Construction costs		31,441,671	71,931,276
Tug assistance		29,898,476	11,884,592
Fuel		11,980,482	25,662,531
Marketing		7,826,685	12,178,560
Others		2,870,069	2,363,703
Advances from officers and employees	21	11,755,963	10,611,723
Unearned income		7,188,709	16,940,552
Payable to government agencies		5,661,705	4,205,057
Provisions		3,670,726	37,945,509
Others		1,539,752	-
		474,918,043	416,692,840
Non-current			
Trade payable		11,732,037	15,738,600

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

In 2019, the Group entered into a purchase agreement with one supplier for the purchase of tugboat to be settled in twenty-four (24) monthly installment payments bearing an interest rate of 2.87%. In 2020, the terms of purchase agreement were modified by extending the monthly installments to thirty-six (36) months bearing an interest rate of 5.30%. For the year-ended December 31, 2020, total interest expense charged to total comprehensive income amounted to P2,875,255 (2019 - P641,813).

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 of employees in relation to the construction projects of the Group.

The Group has outstanding advances from officers amounting to P1,516,258 in 2020 and 2019 (Note 21).

Unearned income pertains to advance collection from customers. Unearned income amounting to P16,940,552 and P7,882,614 as at January 1, 2020 and 2019, was recognized as service income in 2020 and 2019, respectively.

Provisions pertain to estimated separation pay and assessments.

Movement in provisions for the years ended December 31 are as follows:

	Note	2020	2019
January 1		37,945,509	-
Provisions	17	601,902	37,945,509
Utilization		(34,876,685)	-
December 31		3,670,726	37,945,509

Note 12 - Short-term loans and borrowings

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

	2020	2019
Current		
Short-term loans	498,000,000	499,750,000
Current portion of long-term borrowings	2,292,303,962	2,045,850,208
Non-current		
Non-current portion of loans payable	69,289	331,195
Long-term borrowings	1,300,387,582	1,707,246,931
	4,090,760,833	4,253,178,334

Movements of long-term borrowings during the year are as follows:

	2020	2019
Beginning balance	3,753,428,334	2,469,313,978
Proceeds	185,222,121	3,993,012,609
Payments	(354,684,359)	(2,708,926,799)
Non-cash adjustment	8,794,736	-
Total	3,592,760,832	3,753,399,788
Unrealized foreign exchange loss	-	28,546
Ending balance	3,592,760,832	3,753,428,334

The fair value of long-term borrowings approximates its carrying values as at December 31, 2020 and 2019.

Parent Company

As at December 31, 2020 and 2019, the Parent Company's unsecured short-term loans from local banks bear interest rates ranging from 4.8% to 6.7% and have maturity of one (1) to three (3) months from reporting date.

As at December 31, 2020 and 2019, the Parent Company's long term borrowings bear annual interest rate ranging from 4.5% to 13.65% are payable in various installments maturing on various dates up to 2022. These are secured by chattel mortgages to certain Parent Company-owned tugboats (Note 6), transportation equipment and barges (Note 7).

The long-term borrowings agreements require compliance by the Parent Company to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2020, 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 in 2019 (2020 - nil).

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

Total interest expense from borrowings charged to profit or loss for the year ended December 31, 2020 amounted to P175,669,164 (2019 - P192,288,461). There are no qualifying assets as at December 31, 2020 and 2019, hence, no borrowing costs are capitalized.

Due to the impact of the COVID-19 pandemic and community quarantine, the Parent Company has entered into loan restructuring agreement with Rizal Commercial Banking Corporation (RCBC) and Asia United Bank (AUB) in 2020.

On October 16, 2020, the Parent Company availed of the Credit Assistance and Recovery (CARE) Program of RCBC. The Parent Company entered into a loan conversion agreement whereby its outstanding promissory notes amounting to P1.14 billion and term loan amounted to P146.3 million with a maturity date ranging from October 2019 to November 2020 and from March to July 2019, respectively, was converted into 57 monthly term loan of P1.291 billion with the principal amount payable in 48 monthly installments of P11.125 million starting July 15, 2021 and a balloon payment of P757 million on the 57^{th} month on July 14, 2025. Under the loan conversion agreement, compliance with debt covenants will be effective starting 2021 upon the start of repayment.

On July 13, 2020, the Parent Company received the Notice of Approval of Amendments to its outstanding borrowings with AUB amounting to P142.1 million. The amendments to the borrowings include the extension of nine (9) months from original maturity date of September 27, 2022, principal amount to be repaid in 11 quarterly amortizations commencing nine (9) months from December 23, 2020 and a revised fixed interest rate of 7.5% per annum from 6.25%.

<u>ADGI</u>

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, inclusive of a one (1) year and six (6) months-grace period, with the principal payable in 42 quarterly amortizations with 35% balloon payment due at maturity to commence at the end of seventh (7^{th}) quarter from date of initial drawdown until fully paid. The loan is covered by various securities which include among others 100% ownership shares pledged, continuing deed of assignment of receivables from customers, continuing deed of assignment of rights arising from engineering, procurement and construction contracts with the DOE. The purpose of the borrowing is to finance the construction of the 26.88-megawatt solar power plant in General Santos City.

On February 12, 2020, ADGI entered into an Amendment to the Omnibus Loan Agreement with DBP and agreed on a change in repayment terms. ADGI shall repay the loan in 12 years, inclusive of two (2) years grace period, the principal payable in 40 quarterly amortizations with thirty-five percent (35%) balloon payment due at maturity to commence at the end of the ninth ($9^{th)}$ quarter from the date of initial drawdown until fully paid. All principal payment affected shall be re-amortized.

Due to the impact of the COVID-19 pandemic and community quarantine, ADGI has subsequently entered into a loan restructuring agreement with Development Bank of the Philippines in 2021.

