

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

**MA. HENEDINA V. SAN JUAN**

(Contact Person)

**+63 82 224 5373**

(Company Telephone Number)

**1 2**

Month

(Fiscal Year)

**3 1**

Day

**2 0 - I S**

Definitive

(Form Type)

**0 3**

Month

**1 9**

Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

**16**

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Please take notice that the Annual Meeting of Stockholders of **CHELSEA LOGISTICS HOLDINGS CORP.** will be held at the Marco Polo Hotel – Davao, Claro M. Recto St., Davao City, on **Monday, March 19, 2018 at 3:00 o'clock in the afternoon**, with the following:

### AGENDA

1. Call to Order
2. Certification of Notice and Determination of Quorum
3. Report of the President and CEO for the Year 2017
4. Approval of the Minutes of the Annual Stockholders' Meeting held on March 27, 2017
5. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period August 9, 2017 until February 22, 2018
6. Amendment of the By-Laws of the Company, specifically Article IV – Officers, for the creation of the separate positions of the President, Chief Executive Officer, and Chief Operating Officer, and Amendment of the Articles of Incorporation specifically Article Second, to expand the primary purpose of the Company, and Article Seventh, for the creation of Preferred Shares, will be submitted to the stockholders for approval.
7. Election of Members of the Board of Directors
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

Only stockholders of record as of **February 22, 2018** are entitled to notice of, and to vote at, this meeting.

Taguig City, January 31, 2018.

**MA. HENEDINA V. SAN JUAN**  
Corporate Secretary

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

Information Statement  
of

CHELSEA LOGISTICS HOLDINGS CORP.

Pursuant to Section 20 of the Securities Regulation Code (the "Code" or "SRC")

SECURITIES AND EXCHANGE  
COMMISSIONRECEIVED  
FEB 26 2018

MARKET REGULATION DEPT.

4:05 pm

## 1. Check the appropriate box:

☐ Preliminary Information Statement  
☒ Definitive Information Statement

2. Name of registrant as specified in its charter: CHELSEA LOGISTICS HOLDINGS CORP.  
(the "Company" or "CLC")
3. Country of Incorporation: REPUBLIC OF THE PHILIPPINES
4. SEC Identification Number: CS201619734
5. BIR Tax Identification Code: 009-393-167-000
6. Address of principal office: Stella Hizon Reyes Road, Bo. Pampanga  
Davao City 8000
7. Registrant's telephone number: (082) 224-5373
8. Date, time and place of the meeting of security holders:
- |       |   |   |
|-------|---|---|
| Date  | - | March 19, 2018  |
| Time  | - | 3:00 P.M.   |
| Place | - | Marco Polo Hotel, Davao<br>Claro M. Recto St., Davao City, 8000 |

## 9. Approximate date on which the Information Statement is first to be sent or given to stockholders:

February 26, 2018

## 10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the SRC:

Title of Each Class	Par Value	Number of Shares
Common Shares	PhP 1.00	1,821,977,615

## 11. Are any or all of Company's securities listed on a Stock Exchange?

☒ Yes ☐ No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange – Common Shares

## **INFORMATION REQUIRED IN INFORMATION STATEMENT**

### **A. GENERAL INFORMATION**

#### **Item 1. Date, time and place of meeting of stockholders**

- a. Date - March 19, 2018
- Time - 3:00 P.M.
- Place - Marco Polo Hotel, Davao  
Claro M. Recto St., Davao City, 8000
- b. Approximate date when the Information Statement is first to be sent to stockholders:  
February 26, 2018

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

#### **Item 2. Dissenter's right of appraisal**

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in case of any amendment to the Articles of Incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence, in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, and in case of merger or consolidation. Such appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the Company for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights. No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

**THERE ARE NO MATTERS THAT WILL BE PRESENTED FOR SHAREHOLDERS' APPROVAL DURING THE ANNUAL STOCKHOLDERS' MEETING THAT MAY OCCASION THE EXERCISE OF THE RIGHT OF APPRAISAL.**



### **Item 3. Interest of certain persons in or opposition to be acted upon**

- a. No Director or Officer of the Company since the beginning of the last fiscal year, nominee for election as Director of the Company, nor any of their associates, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon during the Annual Stockholders' Meeting, other than election to office.
- b. No Director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company during the meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

### **Item 4. Voting Securities and Principal Holders Thereof**

#### **a. Voting Securities**

As of December 31, 2017, the total number of shares outstanding and entitled to vote on all corporate matters to be acted upon during the Annual Stockholders' Meeting is 1,821,977,615 common shares.

#### **b. Record Date**

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Annual Stockholders' Meeting is **February 22, 2018**.

#### **c. Voting Rights and Trust**

In the matters to be voted upon in the Annual Stockholders' Meeting, stockholders of record as of February 22, 2018 shall be entitled to one vote per share in person or by proxy. If he will vote thru a proxy, the By-Laws of the Company requires the submission of the accomplished proxy form to the Corporate Secretary for validation and authentication at least ten (10) days before the date of the Annual Stockholders' Meeting.

The validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Stock and Transfer Agent shall be convened at least five (5) days before the Annual Stockholders' Meeting. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding upon the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting.

With respect to the election of the members of the Board of Directors, cumulative voting is allowed. A stockholder may vote such number of shares for as many persons as there are Directors to be elected; or he may cumulate his shares and give one candidate as many votes as the number of Directors to be elected multiplied by the number of his shares; or he may distribute these shares on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the total number of Directors to be elected.

d. Security ownership of certain record and beneficial owners and management

i. Security Ownership of Certain Records and Beneficial Owners as of December 31, 2017

Title of Class	Name & Address of Record Owner & Relationship to Issuer	Name of Beneficial Owner & Relationship to Record Owner	Citizenship	No. of Shares	Percentage of Outstanding Shares
Common	Udenna Corporation Stella Hizon Reyes Road, Bo. Pampanga, Davao City <i>Stockholder</i>	Udenna Corporation	Filipino	1,275,384,606	70.000%
Common	PCD Nominee Corporation 37/F Tower I, The Enterprise Center 6766 Ayala Ave. cor. Paseo de Roxas, Makati City <i>Stockholder</i>	PCD participants acting for themselves or for their customers	Filipino	509,658,972	27.973%

*\*PCD Nominee Corporation is not a related Company*

Udenna Corporation is the holding company of the Uy family. It is directly owned by spouses Dennis A. Uy and Cherylyn C. Uy.

The 509,658,972 common shares under the name of PCD Nominees Corporation are owned by PCD participants acting for themselves or for their customers.

Other than the stockholders identified above, as of December 31, 2017, there are no other stockholders other than participants under PCD account who own more than five percent (5%) of the voting securities.

As of December 31, 2017, 1.96% or 35,705,130 common shares are owned by foreign stockholders.

ii. Security ownership of Directors and Management as of December 31, 2017

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	No. of Shares	Percentage of Outstanding Shares
<b>Directors</b>					
Common	Dennis A. Uy	Filipino	Direct Indirect	1 892,769,224	NIL 49.000%
Common	Cherylyn C. Uy	Filipino	Direct Indirect	1 382,615,385	NIL 21.000%
Common	Chryss Alfonsus V. Damuy	Filipino	Direct	522,000	0.029%

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	No. of Shares	Percentage of Outstanding Shares
Common	Eduardo A. Bangayan	Filipino	Direct	70,001	NIL
Common	Miguel Rene A. Dominguez	Filipino	Direct	200,001	0.011%
Common	Jesus S. Guevara II	Filipino	Direct	1	NIL
			Indirect	100,000	NIL
Common	Gener T. Mendoza	Filipino	Direct	20,001	NIL
Common	Arthur Kenneth L. Sy	Filipino	Direct	1	NIL
Common	Efren E. Uy	Filipino	Direct	270,001	0.015%
<b>Executive Officers</b>					
Common	Ignacia S. Braga IV	Filipino	Direct	452,000	0.025%
Common	Ricky P. Victoria	Filipino	Direct	152,000	0.008%
Common	Irwin M. Montano	Filipino	Direct	82,000	0.005%
Common	Ma. Henedina V. San Juan	Filipino	Direct	219,000	0.012%
Common	Athelle Beverly Diamond G. Feliciano	Filipino	Direct	49,000	0.003%
Common	Rodel V. Marqueses	Filipino	Direct	169,000	0.009%
Common	Leandro E. Abarquez	Filipino	Direct	36,300	0.002%
Common	Daryl Eunika B. Maloles	Filipino	Direct	26,000	0.001%
<b>All Directors and Officers as a group</b>				<b>1,277,751,917</b>	<b>70.130%</b>

As of December 31, 2017, Directors and Executive Officers of the Company owned an aggregate of **1,277,751,917** shares of the Company, equivalent to 70.13% of the Company's total issued and outstanding shares.

**iii. Voting trust holders of 5% or more**

Other than those mentioned above, there are no persons holding more than five percent (5%) of a class under a voting trust or any similar agreements as of the date of this Report.

**iv. Changes in control**

The Company is not aware of any arrangements that may result in a change of control in the Company since the beginning of its fiscal year.

**Item 5. Directors and Executive Officers**

- a. The incumbent members of the Board of Directors and Executive Officers of the Company are as follows:

Office/Position	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Dennis A. Uy	44	Filipino
Director/President and CEO	Chryss Alfonsus V. Damuy	44	Filipino
Director/Treasurer	Cherylyn C. Uy	38	Filipino
Director	Arthur Kenneth L. Sy	50	Filipino
Director	Efren E. Uy	56	Filipino

Office/Position	Name	Age	Citizenship
Director	Eduardo A. Bangayan	66	Filipino
Independent Director	Miguel Rene A. Dominguez	41	Filipino
Independent Director	Jesus S. Guevara II	63	Filipino
Independent Director	Gener T. Mendoza	60	Filipino
<b>Executive Officers</b>			
President and CEO	Chryss Alfonsus V. Damuy	44	Filipino
Treasurer	Cherylyn C. Uy	38	Filipino
VP – Finance	Ignacia S. Braga IV	52	Filipino
AVP – Business Development & Corporate Affairs / Corporate Secretary	Ma. Henedina V. San Juan	56	Filipino
VP – Human Resources	Irwin M. Montano	52	Filipino
VP – Ship Management Tankers & Tugs	Regino S. Trajano	58	Filipino
VP – Ship Management Passenger and Cargo	Ricky P. Victoria	58	Filipino
AVP – Chartering and Synergy Functions	Athelle Beverly Diamond G. Feliciano	38	Filipino
Finance Controller	Rodel V. Marqueses	32	Filipino
Compliance Officer	Leandro E. Abarquez	34	Filipino
Investor Relations Officer	Rishamae S. Diaz	29	Filipino

## Information required of Directors and Executive Officers

### i. Directors and Executive Officers

#### Board of Directors

The following are the final nominees who were duly screened by the Nomination Committee for election to the Board of Directors for the following fiscal year 2018 at the forthcoming Annual Stockholders' Meeting:

1. Dennis A. Uy
2. Chryss Alfonsus V. Damuy
3. Cherylyn C. Uy
4. Arthur Kenneth L. Sy
5. Efren E. Uy
6. Eduardo A. Bangayan
7. Miguel Rene A. Dominguez
8. Jesus S. Guevara II
9. Gener T. Mendoza

Miguel Rene A. Dominguez was nominated as Independent Director by Dennis A. Uy, while Jesus S. Guevara II was nominated as Independent Director by Chryss Alfonsus V. Damuy and Gener T. Mendoza was nominated as Independent Director by Ignacia S. Braga IV.