On April 16, 2021, ADGI has entered into a loan restructuring agreement with DBP whereby its outstanding term loan with a principal amount of P1,584,900,000 payable in 40 quarterly amortization starting in July 2020 with thirty-five percent (35%) balloon payment due in April 2030, was extended with an additional two (2) year grace period payable in 43 quarterly amortization to commence on October 19, 2022, with a final maturity on April 19, 2033. Interest on the restructured loan is at a fixed rate for five (5) years based on the lender's prevailing rate at effective date renewable at the end of every five (5) years based on the then prevailing rate. In addition, the interest and other charges related to the term loan amounting to P90.20 million as at January 19, 2021 was capitalized and restructured into a five (5) year term loan with a fixed interest rate based on the lender's prevailing rate at effective date, payable quarterly to commence on October 19, 2022, with a final maturity on October 19, 2025. Under the loan restructured agreement, debt covenants exclude compliance with financial ratios.

As at December 31, 2020 and 2019, ADGI's long-term borrowings bear annual interest rate ranging from 5.20% to 6.50% and are payable in various installments maturing on April 19, 2030.

In 2019, ADGI has paid a principal amount of the loan amounting to P8,794,736. In 2020, DBP has reversed the payment of principal and applied it as payment of outstanding interest. This is considered a non-cash activity.

The long-term borrowing agreement requires compliance by ADGI to certain various covenants including, among others, the maintenance of financial ratios after a year of commercial operations.

ADGI shall maintain at all times a debt-to-equity ratio (DER) of not exceeding 2:1 and current ratio and debt service coverage ratio of less than one (1) as defined in the Term Loan Facility Agreement. As at December 31, 2019, the debt covenants are not yet applicable as commercial operations only started in July 2019. As at December 31, 2020, the Company has substantially complied with most of the covenants except for financial ratios hence the entire balance of loan is reclassified as current in 2020.

Total interest expense from specific long-term borrowings capitalized as part of pre-development cost which is considered qualifying asset cost amounted to P52,157,946 for the year ended December 31, 2019 (2020 - nil). Subsequent to the start of commercial operations in July 2019, borrowing cost are no longer capitalized. Total interest expense from borrowings charged to profit or loss amounted to P90,446,446 (2019 - P40,946,577).

HSSC

On April 23, 2019, HSSC entered into a three (3) year loan agreement with a local bank for a principal amount of P741,071, to finance the purchase of a vehicle. The amount was drawn with a fixed interest rate of 9.22% per annum. The principal and interest amount are payable in thirty-six (36) monthly amortization commencing April 23, 2019 until maturity of the loan. The vehicle was pledged as collateral for the loan.

Net debt reconciliation

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

	Notes	2020	2019
Cash and cash equivalents	2	272,482,354	99,449,755
Short-term loans	12	(498,000,000)	(499,750,000)
Borrowings, current portion	12	(2,292,303,962)	(2,045,850,208)
Borrowings, net of current portion	12	(1,300,387,582)	(1,707,246,931)
Non-current portion of loans payable	12	(69,289)	(331,195)
Interest payable	11	(105,249,113)	(25,292,372)
Unrealized foreign currency exchange loss	12	-	(28,546)
Lease liability, current portion	22	(5,044,918)	(17,014,185)
Lease liability, net of current portion	22	(35,587,910)	(74,747,877)
Net debt		(3,964,160,420)	(4,270,811,559)

Total borrowings denominated in foreign currency as at December 31, 2020 is nil (2019 - P797,328).

Note 13 - Share capital and additional paid-in capital

As at December 31, 2020 and 2019, the Parent Company's authorized share capital amounting to P2 billion is composed of 2 billion shares with par value of P1 per.

Movements and details of share capital as at December 31 are as follows:

	Number of common shares issued and outstanding	Amount		
		Share capital	Share premium	Treasury shares
January 1, 2018	907,857,870	907,857,870	121,632,762	-
Acquisition of treasury shares	(3,966,000)	-	-	(10,853,670)
December 31, 2018	903,891,870	907,857,870	121,632,762	(10,853,670)
Acquisition of treasury shares	(9,305,000)	-	-	(26,761,320)
December 31, 2019 and 2020	894,586,870	907,857,870	121,632,762	(37,614,990)

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). T*

Treasury shares

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
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	February 4, 2019	265,000	2.84	752,570
January 31, 2019	February 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

No shares were repurchased for the year ended December 31, 2020.

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 stocks, if any.

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

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

	2020	2019	2018
Net income (loss) attributable to Parent Company	(99,229,074)	(370,200,311)	99,240,852
Weighted average number of common shares - basic and diluted	894,586,870	896,489,166	907,123,856
Basic and diluted earnings (loss) per share	(0.11)	(0.41)	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:

	2020	2019	2018
Over time			
Harbor assistance, net of discounts	1,030,564,608	1,054,400,631	971,873,553
Lighterage services	110,097,148	103,338,093	127,299,870
Salvage income	109,038,887	31,855,709	210,094,818
Construction revenue	24,832,096	-	-
Towing services	17,719,208	36,927,505	19,023,887
Others	84,890,984	62,389,873	108,676,248
	1,377,142,931	1,288,911,811	1,436,968,376
At a point in time			
Revenue on generation of solar power	305,407,480	107,142,840	-
	1,682,550,411	1,396,054,651	1,436,968,376

Harbor assistance pertains to services rendered in assisting ships and other watercrafts in docking and undocking at the port. The amount of income recognized for the year ended December 31, 2020 is net of discounts amounting to P111.0 million (2019 - P123.0 million; 2018 - P116.0 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 the collectible portion as at reporting date based on preliminary discussions with counterparties. The hearing in September 2020 will determine the final claimable amount from the vessel and cargo owners. In 2020, the hearing was postponed to 2021. Subsequently in 2021, the Parent Company was able to collect a portion of the settlement on ship interest.

Others consist of income generated from diving and other underwater services, among others. The Group revenue are divided into two business segments – harbor assistance and renewable energy (Note 28.30).