The nominees are not related by consanguinity or affinity and have no professional or business dealings with the person who nominated them. The nominees are neither officers nor substantial stockholders of the Company. They possess the qualifications

and none of the disqualifications of Independent Directors. Prior to being elected as Director of the Company, they have not, at any time, rendered any service to the Company.

For the scheduled Annual Stockholders' Meeting, the Nomination Committee has screened and evaluated the candidates for Independent Directors based on the Rule 38 of the Securities Regulation Code ("SRC") and the Company's Amended By-laws and Manual of Corporate Governance.

*Below is a summary of the nominees' qualifications:*

**Dennis A. Uy**

**Chairman**

Dennis A. Uy, Filipino, 44 years old, is the founder and the Chairman of Chelsea Logistics Holdings Corp. since its incorporation. He served as President and CEO of CLC from incorporation until March 27, 2017. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of Phoenix Petroleum Philippines, Inc. (PPPI), and Udenna Corporation, the ultimate parent company of PPPI and CLC. He is also the President and CEO of Udenna Management & Resources Corp. (UMRC) and its subsidiaries. Among the subsidiaries of UMRC are Global Synergy Trade & Distribution Corporation, PN-X-UDENNA Insurance Brokers, Inc. ValueLeases, Inc., Udenna Capital, Inc., Udenna Environmental Solutions, Inc. and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation. He is a member of the Young Presidents Organization – Philippine chapter and the Philippine Business for Social Progress. Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines since November 2011. He has a degree in Business Management from De La Salle University.

**Chryss Alfonsus V. Damuy**

**Director, President & CEO**

Chyrss Alfonsus V. Damuy, Filipino, 44 years old, is a Director of CLC since its incorporation and appointed President and CEO of the Company on March 27, 2017. He is the Chief Operating Officer of Chelsea Shipping Corp. and its subsidiaries, PN-X-Chelsea Shipping Corp., Fortis Tugs Corporation, Michael, Inc., Bunkers Manila, Incorporated, Chelsea Ship Management & Marine Services Corp., and Chelsea Marine Manpower Resources, Inc. Mr. Damuy is currently the Vice Chairman of Trans-Asia Shipping Lines, Incorporated and its subsidiaries Oceanstar Shipping Corporation, Starsy Shoppe, Inc., Dynamic Cuisine, Inc. and Quality Metals & Shipworks, Inc. Prior to joining CLC, he was the Vice President for Finance of Phoenix Petroleum Philippines, Inc. and General Manager of Calaca Industrial Seaport Corp. Before that, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-Purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College. He is a Certified Public Accountant and has a degree in Bachelor of Science in Accountancy.

**Cherylyn C. Uy****Director, Treasurer**

Cherylyn C. Uy, Filipino, 38 years old, is a Director and Treasurer of CLC since February 10, 2017. She also serves as the Treasurer of Chelsea Shipping Corp. and its subsidiaries. She is likewise a Director of Phoenix Petroleum Philippines, Inc. and the Corporate Treasurer of the Udenna Group of Companies and F2 Logistics, Inc. Ms. Uy is a graduate of Ateneo de Davao University with a degree in Business Finance.

**Arthur Kenneth L. Sy****Director**

Arthur Kenneth L. Sy, Filipino, 50 years old, is a Director of CLC since March 27, 2017. He serves as President and CEO of Trans-Asia Shipping Lines, Incorporated, and currently the President and CEO of JGSY Marine and Allied Ventures Corp., Dynamic Cuisine, Inc., Starsy Shoppe, Inc., Sybu Real Estate Corporation, Oceanstar Shipping Corporation, Allmix Trading, Inc., Quality Metal and Shipworks Inc. and Funflatables Corporation. He holds degrees in the fields of business and engineering namely, Bachelor of Science in Business Administration from the University of San Carlos; Bachelor of Science in Marine Engineering, and Bachelor of Science in Mechanical Engineering from the University of Cebu.

**Efren E. Uy****Director**

Efren E. Uy, Filipino, 56 years old, is a Director of CLC since March 27, 2017. Mr. Uy currently serves as the President and Chief Executive Officer of F2 Logistics Philippines, Inc., F2 Global Logistics, Inc., Agri Farmers, Inc., F8 Prime Transport Services, Inc., Ultimate Yellow Transport Services, Inc., Fmoves Transport Corp. and Miren Holdings, Inc. He has a degree in Bachelor of Science in Mechanical Engineering from University of San Carlos.

**Eduardo A. Bangayan****Director**

Eduardo A. Bangayan, Filipino, 66 years old, is a Director of CLC since March 27, 2017. He is currently the President of Summit World Group of Companies, a Director for Fuji Oil Philippines and an Independent Director for Manila Mining Corporation. He is also the Vice President of the New Leyte Edible Oil Manufacturing Corporation. From 2004 until 2008, he served as Trustee of the Local Water Utilities Association. Mr. Bangayan served as a Director of the Davao City Water District since 2002 prior to his appointment as Chairman in January 2017 with a term until 2023. Further, he serves as an Independent Director of Rural Bank of Tagum from 2015 until present. He has a degree in Bachelor of Science in Business Administration from Silliman University.

**Miguel Rene A. Dominguez****Independent Director**

Miguel Rene A. Dominguez, Filipino, 41 years old, is an Independent Director of CLC since March 27, 2017. He is currently the Vice President of Alsons Agribusiness Unit, Director of Sarangani Agricultural Company, Inc. and Director of Philippine Business for Social Progress. He served as Chairman of the Regional Peace and Order Council for Region 12 (2011-2013), Chairman of SOCSARGEN Area Development Board (2008-2011) and Chairman of Regional Development Council of Region 12 (2007-2010). Mr. Dominguez was named an awardee for Governance and Public Service in the Ten Outstanding Young Men 2013 by the Junior Chamber International Philippines and



the TOYM Foundation. He was the first awardee of the Jesse Robredo Leadership Award given the same year. He was governor of Sarangani province for three (3) consecutive 3-year terms that began in 2004. Prior to his election as governor, he was the National Sales and Marketing Manager of the Alsons Aquaculture Corporation in 2003, earning for the brand “Sarangani Bay” a strong hold in the international markets, particularly in the US, Japan and Europe. He has a degree in AB Economics from Boston College in the US.

**Jesus S. Guevara II**  
**Independent Director**

Jesus S. Guevara II, Filipino, 63 years old, is an Independent Director of CLC since March 27, 2017. Mr. Guevara is currently the President of Alternative Power Resource Holdings, Inc. From 2009 to the present, he sits as Director of Lipa Bank, Inc. He served as Executive Vice President of the Development Bank of the Philippines, where he worked for eighteen (18) years. He was appointed Chairman of the Board of Phividec Industrial Authority. In the last (5) five years, he has served as Director for DBP Service Corporation, DBP Management Corporation, LGU Guarantee Corporation and DBP Insurance Brokerage, Inc. He has a degree in Bachelor of Arts in Economics from University of the Philippines and Master’s Degree in Industrial Relations.

**Gener T. Mendoza**  
**Independent Director**

Gener T. Mendoza, Filipino, 60 years old, is an Independent Director of CLC since March 27, 2017. Mr. Mendoza is currently the President of GNCA Holdings, Inc. Apart from his assignment in GNCA, he serves as court-appointed rehabilitation receiver or liquidator for the following companies: Ensogo, Inc., Universal Rightfield Property Holdings, Inc., Pacific Activated Carbon Company, Inc., and Premium Agro-Vet Products, Inc. He also assists the liquidator of National Steel Corporation and Advent Capital Corporation. Previously, he was a Principal Partner of SyCip Gorres Velayo & Co., Vice President for Corporate Finance at Kuok Philippine Properties, Inc., and Executive Vice President of Crown Equities Inc. He serves as a Director of IPM Holdings Inc., Organizational Change Consultants International, Inc., ACM Landholdings, Inc., Dualtech Training Center Foundation, Inc., and Rose Pharmacy, Inc. He has a degree in Bachelor of Science in Management Engineering from Ateneo de Manila University and Master’s Degree in Business Administration from Harvard Business School.

**Period of Directorship in the Company**

<b>Name of Director</b>	<b>Period of Service</b>	<b>Term of Office</b>
Dennis A. Uy	since incorporation to present	1 year
Chryss Alfonsus V. Damuy	since incorporation to present	1 year
Cherylyn C. Uy	since February 10, 2017 to present	1 year
Arthur Kenneth L. Sy	since March 27, 2017 to present	1 year
Efren E. Uy	since March 27, 2017 to present	1 year
Eduardo A. Bangayan	since March 27, 2017 to present	1 year
Miguel Rene A. Dominguez	since March 27, 2017 to present	1 year
Jesus S. Guevara II	since March 27, 2017 to present	1 year
Gener T. Mendoza	since March 27, 2017 to present	1 year

## Directorships in Other Reporting Companies

The following are directorships held by the Directors in other reporting companies during the last five (5) years:

Name of Director	Name of Reporting Company	Position Held
Dennis A. Uy	Phoenix Petroleum Philippines, Inc.	Director, President and CEO
	2Go Group, Inc.	Chairman of the Board
Cherylyn C. Uy	Phoenix Petroleum Philippines, Inc.	Director
Eduardo A. Bangayan	Manila Mining Corporation	Independent Director
Gener T. Mendoza	IPM Holdings, Inc.	Director

## Executive Officers

The following Officers are expected to be nominated for re-election or election at the Organizational Meeting of the Board of Directors following the Annual Stockholders' Meeting on March 19, 2018:

### **Ignacia S. Braga**

#### **Vice President for Finance**

Filipino, 52 years old, is the Vice President for Finance of CLC. She is also the Vice President for Finance of Chelsea Shipping Corp. and its subsidiaries. Ms. Braga is a Certified Public Accountant with more than twenty (20) years of corporate finance and accounting experience. Prior to joining the Company, she was formerly the Assistant Vice President – Group Controller of Lapanday Foods Corporation and former Controller of Macondary Agro-Industrial Corporation. She was the Finance Manager of RFM Tuna Corporation and the Asia Industries (Mindanao) Inc. She began her career as an auditor of Sycip Gorres Velayo & Co. in 1986. She is a Cum Laude graduate of Bachelor of Science Commerce Major in Accounting from Ateneo de Davao University.

### **Ma. Henedina V. San Juan**

#### **Corporate Secretary and Assistant Vice President for Business Development and Corporate Affairs**

Filipino, 56 years old, is the Corporate Secretary and concurrently the Assistant Vice President for Business Development and Corporate Affairs of CLC. She also serves as the Corporate Secretary of Chelsea Shipping Corp. and its subsidiaries, and other Companies in the Udenna Group. Prior to joining the Company, she worked for Petron Corporation, Petronas Energy & Petroleum, Inc. and Herma Corporation. She has a degree in Bachelor of Arts in Political Science and Bachelor of Laws both from University of the Philippines.

### **Irwin M. Montano**

#### **Vice President for Human Resources**

Filipino, 52 years old, is the Vice President for Human Resources of the Company and of CLC. Mr. Montano was formerly the Vice President for Human Resources, Environment/Safety and Health, Security, and Customer Service of Amkor Technology Philippines. He also served as the AVP for Human Resources and Business Unit Head of the IT Outsourcing Group of American Data Exchange Corporation. He is a Cum

Laude graduate of Bachelor of Science in Electronics and Communication Engineering from Mapua Institute of Technology. He completed his MBA Regis Program (Gold Medalist) from the Ateneo Graduate School of Business.

**Regino S. Trajano**

**Vice President for Ship Management – Tankers & Tugs Division**

Filipino, 58 years old, is the Vice President for Ship Management for the Tankers & Tugs Division of CLC. He was previously the President and General Manager of Transnational Uyeno Maritime, Inc. Prior to that, he had shipboard experience as Chief Engineer of foreign vessels. He has a degree in Bachelor of Science in Marine Transportation from the Philippine Merchant Marine Academy.

**Ricky P. Victoria**

**Vice President for Ship Management – Passenger and Cargo Division**

Filipino, 58 years old, is the Vice President for Ship Management of the Passenger and Cargo Division of CLC. Prior to joining CLC, he was the President of Navia Crewing Services, Inc. He was formerly the General Manager of Synergy Group Operations, Inc. and Senior Operations Manager of Jebesen's Maritime, Inc. He was also with SAV Ship Management and Marine Services, Inc. as Managing Director. He has a degree in Bachelor of Science in Marine Transportation from the Philippine Merchant Marine Academy and has a Master's Degree in Business Administration from the University of Western Australia.

**Athelle Diamond Beverly G. Feliciano**

**Assistant Vice President for Chartering and Synergy Functions**

Filipino, 38 years old, is the Assistant Vice President for Chartering and Synergy Functions of the Company. She was formerly with Emirates National Oil Company (ENOC) in charge of Risk Management. Prior to this, she was Chartering & Business Planning and Tanker Vessels Voyage Manager of Chevron Philippines, Inc. She is a Lean Six Sigma Green Belter. She has a Bachelor of Science degree in Business Economics from the University of Santo Tomas and has a Master's Degree in Business Administration from the Ateneo Graduate School of Business.

**Rodel V. Marqueses**

**Finance Controller**

Filipino, 32 years old, is the Finance Controller of the Company. Prior to joining CLC, he was formerly an Audit Senior Manager of Punongbayan and Araullo. He is a Certified Public Account and has a degree in Bachelor of Science in Accountancy from San Beda College.

**Leandro E. Abarquez**

**Compliance Officer**

Filipino, 34 years old, is the Compliance Officer of the Company. Prior to joining CLC, he was a Senior Associate at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles. He has a Bachelor's degree in Biology from the Ateneo de Manila University and obtained his Juris Doctor degree from the same university in 2009.

**Rishamae S. Diaz**

**Investor Relations Officer**

Filipino, 29 years old, is the Investor Relations Officer of the Company. She was formerly with ABS-CBN Corporation as Investment and Business Analysis Officer.

Prior to that, she was a Corporate Finance Analyst at Alsons Consolidated Resources, Inc. and Unicapital, Inc. She holds a Bachelor's Degree in Mathematics from the University of the Philippines.

#### **Period of Service in the Company**

<b>Name of Executive Officer</b>	<b>Period of Service</b>
Ignacia S. Braga IV	Since incorporation to present
Ma. Henedina V. San Juan	Since incorporation to present
Irwin M. Montano	February 16, 2017 to present
Regino S. Trajano	January 1, 2018 to present
Ricky P. Victoria	January 11, 2017 to present
Athelle Diamond Beverly G. Feliciano	Since incorporation to present
Rodel V. Marqueses	September 16, 2016 to present
Leandro E. Abarquez	April 3, 2017 to present
Rishamae S. Diaz	January 3, 2018 to present

#### **ii. Significant employees**

No single person is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

#### **iii. Family relationships**

There are no other family relationships between any Directors and any members of the Company's senior management as of the date of this Information Statement, except for the following:

1. Spouses Dennis A. Uy (Chairman of the Board) and Cherylyn C. Uy (Treasurer)
2. Spouses Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Shiela Fay U. Sy (Trans-Asia Shipping VP for Marketing and Operations)
3. Siblings Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Judith Ann S. Sandoval (Trans-Asia Shipping AVP for Treasury and Administration Services)

#### **iv. Involvement of Directors and Officers in certain legal proceedings**

As of the date of this Information Statement, there are no other material legal proceedings involving CLC's Directors and Executive Officers except the following:

1. *People of the Philippines vs. Dennis Ang Uy, John Does and/or Jane Does, Criminal Case Nos. 75,834-13 to 75,845-13 and 76,067-13 to 76,076-13, Regional Trial Court, 11th Judicial Region, Davao City, Branch 14*

On August 27, 2013, the DOJ filed twelve (12) Information before the Regional Trial Court of Davao (docketed as Criminal Case Nos.75,834-13 to 75,845-13) against Mr. Uy and several John Does and/or Jane Does in connection with the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ, finding probable cause against Mr.Uy for alleged violation of Section 3602 in relation to Sections 3601, 2530 (I)(1), (3), (4), and

(5), Sections 1801,1802, 3604; and 2530 of the TCCP, as amended, and AO No.243, CAO No.3-2010 and CAO No.18-2010.

On September 5, 2013, an Entry of Appearance with Omnibus Motion (for Judicial Determination of Probable Cause and to Suspend Issuance and/or Service of Warrant of Arrest) dated September 3, 2013 was filed by Mr. Uy's counsel, which prayed for the dismissal of the criminal cases for lack of probable cause.

Thereafter, on September 11, 2013, the DOJ filed ten (10) additional Information against Mr. Uy and several John Does and/or Jane Does for alleged violations of the TCCP. These were docketed as Criminal Case Nos. 76,067-13 to 76,076-13.

On September 19, 2013, a Supplemental Motion for Judicial Determination of Probable Cause dated September 18, 2013 was filed by Mr. Uy's counsel, seeking the dismissal of the ten (10) additional criminal cases for lack of probable cause.

On October 4, 2013, the RTC issued an Order dismissing all the cases against Mr. Uy.

On November 15, 2013, a copy of the plaintiff People of the Philippines' Motion for Reconsideration with Urgent Motion for Inhibition of Judge George E. Omelio dated November 12, 2013 was received, to which Motion, Mr. Uy filed his Opposition.

On August 18, 2014, the RTC issued an Order denying the Motion for Reconsideration of the plaintiff. The plaintiff People of the Philippines filed its Petition for Certiorari with the Court of Appeals for the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by the trial court. Please see Item 3 below for status on the Petition for Certiorari.

2. *People of the Philippines vs. Hon. George E. Omelio, in his capacity as Presiding Judge of the Davao City Regional Trial Court, Branch 14, Hon.Loida S. Posadas-Kahugan, in her capacity as Acting Presiding Judge of the Davao City RTC, Branch 14, Dennis Ang Uy, John Does and/or Jane Does, CA-G.R.SP No.06500-MIN, Court of Appeals, Cagayan de Oro City, 23<sup>rd</sup> Division*

On October 27, 2014, petitioner People of the Philippines filed a Petition for Certiorari seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by the trial court dismissing the cases filed against Dennis Ang Uy. The respondents filed their Comment to said Petition for Certiorari, and the parties subsequently filed their respective Memoranda. In its Decision dated October 12, 2016, the Court of Appeals denied the Petition for Certiorari filed by the People of the Philippines. On November 7, 2016, the People of the Philippines filed its Motion for Reconsideration of the Decision dated October 12, 2016. To date, the Court of Appeals has not acted on the Motion for Reconsideration dated November 7, 2016.

3. *Dennis A. Uy vs. Hon. Secretary of the Department of Justice Leila M. De Lima and the Bureau of Customs, CA-G.R.SP No. 131702, Court of Appeals, Manila, Special Former Special Tenth Division*

There being no appeal or any other plain, speedy and adequate remedy in the ordinary course of law available to question and seek the reversal of the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ finding probable cause against Mr. Uy

for alleged violation of the TCCP and other related rules and regulations, Dennis A. Uy filed a Petition for Certiorari with the Court of Appeals on September 4, 2013.

On September 10, 2013, petitioner filed a Motion for Consolidation seeking the consolidation of this case with the Petition for Certiorari (with Application for Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction) filed by Jorlan Cabanes, docketed as CA-G.R.SP No.129740. The Motion for Consolidation was granted in the Resolution dated November 6, 2013. Thereafter, all the parties filed their respective Memoranda. On July 25, 2014, the Court of Appeals issued its Decision granting the Petition for Certiorari and declaring the Resolutions dated April 24, 2013 and August 13, 2013 nullified and set aside and directing that the Information filed against Dennis Uy and Jorlan C. Cabanes before the Regional Trial Courts of Batangas City and Davao City be withdrawn and/or dismissed for lack of probable cause. A Motion for Reconsideration of the Decision dated July 25, 2014 was filed by respondents SOJ and Bureau of Customs. On July 23, 2015, the Court of Appeals issued its Resolution denying respondents' Motion for Reconsideration. On September 10, 2015, petitioner received a copy of the Motion for Extension to File Petition for Review on Certiorari filed by the respondents with the Supreme Court. To date, the Supreme Court has not acted on respondents' Motion.

4. *Secretary of the Department of Justice Leila M. De Lima and Bureau of Customs vs. Jorlan Cabanes, and Secretary of the Department of Justice Leila M. De Lima and Bureau of Customs vs. Dennis A. Uy, G.R. No. 219295-219296, Supreme Court, 2nd Division*

On October 8, 2015, respondents Jorlan C. Cabanes and Dennis A. Uy received a copy of the Petition for Review on Certiorari dated September 8, 2015 filed by petitioners SOJ and Bureau of Customs seeking to set aside the Court of Appeals' Decision dated July 25, 2014 and the Court of Appeals' Resolution dated July 2, 2015. The Supreme Court required the parties to file their respective Memoranda, which the parties complied with. On December 12, 2016, the Supreme Court issued its Notice of Resolution dated November 16, 2016 noting the parties' Memoranda.

5. *People of the Philippines v. Prospero Pichay, Eduardo Bangayan, et.al., SB Criminal Case Nos. SB16CRM0425-30*

These cases charge Mr. Eduardo Bangayan for (a) violation of Section 3(e) of R.A. 3019; (b) violation of Section X126.2(C)(1)(2) of the Manual of Regulation for Banks in relation to Sections 36 and 37 of R.A. No. 7653; and, (c) committing Malversation of Public Funds under the Revised Penal Code, for allegedly conspiring with the other accused in the (a) Local Water Utilities Association's (LWUA) purchase of 445,377 shares in Express Savings Bank, Inc. (ESBI) and release from the LWUA Fund of at least PhP800,003,070.51 in connection with the said purchase of shares; and, (b) LWUA's deposit and/or capital infusion of the PhP400,000,000.00 and deposit of PhP300,000,000.00 with ESBI, as well as the release of the foregoing amounts from the LWUA Fund.