Note 16 - Cost of services

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

	Notes	2020	2019	2018
Depreciation and amortization	6,7,10	421,250,565	394,759,129	266,600,163
Personnel costs	18	225,404,453	214,258,577	211,024,430
Fuel and lubricants		208,176,367	211,362,481	199,458,024
Supplies and construction supplies		71,409,085	24,210,201	60,923,514
Insurance		59,382,629	53,390,235	48,939,736
Outside services		55,572,443	40,419,797	64,613,760
Rent	22	43,674,364	24,739,717	5,078,369
Charter hire		32,789,449	32,567,761	6,267,389
Repairs and maintenance		22,355,706	15,984,637	17,582,342
Port expense		21,426,970	20,509,006	12,198,867
Amortization right-of-use asset	22	17,504,480	17,504,480	-
Transportation and travel		7,582,987	8,161,788	10,660,517
Professional fees		6,098,960	4,121,782	11,449,248
Communications, light and water		3,498,150	4,395,658	2,976,982
Taxes and licenses		947,495	2,814,464	3,464,288
Others		31,680,214	42,221,732	29,729,138
		1,228,754,317	1,111,421,445	950,966,767

Others mainly consisted 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	2020	2019	2018
Personnel costs	18	117,103,913	112,851,999	104,681,711
Taxes and licenses		30,537,097	34,950,465	21,464,057
Repairs and maintenance		26,473,486	3,954,901	3,098,655
Representation and entertainment		25,390,124	20,329,567	14,896,205
Depreciation and amortization	7,10	20,671,788	22,096,491	23,735,787
Professional fees		11,251,796	24,078,867	16,799,755
Provision for impairment of input VAT	10	9,058,444	9,058,444	6,470,663
Transportation and travel		8,595,004	37,097,074	40,397,271
Insurance		8,335,319	5,909,178	1,500,580
Write-off of trade receivables	3	6,825,051	5,534,061	-
Amortization of computer software	8	6,797,074	1,327,194	-
Outsourced services		5,658,700	5,892,389	6,573,813
Supplies and construction materials		5,511,901	5,436,284	5,280,424
Communications		3,730,633	5,319,131	7,321,945
Utilities		2,785,417	2,631,120	2,213,057
Rent	22	2,206,361	4,227,435	5,061,971
Advertising and promotions		1,282,142	4,519,679	9,571,995
Amortization of right-of-use assets	22	1,758,511	1,624,841	-
Provision for assessment	11	601,902	28,672,234	-
Fuel and lubricants		180,662	59,051	3,479,355
Registration and membership fees		100,482	272,807	500,208
Others		20,105,699	8,871,492	3,538,383
		314,961,506	344,714,704	276,585,835

Others mainly consisted 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	2020	2019	2018
Cost of services				
Salaries and wages		125,714,443	116,375,001	118,263,703
Crew expense		32,472,166	38,194,581	41,402,575
Tug and barge operations		20,599,062	20,750,245	19,888,998
Retirement benefit expense	20	12,249,478	11,361,937	9,035,412
Other employee benefits		34,409,304	27,576,813	22,433,742
	16	225,404,453	214,258,577	211,024,430
General and administrative expenses				
Salaries and wages		101,020,410	94,288,958	88,694,796
Retirement benefit expense	20	4,263,292	4,970,416	4,118,706
Other employee benefits		11,820,211	13,592,625	11,868,209
	17	117,103,913	112,851,999	104,681,711
		342,508,366	327,110,576	315,706,141

Other employee benefits mainly pertain to the 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	2020	2019	2018
Ship management		39,216,670	-	400,000
Insurance claims		17,901,148	-	49,520,158
Gain on reversal of finance lease liability	22	8,703,120	2,363,989	-
Loss on sale of property and equipment		4,771,817	-	(56,871,044)
Interest income	2	404,660	886,384	418,559
Foreign exchange loss, net	24	(6,672,523)	(20,606,210)	(7,796,659)
Provision for loss on construction advances	4	(21,580,622)	(2,940,464)	-
Others		24,520,922	5,677,580	67,770,501
		67,265,192	(14,618,721)	53,441,515

Ship management pertains to other income arising from the transport of fuel, freshwater and other supplies for various tugboats.

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 retirement benefit obligation is determined using the "Projected Unit Credit" (PUC) method. Under the PUC method, the annual normal cost for the portion of the retirement benefit is determined as the amount necessary to provide for the portion of the retirement benefit accruing during the year. The latest actuarial valuation report of the Company prepared by the independent actuary is for the year ended December 31, 2020.

The amounts recognized in the statement of financial position as present value of defined benefit obligation amounted to P124,458,585 and P113,617,579 as at December 31, 2020 and 2019, respectively.

The Parent Company does not have any plan assets. The movements in the liability recognized in the statements of financial position as at December 31 are as follows:

	2020	2019
Beginning of year	113,617,579	83,073,916
Current service cost	11,796,930	10,392,867
Interest cost	4,715,840	5,939,486
Benefits paid	(2,789,610)	(1,624,345)
Remeasurement (gain) loss due to:		
Experience adjustments	10,141,991	5,208,112
Changes in financial assumptions	(13,024,145)	10,627,543
End of year	124,458,585	113,617,579

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

	2020	2019
Current service cost	11,796,930	10,392,867
Net interest cost	4,715,840	5,939,486
Retirement benefit expense	16,512,770	16,332,353

Retirement benefit expense is included as part of personnel cost under cost of services and general and administrative expenses (Notes 16 and 17).

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	2020	2019
Due to change in financial assumptions		10,141,991	10,627,543
Due to experience		(13,024,145)	5,208,112
Remeasurement loss (gain)		(2,882,154)	15,835,655
Deferred income tax expense (benefit)	23	864,645	(4,750,697)
Remeasurement (gain) loss, net of tax		(2,017,509)	11,084,958

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	2020	2019
Beginning of year		(2,994,096)	8,090,862
Remeasurement gain for the year		2,882,154	(15,835,655)
Deferred income tax effect	23	(864,645)	4,750,697
End of year, net of tax		(976,587)	(2,994,096)

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

	2020	2019
Less than one year	37,508,192	35,123,039
More than one year to five years	16,960,375	13,292,114
More than five years to 10 years	64,764,484	72,553,004
More than 10 years to 15 years	65,178,581	67,446,756
More than 15 years to 20 years	93,847,700	95,161,966
More than 20 years	204,275,980	209,269,210
Total expected payments	482,535,312	492,846,089

The average duration of the defined benefit obligation at the end of the reporting period is 17.14 years (2019 - 17.19 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 2020 are consistent with those applied in 2019.