Mr. Bangayan sought for the dismissal of the criminal cases against him based on his defense that he had acted in good faith, upon the honest belief and based on information made available to him, that LWUA's acquisition of ESBI had the approval of the BSP and complied with all applicable laws and regulations, and that there was no prima facie evidence on his alleged conspiracy, hence, there is no probable cause to indict him for any of the alleged offenses.



The Sandiganbayan dismissed the case insofar as Mr. Bangayan is concerned through its Resolution dated October 18, 2016. The prosecution moved for reconsideration thereof. The same is still pending resolution by the Sandiganbayan.

6. *Field Investigation Office (Office of the Ombudsman) v. Prospero Pichay, Eduardo Bangayan, et.al., OMB Case No. C-C15-0007*

Mr. Bangayan is being charged, together with four members of the LWUA Board, and other officials of the LWUA Management with alleged violations of (a) Malversation of Public Funds under Article 217 of the Revised Penal Code and, (b) Section 3(e) and (g) of R.A. 3019.

These charges are in connection with the use of LWUA corporate funds in extending loans to water districts nationwide under the Non-LWUA Initiated Funds (NLIF) Project from 2009 to 2011, which stemmed from the approval of the LWUA Board of Board Resolution No. 19, Series of 2009, upon the recommendation made and data provided to the Board by the LWUA Management.

For his defense, Mr. Bangayan argued that (a) his appointment as Trustee of the LWUA from September 2008 to March 2009 did not have legal effect; (b) he acted in good faith in voting for the use of the NLIF under said Board Resolution because he made it on the basis of the recommendation made as well as data given by the LWUA Management to the LWUA Board; and, (c) the Office of the Government Corporate Counsel did not specifically find any fault on the part of the LWUA Board. Based on the foregoing, Mr. Bangayan argued that there is no probable cause to indict him for the charges. The investigation is currently ongoing.

7. *Ombudsman v. Bundoc, et. Al., G.R. No. 225521-28, Supreme Court, First Division*

On November 2012, the Office of the Ombudsman issued a review decision finding certain individuals, including Jesus S. Guevara II, guilty of Grave Misconduct and Conduct Prejudicial to the Best Interest of the Service. On November 2015, the Court of Appeals set aside the decision, which prompted the Office of the Ombudsman to file a motion for reconsideration. The Court of Appeals denied such motion for reconsideration on June 2016. A petition for review on certiorari was filed by the Office of the Ombudsman before the Supreme Court on August 2016. The Supreme Court in its Order dated December 1, 2016 and received on March 30, 2017, ordered the respondents including Jesus Guevara II to comment on the Petition filed by the Ombudsman. The respondents including Jesus Guevara II seasonably filed their Comment before the Supreme Court.

Other court cases typical and customary in the course of the business operations of the Company such as those, among others, involving collection, qualified theft, breach of contract and reckless imprudence have been filed by and against the Company, by and against its employees and/or third parties. The results of which will not significantly affect the financial standing of the Company.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Information Statement of any of the following events which are material to an evaluation of the ability or integrity of any

Director, person nominated to become a Director, executive officer, or control person of the Company:

- Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
- Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the Commission, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

**There are no other pending legal cases as far as records of the Company is concerned.**

**b. Certain relationships and related transactions**

The Company's related parties include its parent company, related parties under common ownership, the Company's key management personnel and stockholders.

A summary of the Company's and its Subsidiaries' transactions with its related parties for the periods ended December 31, 2017 and 2016 and the related outstanding balances as of December 31, 2017 and 2016 is presented below.

Related Party Category	Notes	Amounts of Transactions		Outstanding Balances	
		2017	2016	2017	2016
<b>Udenna --</b>					
Cash advances granted	21.4	P 2,428,234,009	P 10,000,000	P 2,428,234,009	P -
<b>P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)</b>					
Chartering of services rendered	21.1	531,535,742	954,615,182	271,054,727	460,059,177
Fuel purchases	21.2	118,384,647	132,524,625	( 77,121,463 )	( 66,940,095 )
Cash advances obtained	21.4	84,830,229	-	( 929,026 )	( 85,759,255 )
Repayment of advances	21.4	-	370,816,632	-	-
Acquisition of CSC's shares	21.6	-	2,000,000,000	( 500,000,000 )	( 500,000,000 )
<b>Other related parties under common ownership</b>					
Rental income	21.3	5,044,967	9,273,407	1,131,385	1,600,540
Rental expense	21.3	2,295,681	2,356,626	( 378,191 )	-
Donation	21.8 (b)	360,000	360,000	( 90,000 )	-
Cash advances granted	21.4	( 194,446,078 )	-	60,200,784	194,446,078
Cash advances obtained	21.4	( 1,039,843,126 )	-	( 1,039,843,126 )	-

Unless otherwise stated, the outstanding receivables and payables from and to related parties are unsecured, noninterest-bearing and are generally settled in cash upon demand or through offsetting arrangement with the related parties.

In addition, the following table presents the outstanding balance of advances to officers and employees of the Company as of:

	<b>2017</b>	<b>2016</b>
Advances to officers and employees	PhP 19,001,031	PhP 10,374,828

Advances to officers and employees represent unsecured, non-interest bearing cash advances for business-related expenditures and are subject to liquidation.

c. Ownership structure and parent company

As of December 31, 2017, Udenna Corporation owns 70.00% of the outstanding shares of the Company.

d. Resignation of Directors

Since the organizational meeting of the Company on March 27, 2017, no Director or Officer has resigned because of a disagreement with the Company on any matter relating the Company's issuance, operations, policies or practices.

#### **Item 6. Compensation of Directors and Executive Officers**

The Company's executive officers are regular employees entitled to a 12-month compensation package and other mandatory pay and benefits. They also receive performance bonuses similar to those of the managerial, supervisory and technical employees.

The members of the Board of Directors who are not employees of the Company are elected for a period of one (1) year. The Company pays its non-executive directors a per diem of PhP30,000.00 for each meeting. There are no other arrangements for which the members of the Board of Directors are compensated.

The members of the Board of Directors are elected for a period of one (1) year.

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers of the Company are as follows:

<b>Compensation of Executive Officer and Directors (in PhP millions)</b>				
<b>Name and Principal Position</b>	<b>Salary</b>	<b>Bonus</b>	<b>Other</b>	<b>Total</b>
	<b>Estimated Compensation</b>			
	<b>For the Year Ended December 31, 2018</b>			
Chryss Alfonsus V. Damuy President and CEO				
Cherylyn C. Uy Treasurer				
Ignacia S. Braga IV VP – Finance				

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	Salary	Bonus	Other	Total
	Estimated Compensation For the Year Ended December 31, 2018			
Arthur Kenneth Sy President – TranAsia				
Ricky P. Victoria VP – Ship Management Tankers & Tugs				
CEO & Most Highly Compensated Executive Officers	21.8	-	-	21.8
All other officers as a group unnamed	6.4	-	-	6.4

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	Salary	Bonus	Other	Total
	Actual Compensation For the Year Ended December 31, 2017			
Chryss Alfonsus V. Damuy President and CEO				
Cherylyn C. Uy Treasurer				
Ignacia S. Braga IV VP – Finance				
Arthur Kenneth Sy President – TranAsia				
Ricky P. Victoria VP – Ship Management Tankers & Tugs				
CEO & Most Highly Compensated Executive Officers	20.3	-	-	20.3
All other officers as a group unnamed	6.8	-	-	6.8

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	Salary	Bonus	Other	Total
	Actual Compensation For the Year Ended December 31, 2016			
Chryss Alfonsus V. Damuy President and CEO				
Cherylyn C. Uy Treasurer				

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	Salary	Bonus	Other	Total
	Actual Compensation For the Year Ended December 31, 2016			
Ignacia S. Braga IV VP – Finance				
Arthur Kenneth Sy President – TranAsia				
Ricky P. Victoria VP – Ship Management Tankers & Tugs				
CEO & Most Highly Compensated Executive Officers	21.0	-	-	21.0
All other officers as a group unnamed	18.0	-	-	18.0

Generally, a typical employment contract executed between the Company and its named executive officers has the following terms:

- a. Specification of job title, commencement date of employment, work assignment and possible need for reassignment of work or location as the need may arise.
- b. Probation of six months from commencement of employment. If the job performance is found to be satisfactory, employment shall be converted to regular status.
- c. Salary & Benefits: specifies that the executive officer shall receive his or her monthly salary and a guaranteed 13<sup>th</sup> month pay less the necessary government deductions required by law, such as but not limited to SSS premium, PHILHEALTH, and PAG-IBIG contributions. The same section likewise provides that the executive's salary shall be subject to annual review which shall take into consideration his or her performance and the achievement of a mutually-agreed goals.
- d. Exclusivity: The employment contract states that the executive shall render exclusive service to the Company and to work with other companies, regardless of whether such work is done outside of office hours, without the consent of the Company, is prohibited.
- e. Confidentiality: The executive is duty bound to keep confidential information, materials and records which he or she may access in the course of his or her employment with the Company and he or she may not disclose or reproduce the same without the consent of the Company.
- f. Professional Conduct: The executive concerned is expected to comply with all the policies and procedures which the Company may issue from time to time. It is specifically prohibited to accept any or all kinds of gifts from suppliers and customers without the consent of the Company.

## **Employees' Stock Option Plan (ESOP)**

The Company has no existing stock option plan.

## **Item 7. Independent Public Accountants**

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Ltd., independent auditors, audited the Company's financial statements as at and for the years ended December 31, 2016 and 2017 in accordance with the Philippine Standards on Auditing.

P&A has acted as CLC's external auditor since incorporation. Ramilito L. Nanola is the assigned audit partner and has served as such since 2016. The Company has not had any material disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. P&A has neither shareholdings in CLC nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

Punongbayan & Araullo will be recommended for re-appointment at the scheduled Annual Stockholders' Meeting. Representatives of the firm are expected to be present at the Annual Stockholders' Meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

The following table sets out the aggregate fees billed to the Company and its subsidiaries for each of the last two fiscal years for professional services rendered by its external auditor. P&A does not provide other services that are not reasonably related to the performance of the audit or review of our financial statements.

	<b>2016</b>	<b>2017</b>
Audit Fees	PhP 2,860,050	PhP 3,691,500

Audit and audit related fees refer to the professional services rendered by P&A for audit of the Company's annual financial statements and services that are normally provided in connection with statutory and regulatory filings for the said calendar years. The fees presented above include out-of-pocket expenses incidental to the Independent Auditors' services.

## **Audit Committee and Policies**

CLC's Audit Committee shall be composed of at least three (3) qualified non-executive Directors, the majority of whom, including the Chairman, should be independent. All of the members of the Committee must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee should not be the chairman of the Board or of any other committees.

The Audit Committee has the following functions:

- a. Provide oversight of Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management



activities;

- b. Perform oversight functions over the Company's internal and external auditors. It should ensure that the internal and external auditors act independent from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- c. Review the annual internal audit plan to ensure its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget necessary to implement it;
- d. Prior to the commencement of an audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- e. Organize an internal audit department, and consider, when necessary and desirable the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- f. Monitor and evaluate the adequacy and effectiveness of CLC's internal control system including financial reporting control and information technology security;
- g. Review the reports submitted by the internal and external auditors;
- h. Review the quarterly, half-year and annual financial statements before their submission to the Board of Directors, with particular focus on the following matters: any change(s) in accounting policies and practices; major judgment areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards; and compliance with tax, legal and regulatory requirements;
- i. Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- j. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fee paid to the external auditor in relation to its significance to the total annual income of the external auditor and to our overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with its duties as an external auditor or may pose a threat to its independence. The non-audit work, if allowed, should be disclosed in our annual report; and
- k. Establish and identify the reporting line of CLC's internal auditor to enable him to properly fulfill his duties and responsibilities. It shall functionally report directly to the Audit Committee.

CLC's Audit Committee shall ensure that its internal auditor in the performance of its work shall be free from interference by outside parties. In addition, the Audit Committee shall be tasked to prepare the Audit Committee Charter (the Charter), which shall contain, among others, its purpose, membership, structure, operations, reporting process, resources and other relevant information. The Charter shall specify how the Audit Committee shall perform its oversight functions as prescribed by the Revised Code of Corporate Governance (the

Code).

In the preparation of the Charter, the Audit Committee shall strictly observe the requirements of the Code and other applicable laws and regulations in the Philippines and shall align the Charter with the best practices and standards as provided for in any or combination of the reference guides indicated in SEC Memorandum Circular No. 4, Series of 2012.

Upon approval by the Audit Committee of the Audit Committee Charter, the same shall be submitted for the approval of CLC's Board of Directors. Within one year from listing date, the Audit Committee shall assess its performance, as prescribed by and pursuant to SEC Memorandum Circular No. 4, Series of 2012.

Miguel Rene A. Dominguez is CLC's Audit Committee Chairman, with Dennis A. Uy and Jesus S. Guevara II as members.

#### **Changes in and Disagreements with Accountants**

The Company has not had any disagreement with its current external auditor/independent public accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

#### **Item 8. Compensation Plans**

No action is to be taken by the Company with respect to any compensation plans.

### **C. ISSUANCE AND EXCHANGE SECURITIES**

#### **Item 9. Authorization or Issuance of Securities Other than For Exchange**

Proposed reclassification of ten (10) million Common Shares into Preferred Shares.

#### **Item 10. Modification or Exchange of Securities**

No action is to be taken by the Company with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

#### **Item 11. Financial and Other Information**

No action is to be taken with respect to financial and other information.

#### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action is to be taken with respect to mergers, consolidations, acquisitions and similar matters.

#### **Item 13. Acquisition or Disposition of Property**

No action is to be taken with respect to acquisition or disposition of property.

#### **Item 14. Reclassification of Accounts**

No actions are to be taken with respect to the restatement of any asset, capital, or surplus account of the Company.

### **D. OTHER MATTERS**

#### **Item 15. Action with Respect to Reports and Other Proposed Action**

Approval of the Minutes of the Annual Stockholders' Meeting held on March 27, 2017

#### **Item 16. Matters Not Required to be Submitted**

There are no actions to be taken with respect to any matter, which are not required to be submitted to a vote by security holders.

#### **Item 17. Amendment of Articles of Incorporation, By-Laws or Other Documents**

Proposed amendment of the By-Laws of the Company, specifically Article IV – Officers, for the creation of the separate positions of the President, Chief Executive Officer, and Chief Operating Officer, and Amendment of the Articles of Incorporation specifically Article Second, to expand the primary purpose of the Company, and Article Seventh, for the creation of Preferred Shares, will be submitted to the stockholders for approval.

#### **Item 18. Other Proposed Action**

- a. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period August 9, 2017 until February 22, 2018 as set forth in **Annex A**.
- b. Election of the members of the Board of Directors
- c. Appointment of the External Auditor – Punongbayan & Araullo

#### **Item 19. Voting Procedures**

Under the Corporation Code, the affirmative vote of stockholders representing at least two thirds (2/3) of the outstanding capital stock of the Company shall be necessary for the approval of the proposed amendment to the Articles of Incorporation and the investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

Except in cases provided above, or where the law provides otherwise, all matters subject to vote shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the By-Laws of the Company. Hence, voting may be done by viva voce, raising of hands or by balloting.

The external auditor of the Company, Punongbayan & Araullo, will validate the votes when

voting is done by secret ballot. Likewise, Punongbayan & Araullo will count the number of hands raised when voting by show of hands is done.

**Upon the written request of the stockholders, the Company hereby undertakes to provide said stockholder with a copy of SEC Form 17-A free of charge. Any written request shall be addressed to:**

**MA. HENEDINA V. SAN JUAN**  
Corporate Secretary  
26<sup>th</sup> Floor Fort Legend Tower  
3rd Avenue corner 31st Street  
Bonifacio Global City, Taguig City 1634

**After reasonable inquiry to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Taguig on the 26<sup>th</sup> day of February 2018.**

**CHELSEA LOGISTICS HOLDINGS CORP.**

**BY:**

A handwritten signature in dark ink, appearing to be 'DSJ' with a long horizontal stroke extending to the right.

**MA. HENEDINA V. SAN JUAN**  
Corporate Secretary

**ACTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS  
FOR THE PERIOD COVERING  
AUGUST 9, 2017 TO FEBRUARY 22, 2018**

4 September	<ul style="list-style-type: none"> <li>Opening and maintenance of Accounts with Asia United Bank- Matina, Davao City; Designation of the following as authorized signatories: <table> <tr> <td>Class "A"</td><td>DENNIS A. UY CHERYLYN C. UY</td></tr> <tr> <td>Class "B"</td><td>CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN</td></tr> <tr> <td>Class "C"</td><td>IGNACIA S. BRAGA IV</td></tr> </table> <p>Any amount - Any one (1) Class "A" signatory signing singly</p> <p>PhP5,000,000.00 and below - Any one (1) Class "B" signatory signing jointly with any one (1) Class "C" signatory.</p> </li> </ul>	Class "A"	DENNIS A. UY CHERYLYN C. UY	Class "B"	CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN	Class "C"	IGNACIA S. BRAGA IV
Class "A"	DENNIS A. UY CHERYLYN C. UY						
Class "B"	CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN						
Class "C"	IGNACIA S. BRAGA IV						
4 September	<ul style="list-style-type: none"> <li>Designation of New Signatories for Bank Accounts with China Banking Corporation and Philippine Business Bank <table> <tr> <td>Class "A"</td><td>DENNIS A. UY CHERYLYN C. UY</td></tr> <tr> <td>Class "B"</td><td>CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN</td></tr> <tr> <td>Class "C"</td><td>IGNACIA S. BRAGA IV</td></tr> </table> <p>Any amount - Any one (1) Class "A" signatory signing singly</p> <p>PhP5,000,000.00 and below - Any one (1) Class "B" signatory signing jointly with any one (1) Class "C" signatory.</p> </li> </ul>	Class "A"	DENNIS A. UY CHERYLYN C. UY	Class "B"	CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN	Class "C"	IGNACIA S. BRAGA IV
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Class "C"	IGNACIA S. BRAGA IV						
4 September	<ul style="list-style-type: none"> <li>Designation of signatories for all accounts of the Corporation with Philippine Business Bank: <table> <tr> <td>Class "A"</td><td>DENNIS A. UY CHERYLYN C. UY</td></tr> <tr> <td>Class "B"</td><td>CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN</td></tr> <tr> <td>Class "C"</td><td>IGNACIA S. BRAGA IV</td></tr> </table> <p>With the following authority:</p> <p>Any amount - Any one (1) Class "A" signatory signing singly</p> <p>PhP5,000,000.00 and below - Any one (1) Class "B" signatory signing</p> </li> </ul>	Class "A"	DENNIS A. UY CHERYLYN C. UY	Class "B"	CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN	Class "C"	IGNACIA S. BRAGA IV
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Class "B"	CHRYSS ALFONSUS V. DAMUY MA. HENEDINA V. SAN JUAN						
Class "C"	IGNACIA S. BRAGA IV						

	below jointly with any one (1) Class "C" signatory.
11 September	<ul style="list-style-type: none"> <li>Registration of Corporation's Logo with the Intellectual Property Office; Designation of the Corporate Secretary of the Corporation, Ma. Henedina V. San Juan as the authorized signatory for this Application.</li> </ul>
11 September	<ul style="list-style-type: none"> <li>Application of the Corporation with the Bureau of Internal Revenue for Authority to Print Receipts / Invoices; Designation of JANEL L. LAGAHIT as authorized signatory for this Application.</li> </ul>
16 October	<ul style="list-style-type: none"> <li>Authority for the Corporation to transact with BDO Unibank, Inc. in order to open and maintain depository accounts and corporate card account; avail of products and services offered by the Bank's units, that is, the Consumer Lending Group – Credit Card Unit, Trust and Investments Group and Treasury Group; avail of credit and lease facilities; mortgage, pledge and assign corporation property; Designation of the Corporation's Chairman Dennis A. Uy, President and CEO Chryss Alfonsus V. Damuy, Corporate Treasurer Cherylyn C. Uy, Corporate Secretary Ma. Henedina V. San Juan and Vice President for Finance Ignacia S. Braga IV as authorized signatories for all transactions with the Bank.</li> </ul>
23 October	<ul style="list-style-type: none"> <li>Designation of the Corporation's President and CEO Chryss Alfonsus V. Damuy as the authorized signatory for all transactions of the Corporation with BDO Unibank, Inc. – Trust and Investments Group.</li> </ul>
6 November	<ul style="list-style-type: none"> <li>Authority for the Corporation to purchase the entire outstanding shares of Starlite Ferries, Inc. consisting of four million (4,000,000) common shares for the total amount of PhP1,600,000,000.00; Designation of the Corporation's Chairman of the Board Dennis A. Uy or its President &amp; CEO Chryss Alfonsus V. Damuy to sign the Deed of Absolute Sale of Shares of Stock to implement this transaction.</li> </ul>
6 November	<ul style="list-style-type: none"> <li>Authority for the Corporation to purchase the entire outstanding shares of Worklink Services, Inc. consisting of four hundred seventy five thousand (475,000) common shares for the total amount of PhP 600,000,000.00; Designation of the Corporation's Chairman of the Board Dennis A. Uy or its President &amp; CEO Chryss Alfonsus V. Damuy to sign the Deed of Absolute Sale of Shares of Stock to implement this transaction.</li> </ul>
4 December	<ul style="list-style-type: none"> <li>Authority for the Corporation to act as continuing surety for all obligations arising from or in connection with all credit accommodations extended or that may be extended in the future to Trans-Asia Shipping Lines, Inc. by BDO Leasing and Finance, Inc.; Designation of the Corporation's Chairman Dennis A. Uy and President &amp; CEO Chryss Alfonsus V. Damuy as authorized signatories for the Continuing Surety Agreement and all other documents necessary to implement this Resolution.</li> </ul>