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:

	2020	2019
Discount rate	3.86%	4.93%
Salary growth rate	5.00%	5.00%

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

	2020			2019		
	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%	(9,539,187)	11,253,876	1%	(8,094,011)	9,448,123
Salary growth rate	1%	11,602,096	(10,041,863)	1%	9,916,874	(8,661,238)

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 provide 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	2020	2019	2018
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.	19,001,400	-	-

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

	Terms and conditions	Notes	2020	2019
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
Officers	These are unsecured, non-interest bearing and are subject to liquidation.	3	77,925,701	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)	(9,313,168)

Key management compensation and benefits

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

	Terms and conditions	2020	2019	2018
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.	72,101,426	84,067,198	81,348,674
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.	5,613,733	5,390,789	999,767
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	464,834	1,182,119	-
		78,179,993	90,640,106	82,348,441

As of December 31, 2020, and 2019, amounts due from and to key management personnel are reflected as part of advances to officers (Notes 3 and 11) and retirement benefit obligation.

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, 2020, 2019 and 2018.

For the year ended December 31, 2020, receivables from related parties, foreign entities, has been determined to be uncollectible, hence, a net provision for impairment of receivable from related parties amounting to P1,736,698 (2019 - P7,389,948) was charged to net impairment losses on financial assets in statements of total comprehensive income, as a result of management's assessment of collectability.

Movement in the provision for impairment of advances to a related party for the years ended December 31 are as follows:

	2020	2019
Beginning of year	7,389,948	-
Provision for impairment of advances to a related party	1,736,698	7,389,948
Write-off	(7,389,948)	-
End of year	1,736,698	7,389,948

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

	2020	2019	2018
Advances to related parties	1,349,246,441	1,268,259,237	1,421,904,061
Advances from related parties	1,349,246,441	1,476,259,237	1,421,904,061
Investment in subsidiaries	(268,247,453)	(519,192,305)	222,475,585
Cost of services	(13,016,745)	(4,251,699)	7,579,866
Other income, net	13,016,745	3,866,210	7,579,866

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

Note 22 - Leases

(a) Long-term lease agreements

(i) Office space and warehouse lease

The Parent Company entered into two (2) operating lease agreements 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 contract was subsequently renewed for another two (2) years from February 15, 2021 to February 14, 2023. 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. The contract was subsequently renewed for another year covering April 1, 2020 to March 31, 2021. As at December 31, 2020 and 2019, the required security deposit amounted to P50,400. These are presented as refundable deposits under "Other non-current assets" in the consolidated statements of financial position in 2020 and under "Prepayments and other current assets" in 2019.

The Parent Company entered into an operating lease agreement for a 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 two (2) consecutive years to end on January 4, 2021 and January 9, 2022. 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 the 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.

Due to the decrease in operations arising from the impact of COVID 19, the Parent Company was not able to fully utilize the barge and tugboat in 2020 resulting in lease modifications.

For the barge, no lease payment was made in 2020. On January 8, 2021, the Parent Company executed a memorandum of agreement and a bill of sale to purchase the barge.

For the tugboat, no lease payment was made from January to September 2020. The Parent Company entered into a new bareboat charter lease agreement for Crest Opal on December 18, 2020. The new lease term covers a period of 12 months from the delivery of the tugboat effective October 1, 2020. The new lease term also covers a bargain purchase option to acquire the tugboat within the new lease period. The Parent Company intends to exercise the bargain purchase option in 2021. The new lease agreement was considered as short-term under PFRS 16, "Leases" because the lease term is less than 12 months.

(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 are as follows:

	Notes	2020	2019	2018
Cost of services	16	43,674,364	24,739,717	5,078,369
General and administrative expenses	17	2,206,361	4,227,435	5,061,971
		45,880,725	28,967,152	10,140,340

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 consolidated statement of financial position. As at December 31, 2020 and 2019, refundable deposits amounted to P2.0 million and P1.9 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

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

	Notes	Office space and warehouse	Barge	Land	Total
Cost					
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					
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					
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
Cost					
January 1, 2020		1,714,867	147,164,910	20,956,053	169,835,830
Additions		1,120,321	-	-	1,120,321
Reclassification		-	(74,189,224)	-	(74,189,224)
December 31, 2020		2,835,188	72,975,686	20,956,053	96,766,927
Accumulated amortization					
January 1, 2020		786,599	27,449,001	3,352,968	31,588,568
Amortization	16,17	920,271	17,504,478	838,242	19,262,991
Lease modification		-	(32,148,661)	-	(32,148,661)
December 31, 2020		1,706,870	12,804,818	4,191,210	18,702,898
Net carrying amount					
December 31, 2020		1,128,318	60,170,868	16,764,843	78,064,029

Movements in the lease liabilities for the years ended December 31 are as follows:

	2020	2019
Lease liabilities		
January 1, 2019	91,762,062	116,077,588
Additions	1,120,321	1,714,867
Principal payments	(5,628,886)	(26,535,598)
Interest payments	(1,193,385)	(6,225,067)
Interest expense	5,316,399	6,730,272
Lease modifications	(50,743,683)	-
Lease liability - December 31	40,632,828	91,762,062
Lease liabilities		
Current	5,044,918	17,014,185
Non-current	35,587,910	74,747,877
	40,632,828	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 years ended December 31 related to the lease agreements above are as follows:

	Notes	2020	2019
Amortization expense of right-of-use asset	16,17	19,262,991	19,129,320
Expense relating to short-term lease	16,17	45,880,725	28,967,152
Interest expense on lease liability		5,316,399	6,730,272
		70,460,115	54,826,744

The total cash outflows for leases for the year ended December 31, 2020 amounted to P52.70 million (2019 - P61.73 million). The Group recognized a net gain on lease modifications amounting to P8.7 million (2019 - P2.4 million; 2018 - nil) as presented in the other income (Note 19).