4 December	<ul style="list-style-type: none"> <li>Authority for the Corporation to act as continuing surety for all obligations arising from or in connection with all credit accommodations extended or that may be extended in the future to Oceanstar Shipping Corporation by BDO Leasing and Finance, Inc.; Designation of the Corporation's Chairman Dennis A. Uy and President &amp; CEO Chryss Alfonsus V. Damuy as authorized signatories for the Continuing Surety Agreement and all other documents necessary to implement this Resolution.</li> </ul>
11 December	<ul style="list-style-type: none"> <li>Authority for the Corporation to purchase one (1) share of stock of The Subic Bay Yacht Club, Inc.; Designation of the Corporation's President &amp; CEO Chryss Alfonsus V. Damuy as the authorized signatory for this purchase transaction; Designation of the following nominees of the Corporation authorized to use the facilities of the Club : Dennis A. Uy; Cherylyn C. Uy; Chryss Alfonsus V. Damuy; Meldin Alfonso G. Roy; Raymundo Martin M. Escalona; Wilfredo A. Placino; Adel A. Tamano; Raymond T. Zorilla; Erickson Y. Manzano and Jose Antonio G. Lopez.</li> </ul>
11 December	<ul style="list-style-type: none"> <li>Authority for the Corporation to file an application for renewal of its Business Permit for 2018 with the City Government of Davao; Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for this application; Authority for Entia Accounting Office and any of its staff members to follow-up the issuance of the Corporation's 2018 Business Permit.</li> </ul>
3 January 2018	<ul style="list-style-type: none"> <li>Authority to transact with BDO Unibank, Inc. for the obtainment of loan facilities and availment of banking products and services; Designation of Dennis A. Uy and Cherylyn C. Uy as Class A signatories authorized to sign for any amount; Chryss Alfonsus V. Damuy and Ma.Henedina V. San Juan as Class B signatories each authorized to sign with Ignacia S. Braga IV as Class C Signatory for amounts P 5M and below.</li> </ul>
15 January	<ul style="list-style-type: none"> <li>Authority for the Corporation to apply for Tax Clearance from the Bureau of Internal Revenue which is needed for the Corporation's accreditation as Importer with the Bureau of Customs; Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as the authorized signatory for this Application for Tax Clearance; Authority for Janel Lagabit, Jessie Dador or Raymart Jutba to transact and receive from the Bureau of Internal Revenue the requested Tax Clearance.</li> </ul>
15 January	<ul style="list-style-type: none"> <li>Authority for the Corporation to open and maintain Savings and Checking Accounts with CTBC Bank (Philippines) and to avail of anyh or all of the Bank's various Cash Management Solutions; Designation of Dennis A. Uy and Cherylyn C. Uy as Class A signatories authorized to sign for any amount; Chryss Alfonsus V. Damuy and Ma.Henedina V. San Juan as Class B signatories each authorized to sign with Ignacia S. Braga IV as Class C Signatory for amounts P 5M and below.</li> </ul>

23 January	<ul style="list-style-type: none"> <li>Acknowledgment and affirmation by the Corporation of its loan obligation with China Banking Corporation in the amount of P 1.8B covered by PN No.101300100091055 dated 29 December 2017 and maturing on February 6,2018, including all interests, penalties and other charges that have accrued; Affirmation of the authority of the Chairman of the Board, Dennis A. Uy to sign the Promissory Notes for this loan obligation.</li> </ul>
23 January	<ul style="list-style-type: none"> <li>Authority for the Corporation to pledge and encumber all of its shares in the capital stock of Chelsea Shipping Corp. in favor of China Banking Corporation to secure the prompt and full payment of the Corporation's and Chelsea Shipping Corp.'s loan obligations to the Bank; Authority for the Corporation to act as surety, co-obligor and co-debtor, for the purpose of the securing the said Loan and all other obligations incurred or to be incurred by the Corporation and/or its affiliate; Designation of the Chairman of the Board Dennis A. Uy and Corporate Treasurer Cherylyn C. Uy as authorized signatories for these transactions.</li> </ul>
5 February	<ul style="list-style-type: none"> <li>Authority for the Corporation to purchase a 2018 Ford Ranger Double Hi-Rider 4x2 2.2L Fx4 MT for the amount of P 1,007,200.00, and secure credit facility from Asia United Bank – Matina Branch, Davao City for this transaction; Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as the authorized signatory for this transaction.</li> </ul>
5 February	<ul style="list-style-type: none"> <li>Designation of Cristine G. Ayles or Francisco U. Delicana or Dante Minoza as representatives of the Corporation authorized to follow-up the Corporation's Applications for Certificate Authorizing Registration with the Bureau of Internal Revenue in connection with the purchase by the Corporation of the outstanding shares of Starlite Ferries, Inc. and Worklink Services, Inc.</li> </ul>

**MANAGEMENT REPORT****I. MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Chelsea Logistics Holdings Corp. and its Subsidiaries as of and for the year ended December 31, 2017. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two periods ended December 31, 2017.

**Revenues**

The Company generated total revenues of ₱3,909.2 million for the year ended December 31, 2017 which was more than double the 2016 revenues of ₱1,638.4. The increase was primarily due to the Company's acquisitions which resulted to additional freight revenues of ₱1,387.4 million, passage revenues of ₱773.5 million and revenues from logistics services of ₱243.8 million.

The decrease in charter fees and standby charges by ₱299.5 million or approximately 20% during 2017 was primarily due to the change in charter agreements involving M/T Great Diamond (formerly Chelsea Thelma) and M/T Great Princess (formerly Chelsea Donatela), which are the two largest vessels registered in the Philippines. The two vessels are the subject of a Bareboat Agreement entered into by the Company with a Vietnam-based petroleum company effective November 2016 and March 2017, respectively. Of the four-types of charter agreements, the bareboat charter yields the least revenue since all costs related to the operation of the vessel are being shouldered by the charterer instead of the ship owner on a cost-plus basis. In 2016, both M/T Great Diamond and M/T Great Princess were under the voyage charter type of agreement wherein all costs were shouldered by the ship owners, hence, revenue was largest as the costs were also high. The bareboat agreement entered into by the Company is for a period of five years, renewable for another five years. In addition, the drydocking of MT Chelsea Cherylyn and MT Chelsea Denise II, which has a total capacity of 10.3 million liters at any given time also contributed to the decline in tinkering revenues.

Tugboat fees also improved by more than 100% for the year ended December 31, 2017 with the Company reporting a total of ₱261.3 million for 2017 as compared to only ₱118.2 million. The improvement in tugboat fees arose from the acquisition of Davao Gulf Marine Services, Inc., which contributed total revenues of ₱121.0 million. In addition, the increased port calls in Calaca Seaport (formerly Phoenix Petroterminals & Industrial Park) also contributed to the increase in tugboat fees.

**Costs and Expenses**

The Group recognized costs of sales and services of ₱2,862.1 million for the year 2017 as compared to ₱1,261.2 million in 2016 as a result of acquisitions of Trans-Asia, SFI and WSI which increased cost of sales and services by ₱942.9 million, ₱626.4 million and ₱125.5

million, respectively. In addition, the increase in bunkering costs as a result of higher prices of fuel in the global market also contributed to increased cost of sales and services.

General and administrative expenses jumped to ₱526.8 million in 2017 from ₱155.5 million in 2016, which was primarily due to increased number of administrative and support personnel resulting in higher salaries and employee benefits, taxes and licenses, professional fees and depreciation and amortization which are directly related to the continued expansion of the Company.

### **Net Profit**

The Group's net profit for the year ended December 31, 2017 amounted to ₱161.2 million as compared to ₱131.7 million in 2016, which included a one-time gain on bargain purchase amounting to ₱158.2 million. This gain is equivalent to the excess of the fair value of Trans-Asia's net assets acquired over the Company's total acquisition price.

Operating income increased by 133% from ₱221.7 million to ₱517.3 million. Meanwhile, the Company's EBITDA improved by 81% from ₱756.2 million to ₱1,368.5 million.

Finance costs increased significantly due to increased interests from loans related to the acquisition of MT Chelsea Charlize, MT Chelsea Endurance, MT Chelsea Dominance and MV Trans-Asia 12 as well as from the CBC loan and CTBC loan obtained to fund the acquisition of CSC and Trans-Asia Shipping. In addition, foreign exchange losses arising from the translation of U.S. dollar-denominated loans also contributed to the increase in finance costs.

### **Financial Condition**

(December 31, 2017 vs. December 31, 2016)

The Company reached a significant milestone in 2017 raising approximately P5.8 billion through the initial listing of its share in the Philippine Stock Exchange. This paved the way for the Company to acquire shipping and logistics companies, implement fleet expansion and increase its market share in the shipping and logistics industry. Hence, total resources of the Group grew to ₱26,379.6 million as of December 31, 2017 from ₱10,759.9 million as of December 31, 2016.

Cash and cash equivalents surged by 183% from ₱508.9 million as of December 31, 2016 to ₱1,441.7 million as of December 31, 2017 as a result of the Company's initial public offering in August 2017.

Trade and other receivables decreased by 7% from ₱944.5 million as of December 31, 2016 to ₱876.4 million as of December 31, 2017 as a result of collections related to the Group's tankers and freight segments.

The decline in subscriptions receivables was due to collections from the parent company.

Increase in inventories of approximately ₱106.0 million was due to acquisition of spare parts inventories and other consumables in preparation for drydocking of certain vessels. Spare parts inventories rose from ₱36.2 million as of December 31, 2016 to ₱87.6 million as of December 31, 2017 while shipping supplies skyrocketed to ₱39.8 million from only ₱1.1 million as of the end of the previous year.

Advances to related parties increased significantly from ₱194.4 million as of December 31, 2016 to ₱2,488.4 million as of December 31, 2017 as a result of advances granted to related parties for working capital requirements and other purposes. These advances are unsecured, non-interest-bearing and are generally settled in cash or through offsetting arrangements with the related parties.

The increase in Other Current Assets from ₱542.7 million as of December 31, 2016 to ₱1,926.3 million as of December 31, 2017 was primarily the result of down payments made by the Company in relation to the planned acquisition of additional vessels.

Property and equipment rose to ₱10,999.6 million as of the end of current year from ₱7,818.6 million as of December 31, 2016 as a result of the acquisition of Starlite Ferries, Inc. (SFI), which owns 14 vessels, including five (5) that are less than two years of age.

The increase in Investments in an associate and a joint venture from ₱45.6 million as of December 31, 2016 to ₱2,268.9 million as of December 31, 2017 was due to the acquisition of the all outstanding shares of Udenna Investments B.V. (UIBV), which holds 79.99% economic interest in KGLI-NM, which in turn owns 39.85% economic interest in Negros Navigation Co., Inc. (Nenaco), the parent company of 2Go Group, Inc. The acquisition was made through issuance of the Company's shares. This account also includes the Company's share in the revaluation of the associate's vessels amounting to ₱108.0 million.

Increase in goodwill was the result of the acquisition of UIBV, SFI and Worklink Services, Inc. (WSI). Goodwill, which represents the excess of the acquisition cost over the fair value of the net assets acquired, amounted to ₱3,917.4 million, ₱1,167.7 million and ₱478.5 million related to the acquisition of UIBV, SFI and WSI, respectively.