(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.

Critical accounting judgment

(a) 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.

(b) Extension and termination options of lease agreements

Extension and termination options are included in a number of properties, 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 Group based on the letter of intent.

(c) 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, net as at December 31 consist of:

	Note	2020	2019
DIT assets			
Retirement benefit obligation		37,094,930	33,965,385
Allowance for impairment of receivables		19,083,254	21,562,563
Provision for loss on construction advances		7,356,326	882,139
Unrealized foreign exchange loss, net		560,182	435,824
Provision for tax assessment		204,537	1,649,318
Provision for impairment of investment		14,895	-
Provision for service discounts		-	2,089,739
Provision for separation pay		-	692,243
		64,314,124	61,277,211
DIT liabilities			
Unrealized foreign exchange gain, net			-
Lease liability		(149,925)	(2,473,355)
Revaluation increment on property and equipment	6	(30,387,332)	(34,351,355)
		(30,537,257)	(36,824,710)
DIT assets (liabilities), net		33,776,867	24,452,501

The maturity of DIT assets and liabilities are as follows:

	2020	2019
DIT assets:		
Expected to be recovered within 12 months	27,219,194	27,311,826
Expected to be recovered more than 12 months	37,094,930	33,965,385
	64,314,124	61,277,211
DIT liabilities		
Expected to be settled within 12 months	(149,925)	(2,473,355)
Expected to be settled more than 12 months	(30,387,332)	(34,351,355)
	(30,537,257)	(36,824,710)
	33,776,867	24,452,501

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 unrecognized deferred income tax assets related to net operating loss carryover (NOLCO) for the year ended December 31, 2020 which could be carried over as deductible expense from taxable income for three (3) to five (5) consecutive years following the year of incurrence are as follows:

Year of incurrence	Year of expiration	2020	2019
2017	2020	-	3,372,620
2018	2021	16,050,226	16,050,226
2019	2022	214,996,550	214,996,550
2020	2025	2,683,370	-
		233,730,146	234,419,396
Applicable tax rates		5%, 10% and 30%	5%, 10% and 30%
		805,011	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, 2020 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 P6,530,908 (2019 - P5,403,066).

Year of incurrence	Year of expiration	2020	2019
2019	2022	5,403,066	5,403,066
2020	2023	6,530,908	-
		11,933,974	5,403,066

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 are as follows:

	Note	2020	2019
Beginning of year		24,452,501	(10,268,998)
DIT credited to profit or loss		10,189,011	29,970,802
DIT credited (charged) to other comprehensive income	20	(864,645)	4,750,697
End of year		33,776,867	24,452,501

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

	2020	2019	2018
Current	8,667,382	6,678,689	60,126,360
Deferred	(10,189,011)	(29,970,802)	(11,435,003)
	(1,521,629)	(23,292,113)	48,691,357

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:

	2020	2019	2018
Income tax expense (benefit) computed	(23,634,319)	(106,589,878)	44,611,979
Adjustments to income tax resulting from:			
Unrecognized movement in deferred tax	23,040,821	3,686,828	-
Non-deductible expenses	16,982,720	17,187,413	5,058,546
Unrecognized deferred taxes	15,455,884	-	-
Final income tax expense	1,316,556	1,275,623	-
Unrecognized NOLCO	805,011	60,638,636	-
Interest income subjected to final tax	(47,365)	(197,826)	(110,431)
Non-taxable income due to income tax holiday	(8,511,554)	-	-
Share in net income of associates	(26,929,383)	(4,775,072)	(913,887)
Unrecognized MCIT	-	5,403,066	-
Limitation on interest expense	-	79,097	45,150
Income tax expense (benefit)	(1,521,629)	(23,292,113)	48,691,357

<u>Critical accounting judgment</u>

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:

	2020				2019		
	In USD	In JPY	In MYR	In Thai Baht	In USD	In JPY	In MYR
Assets							
Cash	2,083,575	2,114,237	29,976,696	-	337,433	2,114,237	
Trade and other receivables	468,139	-	-	-	684,826	-	
Advances to related parties	-	-	-	-	-	-	16,323,044
	2,551,714	2,114,237	29,976,696	-	1,022,259	2,114,237	16,323,044
Liabilities				-			
Trade and other liabilities	(50,745,532)	(9,150,785)	(13,521,556)	-	(1,240,000)	(68,000,000)	-
Advances from related parties	(22,500)	-	(60,900,635)	(28,995)	(22,500)	-	-
Borrowings	-	-	-	-	(15,714)	-	-
	(50,768,032)	(9,150,785)	(74,422,191)	(28,995)	(1,278,214)	(68,000,000)	-
Net foreign currency assets (liabilities)	(48,216,318)	(7,036,548)	(44,445,495)	(28,995)	(255,955)	(65,885,763)	16,323,044
Year-end exchange rates	48.04	0.47	11.87	1.59	50.74	0.46	12.28
Peso equivalent	(2,316,311,917)	(3,307,178)	(527,568,026)	(46,102)	(12,987,157)	(30,307,451)	200,446,980

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

	Note	2020	2019	2018
Realized foreign exchange loss		(6,360,875)	(18,850,690)	(9,429,758)
Unrealized foreign exchange gain (loss)		(311,648)	(1,755,520)	1,633,099
	19	(6,672,523)	(20,606,210)	(7,796,659)

There is no unrealized foreign exchange loss on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2020 (2019 - P28,546; 2018 - nil).

Note 25 - Supplemental disclosure to consolidated statement of cash flows

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

As at December 31, 2020, the Group's unpaid acquisition of tugboats and other marine vessel amounted to P24,330,599 and 3,310,222, respectively (2019 - 39,074,994 and 104,800,134), which is considered a non-cash activity (Note 6).