The increase of ₱208.2 million in deferred tax assets can be attributed to the tax effect of net operating losses incurred by the Company and certain subsidiaries within the Group.

The increase in Other Non-Current Assets from ₱175.5 million as of December 31, 2016 to ₱327.7 million as of December 31, 2017 was primarily due to costs related to the drydocking of certain vessels during the year. The additions to drydocking were partially offset by amortization of drydocking during the year ended December 31, 2017.

Trade and other payables slightly increased by ₱22.1 million from ₱1,358.8 million as of December 31, 2016 to ₱1,380.8 million as of December 31, 2017. The increase in trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 40% from ₱7,372.8 million as of December 31, 2016 to ₱10,332.2 million as of December 31, 2017 primarily as a result of the consolidation of SFI, which obtained financing from Development Bank of the Philippines and Philippine Business Bank to acquire brand new vessels in 2016 and 2017.

The increase in advances from related parties was due to unsecured, non-interest-bearing cash advances from entities under common ownership.

Deposits for future stock subscription increased by ₱130.0 million as a result of the subscription of preferred shares in Trans-Asia by its former owners. As of December 31, 2017, all of Trans-Asia's authorized capital stock has been fully issued and outstanding and

an application for increase has not been filed and, as such, these deposits are presented as part of the Liabilities section of the statements of financial position.

The decline in income tax payable was primarily due to lower taxes due as some of the Company's subsidiaries reported net operating losses for the current year.

The increase in capital stock and additional paid-in capital was brought about by the issuance of the Company's shares of stock to Udenna Corporation in exchange for the latter's ownership in UIBV. CLC's share was valued at ₱7.80 per share. In addition, the Company also issued 546,593,000 new shares on its initial public offering on August 8, 2017 with an issue price of ₱10.68 per share.

Retained earnings significantly increased by ₱217.5 million primarily due to the results of the Company's financial performance for the year ended December 31, 2017.

### **Key Performance Indicators and Relevant Ratios**

The Group's key performance indicators and relevant ratios and how they are computed are listed below.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Current Ratio	1.00	0.40
Debt-to-Equity Ratio	1.13	5.89
Book Value per Share	7.22	3.12
EBITDA Margin	35%	
Return on Average Equity	2.19%	
Earnings per Share	0.12	

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Average Equity, Net Book Value per Share and Earnings per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

## **II. NATURE AND SCOPE OF BUSINESS**

### **Item 1. Historical Background**

Chelsea Logistics Holdings Corp. (CLC) is a corporation organized and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to act as a holding company.

On November 24, 2016, the Company acquired all of the outstanding shares of Chelsea Shipping Corp. (CSC) from Phoenix Petroleum Philippines, Inc. (PPPI), a related party under common ownership, for a total consideration of P2.0 billion.

On November 28, 2016 and May 12, 2017, the Company's Board of Directors and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, to amend the Company's Articles of Incorporation and By-Laws, which amendments were approved by the SEC on December 21, 2016 and June 27, 2017, respectively.

On March 27, 2017, CLC acquired all of Udenna Investments BV's (UIBV's) outstanding capital stock through a share swap agreement with Udenna Corporation wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV was incorporated on August 25, 1994. UIBV owns 80% economic interest in KGLI-NM, a domestic corporation which was incorporated on August 8, 2008, and which holds 39.85% economic interest in NENACO. KGLI-NM acquired such interests in NENACO on May 13, 2008. NENACO, in turn owns 88.31% of 2Go. NENACO acquired its interests in 2Go on December 28, 2010. Hence, CLC has a 28.15% indirect economic interest in 2Go. NENACO and 2Go Group, Inc. are the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

On August 8, 2017, the Company went public and its shares of stock were initially listed at the Philippine Stock Exchange (PSE).

On November 8, 2017, the Company acquired Worklink Services, Inc., a one-stop integrated logistics solutions provider. Subsequently, on November 9, 2017, the Company acquired Starlite Ferries, Inc., a roll-on, roll-off and passenger ship operator based in Batangas.

### **Item 2. Business of Issuer**

#### **Description of Registrant**

#### **Principal Products and Services**

CLC's core businesses, through its wholly-owned subsidiaries, are divided into: (i) Charter, (ii) Passage, (iii) Freight, and (iv) Tugboat services.

#### **Chelsea Shipping Corp.**

Chelsea Shipping Corp. (CSC), incorporated on July 17, 2006, is engaged in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting,

discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines.

CSC's wholly-owned subsidiaries are engaged in the following businesses:

- a. PNX-Chelsea Shipping Corp. (PNX-Chelsea), incorporated on February 2, 2011, is engaged in operating vessels for domestic trade for conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.
- b. Fortis Tugs Corporation (FTC), incorporated on April 8, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. DGMSI, a wholly-owned subsidiary of FTC, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.
- c. Michael Inc. (MI), incorporated on December 26, 1957, is engaged in the charter, hire or otherwise acquire LCTs, ships, barges, or vessels, together with equipment and furniture thereof.
- d. Bunkers Manila Incorporated (BMI), incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.
- e. Chelsea Ship Management & Marine Services Corp. (CSMMSC), incorporated on March 30, 2012, is engaged in ship management and is authorized to act as agent, broker, ship chandler or representative of foreign/ domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals.
- f. Chelsea Marine Manpower Resources, Inc. (CMMRI), incorporated on June 9, 2016, is engaged in providing full and partial crewing for domestic and foreign vessels, and is authorized to act as authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.
- g. Chelsea Dockyard Corp. (CDC), incorporated on January 8, 2018, is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities.

#### **Trans-Asia Shipping Lines, Incorporated**

Trans-Asia Shipping Lines, Incorporated (Trans-Asia), incorporated on March 25, 1974, is engaged in transporting passengers and cargo within Philippine territorial waters and/or in the high seas.

Trans-Asia's wholly-owned subsidiaries are engaged in the following businesses:



- a. Ocean Star Shipping Corporation (OSSC), incorporated on July 6, 2006, is engaged in the hire, charter, purchase or otherwise acquires vessels, barges, tugboats, lighters or other vessels of any class or regular services of vessels, barges, tugboats, lighters, or other vessels to enter into contract for the carriage and shipment in bulk or otherwise, and to conduct the business of general lighterage, towing ship chandlery, shipbrokers, freight contractors, barge and lighter owners and operators, forwarding agents, and general cargo handling operations of any all kinds of cargo.
- b. Stary Shoppe, Inc. (SSI), incorporated on March 31, 2005, is engaged in engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.
- c. Dynamic Cuisine Inc. (DCI), incorporated on June 21, 2000, is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, and cooks, arranges, serves and caters goods, drinks, refreshments and other food or commodities commonly served in such establishments.
- d. Quality Metal & Shipworks, Inc. (QMSI), incorporated on November 28, 2007, is engaged in providing machining and mechanical works on ship machineries and industrial plants.

#### **Worklink Services, Inc.**

Worklink Services, Inc. (WSI), established in February 1999, provides domestic logistics solution for various local industries. WSI's services are the following:

- a. Courier – Document (via Air/Land) and Non-document (via Air/Land/Sea)
- b. Trucking – Rental and hauling
- c. Warehousing – warehouse rental, inventory management, pick and pack, online shipping
- d. Special Projects – Account Management such as event management, manpower, in-store or trade merchandising/design set-up; and Drop Box Management such audit and encoding

#### **Starlite Ferries, Inc.**

Starlite Ferries, Inc. (SFI), incorporated on 26 August 1994, is engaged in the general business of domestic shipping to own and operate any class, type or description for domestic trade, to charter in and out any such vessels. SFI is one of the dominant shipping companies in the Batangas – Calapan and Roxas – Caticlan trade routes.

#### **Revenue Contribution**

The following table represents the revenue distribution based on key business segments of the Company:

Services	Description of Services	Contribution to Sales
Freight	This pertains to revenues generated from transporting cargo from loading port to discharge port.	35%
Charter	This consists mainly of charter income	31%

Services	Description of Services	Contribution to Sales
	arising from the charter hire of its tankers and is recognized based on the type of charter agreement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB). Charter fees also include standby charges, which represent fees charged upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the customer. This is commonly referred to as demurrage.	
Passage	This pertains to revenues generated from ferrying passengers from the point of embarkation to the point of disembarkation.	20%
Tugboat	These are fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts.	7%

## **Competition**

### **A. Tankers**

The transport of petroleum products is one of the essential businesses that propel the growth of the Philippine economy. There are approximately 7,100 islands in the country, of which more than half are inhabited. The populace needs fuel for transportation, electrical power, farming and other activities. It is the oil tankers and trucks which make sure that fuel is transported to places in our country where and when it is needed.

As of September 2017, the Maritime Industry Authority (MARINA) registered approximately 293 oil tankers in the country. Majority of these vessels are 500 gross registered tonnage (GRT) or below, and the rest ranges from 501 GRT to 5052 GRT in size. The aggregate tonnage of these tankers is about 190,876 GRT.

Below are the five (5) major competitors of CLC in terms on the tanker business, these companies have a fleet of four (4) or more vessels.

1. Petrolift Group
2. Herma Shipping Group
3. Shogun Ships Co., Inc.
4. Via Marine
5. Magsaysay Group

These tanker owners have an approximately 65 tankers combine with an aggregate tonnage of about 105,764 GRT.

## **B. Tugboats**

Tugboats are small, powerful boats that are used to maneuver vessels of larger size by pushing and towing them. These are especially useful in narrow & difficult waterways and crowded ports. Although tugboats are usually utilized for docking & undocking procedures, they also have a wide range of applications including vessel rescue and steering structures without an independent propulsion system. Without tugboats, entry and exit of vessels from ports would be markedly less efficient and vessels would experience faster wear and tear.

According to the latest records from the MARINA, there are 791 registered tugboats in the Philippines. More than half of these tugboats are less than 100 GRT. Majority of smaller GRT tugboats hold a Bay & River trading license from MARINA while bigger vessels hold a Coastwise license. The top two (2) industry players in the tugboat industry account for more than 24% of the total tugboats over 100 GRT.

CLC competitors in providing tugboat services include:

1. Harbor Star Shipping Services, Inc.
2. Malayan Towage and Salvage Corporation
3. Pilot-operated Tugs

## **C. Roll-on-Roll-off Passenger Ship/Ferry**

Roll-On-Roll-Off-Passenger-ship/ferry (RoPax) refers to vessels that can accommodate passengers along with freight vehicle transport. Given the archipelagic nature of the country, RoPax vessels are vital in transporting people and goods across the different islands. Given their accessibility and capability of ferrying large amounts of goods and manpower, passenger and freight vessels are an integral part of the logistical backbone of the Philippines.

There are over 7,100 RoPax vessels registered with the MARINA. A large majority of this (98%) is less than 500 GRT in size and is personally owned. The largest industry players for commercial vessels account for more than a third of the aggregate tonnage of 355,773 GRT.