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)

(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 and Note 5)
- 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)
- Incremental borrowing rate (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	2020	2019
Cash	2	272,482,354	99,449,755
Trade and other receivables, gross*	3	802,332,987	503,102,599
Refundable deposits	4	3,902,556	15,840,778
Deposit bond		-	8,521,638
Advances to related parties	21	-	553,165
Financial assets at fair value through other comprehensive income (FVOCI)	10	810,000	810,000
		1,079,527,897	628,277,935

**excluding advances to officers, employees and others subject to liquidation*

Trade and other receivables are presented gross of allowance for impairment amounting to P169,265,262 as at December 31, 2020 (2019 - P70,536,709) (Note 3).

Advances to employees amounting to P130,546,259 as at December 31, 2020 (2019 – P145,982,330) 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, 2020 and 2019 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).

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	2020	2019
Trade and other payables	11	442,357,995	339,354,555
Short-term loans	12	498,000,000	499,750,000
Borrowings	12	3,592,760,833	3,753,428,334
Lease liabilities	22	40,632,828	91,762,062
		4,573,751,656	4,684,294,951

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

	Note	2020	2019
Accrued construction costs	11	31,441,671	71,931,276
Unearned income	11	7,188,709	16,940,552
Payable to government agencies	11	5,661,705	4,205,057
		44,292,085	93,076,885

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, 2020, if the US Dollar had weakened/strengthened by 5.33% (2019 - 3.76%) with all other variables held constant, pre-tax loss for the year and equity would have been P136,389,399 lower/higher (2019 - P487,758), 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, 2020, if the Japanese Yen had strengthened/weakened by 2.17% (2019 - 4.17% weakened/strengthened) with all other variables held constant, pre-tax loss for the year and equity would have been P71,895 lower/higher (2019 - P1,262,810 lower/higher), mainly as a result of net foreign exchange losses/gains on translation of Japanese Yen-denominated net foreign currency monetary liabilities.

For the year ended December 31, 2020, if the Malaysian Ringgit had strengthened/weakened by 3.34% (2019 - 2.94%) with all other variables held constant, pre-tax loss for the year and equity would have been P6,948,707 lower/higher (2019 - P5,893,141), mainly as a result of net foreign exchange (losses) gains on translation of Malaysian Ringgit-denominated net foreign currency monetary liabilities.

For the year ended December 31, 2020, if the Thai Baht had strengthened/weakened by 5.36% (2019 - 3.87%) with all other variables held constant, pre-tax profit for the year and equity would have been P2,470 lower/higher (2019 - nil), mainly as a result of net foreign exchange losses/gains on translation of Thai Baht-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.

As at December 31, 2020 and 2019, 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 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/ follow ups.
c. Credit impaired - more than 360 days past due and unlikely to be collected despite reminders/follow ups.

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, 2020						
Cash and cash equivalents	2	270,471,997	270,471,997	-	-	-
Trade and other receivables	3	802,332,987	534,881,101	57,662,373	16,898,414	192,891,099
Refundable deposits	4	3,902,556	3,902,556	-	-	-
		1,076,707,540	809,255,654	57,662,373	16,898,414	192,891,099
December 31, 2019						
Cash and cash equivalents	2	97,394,711	97,394,711	-	-	-
Trade and other receivables	3	503,102,599	298,413,571	54,717,922	45,277,856	104,693,250
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	-	-	-
		625,412,891	420,723,863	54,717,922	45,277,856	104,693,250

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 2020 and 2019.

As at December 31, 2020 and 2019, 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:

	2020	2019
Universal banks	249,417,237	73,188,238
Commercial banks	21,054,760	24,206,473
	270,471,997	97,394,711

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P2,010,357 as at December 31, 2020 (2019 - P2,055,044) (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, 2020, trade and other receivables amounting toP531,199,188 (2019 – P298,413,571) are fully performing thus, collectible.

On that basis, the loss allowance from trade receivables as at December 31 was determined as follows:

	Current	Up to 6 months past due	6 to 12 months past due	Over 12 months past due	Total
2020					
Expected loss rate	Within 0% to 9%	Within 0% to 18%	Within 0% to 18%	100%	
Trade receivables	609,168,381	57,662,373	16,898,414	40,678,118	724,407,286
Loss allowance	127,214,144	866,047	506,953	40,678,118	169,265,262
2019					
Expected loss rate	Within 0% to 1%	Within 0% to 3%	Within 0% to 3%	100%	
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

(iii) Deposit bond

Deposit bond amounting to nil (2019 - P8,521,638) 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 officers, employees and others; Due from related parties

Advances to employees are collected through liquidation and salary deduction, thus, not a financial asset subject to credit risk.

Advances to officers and others and due from a related parties which mainly pertain to cash advances to the Company's officers and its related parties are subject to normal credit terms. Credit risk is minimized since the related party is paying on normal credit terms. Those identified to be uncollectible were fully provided and the expected credit loss on the remaining balance is expected to be immaterial.

(v) Refundable deposits

Refundable deposits amounting to P3,902,556 as at December 31, 2020 (2019 - P15,840,778) 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 and other receivables as at December 31, 2020 amounting to P74,560,787 (2019 - P99,995,778) 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, 2020, trade and other receivables amounting to P192,891,099 (2019 - P104,693,250) 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, 2020					
Trade and other payables	11	442,357,995	430,625,958	-	11,732,037
Short-term loans	12	509,802,488	6,847,500	502,954,988	-
Borrowings	12	4,523,807,884	298,281,668	811,425,647	3,414,100,568
Lease liabilities	22	63,238,304	1,542,337	5,168,512	56,527,455
		5,539,206,671	737,297,463	1,319,549,147	3,482,360,060
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
Finance lease liability	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

Short term loans and borrowings as at December 31, 2020 include the undiscounted cash flows on future interest payable of P11,802,488 and P924,993,737, respectively (2019 - P6,179,139 and P763,508,725, respectively). Subsequently in 2021, a portion of the short-term borrowings and related interests amounting to P1.58 billion and P90.20 million, respectively has been restructured and reclassified as non-current (Note 12).

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 and through short term bank borrowings, as needed, hence, there is no perceived liquidity risks. Long term loans may be obtained only when there is a material capital expenditure.

As at December 31, 2020 and 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, 2020 and 2019.

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:

	2020	2019
Total debt	4,617,974,452	4,777,040,641
Total equity	1,156,591,120	1,253,802,658
Debt-to-equity ratio	3.99:1	3.81:1

As at December 31, 2020, 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 2.44% and debt-service cover ratio of 35.98%.

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

	Notes	2020	2019
Trade and other payables	11	486,650,080	432,431,440
Short-term loans	12	498,000,000	499,750,000
Borrowings	12	3,592,691,544	3,753,097,139
Lease liabilities	22	40,632,828	91,762,062
		4,617,974,452	4,777,040,641

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

	Notes	2020	2019
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		93,971,704	181,933,854
Financial asset at fair value through other comprehensive income		(160,000)	(160,000)
Treasury shares		(37,614,990)	(37,614,990)
Revaluation surplus, net of tax	6	70,903,774	80,153,162
		1,156,591,120	1,253,802,658

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, 2020 and 2019.

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 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, 2020 reporting periods.

- *Definition of a Business - Amendments to PFRS 3 (effective January 1, 2020)*

  The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

- *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 Philippine 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.

- *Interest Rate Benchmark Reform - Amendments to PFRS 7, PFRS 9 and PAS 39 (effective January 1, 2020)*

  The amendments made to PFRS 7 Financial Instruments: Disclosures, PFRS 9 Financial Instruments and PAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

  The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

- *Covid-19-related Rent Concessions - Amendments to PFRS 16 (effective June 1, 2020)*

  As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. The Group has no lease concessions as at December 31, 2020.

- *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, 2021. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

None of these standards, amendments and interpretations have a significant impact on the Group's consolidated financial statements.

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

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2020. Management will adopt the following relevant pronouncements in accordance with their transitional provisions. None of those standards are expected to have a significant impact on the consolidated financial statements of the Group, but the more relevant ones are set out below:

- *Interest Rate Benchmark Reform - Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16 (effective January 1, 2021)*

  These amendments that were issued in August 2020 address issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark rate with an alternative one.

  The key reliefs provided by the amendments are as follows:

  - Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.
  - Hedge accounting. The hedge accounting reliefs will allow most PAS 39 or PFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

- *Classification of Liabilities as Current or Non-current - Amendments to PAS 1 (effective January 1, 2023)*

  The narrow-scope amendments to PAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

  The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

  They must be applied retrospectively in accordance with the normal requirements in PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

- *Property, Plant and Equipment: Proceeds before intended use - Amendments to PAS 16 (effective January 1, 2022)*

  The amendment to PAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

  Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

- *Reference to the Conceptual Framework - Amendments to PFRS 3 (effective January 1, 2022)*

  Minor amendments were made to PFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

- *Onerous Contracts - Cost of Fulfilling a Contract Amendments to PAS 37 (effective January 1, 2022)*

  The amendment to PAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- *Annual Improvements to PFRS Standards 2018 - 2020 (effective January 1, 2022)*

  The following improvements were finalised in May 2020:

  - PFRS 9 Financial Instruments - clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  - PFRS 16 Leases - amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- PFRS 1 First-time Adoption of International Financial Reporting Standards - allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same PFRS 1 exemption.

- PAS 41 Agriculture - removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under PAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

None of these standards are expected to have a significant impact on the consolidated financial statements of the Group.

28.2 Consolidation

(a) Business combination

The Group 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 Group. 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 Group 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 amortized cost.

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.

<u>Financial assets</u>

(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, 2020 and 2019 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).

<u>Financial liabilities</u>

(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, 2020 and 2019, 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 the right to offset intercompany payables and receivables as at December 31, 2020. Total intercompany receivables offset against payables amounts to P72,798,902 (2019 - P72,831,949).

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 as net impairment losses on financial assets in the statements of total comprehensive income. 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 are 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 to 30
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:

i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
ii) 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
iii) All resulting exchange differences are recognized as cumulative translation differences as a separate line item under equity.

As at December 31, 2020, cumulative loss on translation differences recognized in equity amounted to P6,580,388 (2019 - P6,768,327).

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) Revenue/Income on 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 and gross basis when it satisfies its promise to facilitate the service over a period of time when it is not a principal in a contract and acting as the principal in a contract, respectively. The Group is not the principal for construction contracts, wherein the Group does not control the service before it is transferred to a customer and the Group is also is not solely responsible for the service and discretion in establishing contract prices.

(d) 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.

(e) Contract assets and liabilities

Lighterage 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.

Other income

(a) 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.

(b) 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:

(a) on the basis of a direct association between the costs incurred and the earning of specific items of income;
(b) 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
(c) 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

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.

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, 2020, 2019 and 2018.

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, 2020 and 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, 2020

	Harbor assistance	Renewable energy	Elimination	Total
Revenue	1,377,142,931	305,407,480	-	1,682,550,411
Segment result	27,522,634	79,199,554	(776,962)	105,945,226
Share in net profit of associate	82,309,037	-	-	82,309,037
Finance costs	(183,104,891)	(91,600,971)	-	(274,705,862)
Income tax benefit	1,521,629	-	-	1,521,629
Loss for the year	(71,751,591)	(12,401,417)	(776,962)	(84,929,970)
Segment assets	4,757,347,127	2,758,444,752	(1,601,780,347)	5,914,011,532
Segment liabilities	(3,531,937,586)	(2,711,261,391)	1,492,565,974	(4,750,633,003)
Capital expenditures	77,400,444	74,643	-	77,475,087
Depreciation and amortization	366,369,722	88,569,377	(8,232,535)	446,706,564
Non-cash expenses other than depreciation and amortization	-	-	-	-

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	380,527,240	43,849,633	(4,251,699)	420,125,174
Non-cash expenses other than depreciation and amortization	-	-	-	-

28.31 Reclassification

Provision for impairment of trade and other receivables amounting to P76,728,154 and P7,950,572 for the years ended December 31, 2019 and 2018, respectively and provision for impairment of advances to related parties amounting to P7,389,948 for the year ended December 31, 2019 were reclassified from general and administrative expenses to net impairment losses on financial assets in the statements of total comprehensive income to conform with current year presentation. The reclassification did not impact previously reported net income, financial position, retained earnings and cashflows of the Group.

28.32 Subsequent events (or Events after the reporting date)

Subsequent to the outbreak of the Coronavirus Disease 2019 ("COVID-19 pandemic") in early 2020, a series of measures to curb the COVID-19 outbreak has been and continues to be implemented in countries where the Group and its related parties operates. The Group is closely monitoring the status of the COVID-19 pandemic and its continuing impact on its business operations. Nonetheless, management continues to look for measures to mitigate and reduce the negative impact to its profitability or economic impact on the Group brought about by the continuing quarantine restrictions imposed in the country.

The pandemic has caused a major financial impact to the Group's business operations. The Group's sales have declined especially during the first two quarters of 2020. The national lockdown brought about by the pandemic also affected the capacity of customers to pay their outstanding balances and thereby increasing the number of overdue accounts. This led to the increase in the recognition of allowance for trade receivables during the year which amounted to P98,728,553.

All the customers are operational as of this writing, and management has again been able to improve collections. The brakes applied by the quarantine on the customers have also severely affected the stock movement. Despite operations beginning to normalize during the third quarter of the year, the Group's operations in 2020 still resulted in a net loss of P84,929,970.

It is currently difficult to determine what the ultimate magnitude of the pandemic will be and what will be its effects on the Company's financials. This will depend, among other things, on the further spread of the virus, the inoculation and effectiveness of vaccination, and how long the restrictive measures adopted by the government will be kept in place.

The Group has taken appropriate measures to preserve the health and safety of its employees and stakeholders as well as the business operations and in compliance with government mandated issuances and regulations. Nonetheless, management has appropriately considered the impact of the pandemic in determining the recoverability of its assets and sufficiency of provisions as at December 31, 2020 and along with this, will continue to address the issues that directly affect its business operations and is optimistic and expects that the COVID-19 pandemic would not have a significant long-term impact on the Group's financials.

On March 26, 2021, (RA No.11534), otherwise known as CREATE, was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

- RCIT rate of 20% (from 30%) shall be applicable to domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding land on which the business entity's office, plant and equipment are situated) from July 1, 2020;
- RCIT rate of 25% (from 30%) shall be applicable to all other domestic and foreign corporations from July 1, 2020; and
- For the period beginning July 1, 2020 until June 30, 2023, the MCIT rate shall be 1%, instead of 2%.

As at December 31, 2020, the CREATE bill is still pending ratification by both the Philippine Congress and Senate, and consequently pending approval of the President of the Republic of the Philippines. As such, the Company has assessed that the proposed tax law is not enacted or substantively enacted as at December 31, 2020.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event.

HARBOR STAR BASE PORTS

HARBOR STAR OFFICES

Head Office

Makati
Harbor Star Shipping Services, Inc.
2224 A. Bonifacio Street corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines
Tel. Nos.: (+632) 8886-3703 to 09
Fax No.: (+632) 8887-2103
Email Add.: info@harborstar.com.ph

Regional Offices

Cagayan de Oro
Unit 101, LYL Building, Kimwa Compound, Baloy
Cagayan De Oro City, 9000
Telefax: (+6388) 856-1594
Email Add.: cdo@harborstar.com.ph

Cebu
Unit 1, Benley Building, J. De Veyra Street
North Reclamation Area, Brgy. Carreta
Cebu City, 6000
Tel. No.: (+6332) 231-3070
Fax No.: (+6332) 231-2025
Email Add.: cebu@harborstar.com.ph

Davao
G/F SJRDC Bldg., Insular Village Lanang
Davao City, 8000
Tel. No.: (+6382) 234-9798
Fax No.: (+6382) 235-2029
Email Add.: davao@harborstar.com.ph

Iloilo
18 Yulo-Muelle Loney St., Brgy. Yulo-Arroyo
Iloilo City
Mobile No.: (+63998) 961-8557
Fax No.: (+6333) 320-7004
Email Add.: iloilo@harborstar.com.ph

Batangas
Unit 1-2 Ex-works Cargo Bldg, Diversion Rd
Bolbok, Batangas City
Tel. No.: (+63999) 221-8062
Email Add.: batangas.office@harborstar.com.ph

Subic
Unit 9 &10, Alava Quay, Waterfront Road
Subic Bay Freeport Zone (SBFZ)
Tel. No.: (+6383) 302-1740
Fax No.: (+6383) 302-1745
Email Add.: SubicOps@harborstar.com.ph

Overseas Offices

Peak Flag Sdn Bhd
N6-04 The Gamuda Biz Suites, 12, Persiaran Anggerik
Vanilla, Kota Kemuning 40460 Shah Alam
Selangor, Malaysia
Tel. No.: (+603) 5879-9326
Mobile No.: (+6012) 2018-117
Email Add.: adev.pf@gmail.com
adev@peakflag.com

Harbor Star East Asia (Myanmar) Limited
Level 8A, Union Financial Centre (UFC), cor.
Mahabandoola Road and Thein Phyu Road
Botahtaung Township, Yangon
Republic of the Union of Myanmar
Mobile No.: (+95) 979-3926113
Email Add.: tommythan.cta@gmail.com

Harbor Star East Asia (Thailand) Co., Ltd.
Unit 907 Park Ventures Ecoplex, 57 Wireless Road
Lumpini, Pathumwan, Bangkok 10330
Email Add.: hsea.th@harborstar.com.ph

HARBOR STAR
SHIPPING SERVICES, INC.

2224 A. Bonifacio Street corner
Pres. Sergio Osmeña Highway
Bangkal, Makati City, 1223, Philippines
www.harborstar.com.ph