CLC's main competitors in RoPax segment include:

1. Asian Marine Transport Corporation
2. Cokaliong Shipping Lines, Inc.
3. Lite Shipping Corporation
4. Montenegro Shipping Inc.
5. Archipelago Philippine Ferries Corporation

## **Suppliers**

The Company sources its vessel, fuel requirements and other supply domestically and internationally. The company sources approximately 90% of its fuel requirements from Phoenix Petroleum Philippines, Inc.

The payment forms vary for each supplier. It ranges from Letter of Credit, drawn against payment, down payment, and various credit terms offered by supplier.

### **Transactions With and/or Dependence on Related Parties**

In the ordinary course of its business, CLC and its subsidiaries engages in transactions with related parties and affiliates. It is the Company's policy to ensure that these transactions are entered on terms comparable to those available from unrelated third parties. This may consist but not limited to the following:

- i. Chartering services
- ii. Fuel purchases
- iii. Advances to/from related parties for working capital purposes

Currently, the Company sources approximately 90% of its fuel requirements from its affiliate – Phoenix Petroleum Philippines, Inc.

### **Employees**

As of December 31, 2017, the Company has a total of 10,087 employees, 1,112 of which are crewmen and are stationed at various ports of operation, while the other 8,975 employees are office personnel or are members of support services.

Crewmen consist of captains, engineers, mechanics, divers, and able-bodied personnel. On the other hand, office personnel are comprised of the sales and marketing group, accounting and finance professionals, administrative services employees and the operations department.

A bachelor's degree in a relevant field is required of each one of the Company's directly-hired employees. For deck and engine crew, a MARINA-issued Qualification Document Certification is also mandated by the Company prior to employment.

Benefits received by employees include government-mandated benefits (Social Security System, Pag-ibig, and PhilHealth), rice subsidies, vacation leave of 15 days per year, health plans, and retirement pay. The Company supports employee development thru the conduct of in-house seminars, drills and training. Employees are enrolled in various technical, professional, management and leadership training, here and abroad. One of CLC's subsidiaries, Trans-Asia Shipping, has two (2) existing labor unions, one for its supervisors and one for its rank and file employees. Both unions are due to have their collective bargaining agreement ("CBA") negotiations this year. The relationship with the unions has been generally harmonious and there has been no incidence of labor strikes in the past three (3) years, up to the present. There is also no impending or threatened labor strike.

### **Risks Relating to the Company**

The following are the key risks factors which may affect the operations of the Company:

- *Maritime vessels are the Company's primary assets and, in the course of operation, are susceptible to maritime accidents.*

Due to the nature of the shipping industry, the risk of collision is real. Collisions may result in extensive damage to a vessel's hull, increasing its susceptibility to taking on water, which may result in the integrity of the vessel being compromised or even result in a complete loss of the vessel, environmental pollution, loss of life and damage to properties. Furthermore, when vessels are docked, they are secured to the harbor by use of the anchor, and a rope

tied between the ship's stern and the berth. In times of strong winds and constant rain, these harnesses may break, thereby risking the safety of the ship.

To mitigate these risks, the Company ensures that its crew members have undergone the necessary orientation and training seminars on operations and safety. Furthermore, crewmen are required to complete quarterly safety training seminars, and yearly assessments to promote the progressive enhancements of their skills. The Company also conducts drills to ensure crew safety and minimize damage to property and the environment. For the drydock of its vessels, the Company utilizes shipyards with vast drydocking/repair experience and which observe internationally-accepted standards of safety.

- *The Company operates in a regulated industry and its business is affected by the development and application of regulations in the Philippines.*

Continued compliance with, and any changes in, environmental laws and regulations may adversely affect its results of operations and financial condition. The Company may fail to fulfill the terms of licenses, permits and other authorizations, or fail to renew them on expiration.

To address this risk, the Company ensures to diligently adhere with and closely monitor compliance with the terms of its licenses, permits and other authorizations. The Company likewise employs competent legal and operating personnel who regularly liaise with the various government agencies to ensure compliance by the Company with changes in environmental laws and regulations and monitor renewal of its licenses and permits.

- *The Company's vessels are mechanical and are susceptible to breakdowns.*

The Company's operations use mechanical vessels that are subject to regular mechanical wear and tear. The occurrence of mechanical failure can result in downtime and opportunity losses for the Company. To ensure that the Company's high service quality is maintained, the Company has a preventive maintenance system and drydocking program for its vessels. In the event of non-availability of its vessels, due to breakdown or other factors, the Company charters third party vessels to serve customer requirements.

- *The shipping industry is highly competitive.*

In order to maintain its market competitiveness, the Company must provide reliable and efficient service to its clients. The Company continues to improve its manpower complement by employing experienced and competent officers, and providing continuous training. The Company's clients prefer younger and well-maintained vessels and this necessitates significant capital expenditures by the Company on a regular basis. The Company has also formulated a re-fleeting plan and improved preventive maintenance system.

- *Volatility of fuel prices impacts the operations of the Company.*

Fuel is a key component of shipping operations. In cases of significant increases in fuel prices, the Company may not be able to automatically pass on to its clients the effects of these increases. Thus, the Company's gross margins may be adversely affected, reducing its profitability. To mitigate this risk, the Company maximizes its affiliation with P-H-O-E-N-I-X Petroleum Philippines, Inc. through access to information on movement of global petroleum

prices. This allows the Company to hedge prices for its fuel requirements necessary to protect its profitability.

- *Changes in legal and regulatory environment.*

The Company is engaged in the shipping transport business. As a result, the Company is required to hold a wide range of business permits and licenses. Compliance with these laws and regulations involve certain compliance costs, the failure of which can lead to the imposition of fines and sanctions, including the revocation of permits and licenses necessary for the conduct of the Company's business and activities. As these laws and regulations change from time to time, tougher regulations may be imposed in the future which may affect the conduct of the Company's business and operations.

Moreover, there can be no assurance that current laws and regulations applicable to the Company will not increase the costs of operating its vessels and facilities above currently projected levels or require future capital expenditures. Although the Company endeavors to maintain compliance with applicable laws and regulations the introduction or inconsistent application of, or changes in, the laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations. To address the foregoing risks, the Company, in conjunction with industry associations such as the Philippine Shipping Vessel Owners Association Inc. ("PHILSVOA") and Visayas Association of Ferry Boats and Coastwise Service Operators ("VAFCSO"), is actively engaged in policy advocacy causes for the promotion and development of the shipping transport industry in the country, tackling regulatory and policy issues and concerns faced by the industry and working to strengthen industry-government partnerships.

Further, the Company employs competent legal and operating personnel, who regularly liaise with the various government agencies to ensure compliance by the Company with new regulations and exercise the requisite due diligence with respect to protecting the Company's business, financial condition, and results of operations from the aforementioned risks while still complying with the applicable laws and regulations. In addition, the Company on a case-to-case basis engages external counsel to provide specialized legal advice and service.

#### **Effects of Existing or Probable Governmental Regulations on the Business**

The Company believes that it complies with relevant laws, rules and regulations for all the business activities that it is currently engaged in. The Company cannot provide assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail further expansion or development.

Additionally, new rules and regulations that may be enacted may increase the Company's operating costs and may adversely affect the Company's results of operations and financial condition.

#### **Costs and Effect of Compliance with Environmental Laws**

For the year ended December 31, 2017, the Company incurred ₱ 3,017,977 for costs relating to compliance with environmental laws as required by the MARINA. This pertains to daily waste management expenses. For the years 2014, 2015, and 2016, the Company incurred costs of ₱74,714, ₱993,274, and ₱181,349, respectively.

### Item 3. Properties

The Group owns various tankers, barges, RoPax, cargo vessels and tugs which are utilized in its business. The following table sets forth information on these vessels that each company owns as of December 31, 2017.

Name of Vessel	Registered Owner	Year Built	Type
1. M/T Chelsea Great Diamond	CSC	2012	Oil/Chemical Tanker
2. M/T Chelsea Cherylyn*	CSC	2009	White Oil, Carrier, Tanker
3. M/T Chelsea Denise	CSC	1985	Black / White Oil Carrier, Tanker
4. M/T Chelsea Resolute	CSC	1979	White Oil, Carrier, Tanker
5. M/T Chelsea Enterprise	CSC	1985	Black Oil Tanker
6. M/T Chelsea Excellence	CSC	1998	White Oil, Carrier, Tanker
7. M/T Chelsea Intrepid	CSC	1994	Black Oil Tanker
8. M/T Chelsea Denise II*	PNX – CSC	2012	Black / White Oil Carrier, Tanker
9. M/T Chelsea Dominance	PNX – CSC	2016	Product Oil Tanker
10. M/T Chelsea Great Princess	PNX – CSC	2013	Oil/Chemical Tanker
11. M/T Chelsea Endurance	PNX – CSC	2006	Product Oil Tanker
12. M/T Chelsea Charlize	PNX – CSC	2015	Product Oil Tanker
13. MV San Pedro Calungsod	PNC – CSC	1996	Cargo Container
14. MV San Lorenzo Ruiz Uno	PNX – CSC	1996	Cargo Container
15. MV St. Nicholas of Myra	PNX – CSC	1998	General Cargo
16. M/T Ernesto Uno	MI	1979	White Oil, Carrier, Tanker
17. M/T Jasaan	MI	1990	Black Oil Carrier, Tanker
18. M/T BMI Patricia	BMI	1981	Black Oil Carrier, Tanker
19. MV Trans Asia 1	Trans Asia Shipping	1980	Passenger Ship
20. MV Trans Asia 2	Trans Asia Shipping	1977	Passenger Ship
21. MV Trans Asia 3	Trans Asia Shipping	1989	Passenger Ship
22. MV Trans Asia 8	Oceanstar	1984	Passenger Ship
23. MV Trans Asia 9	Oceanstar	1979	Passenger Ship
24. MV Trans Asia 10	Trans Asia Shipping	1979	Passenger Ship
25. MV Asia Philippines	Trans Asia Shipping	1975	Passenger Ship
26. MV Trans Asia 5	Trans Asia Shipping	1989	Container Cargo Ship
27. MV Trans Asia 12	Trans Asia Shipping	1998	Container Cargo Ship
28. MV Trans Asia 15	Trans Asia Shipping		
29. MV Asia Pacific	Trans Asia Shipping	1981	Other Cargo Ship
30. M/Tugs Fortis I	FTC	1994	Tugboat
31. M/Tugs Fortis II	FTC	1990	Tugboat
32. M/Tug Fortis III	FTC	1972	Tugboat
33. M/Tug Fortis V	FTC	1984	Tugboat
34. M/Tug Fortis VI*	FTC	1989	Tugboat
35. M/Tug Fortis VII	FTC	1984	Tugboat
36. M/Tug Samal	DGMS	1974	Tugboat
37. M/Tug Pindasan	DGMS	1981	Tugboat
38. M/Tug Sigaboy	DGMS	1971	Tugboat
39. MV Starlite Ferry	SFI	1971	Passenger and Cargo Ship

Name of Vessel	Registered Owner	Year Built	Type
40. MV Starlite Pacific	SFI	1983	Passenger and Cargo Ship
41. MV Starlite Navigator	SFI	1971	Passenger and Cargo Ship
42. MV Starlite Polaris	SFI	1974	Passenger and Cargo Ship
43. MV Starlite Annapolis	SFI	1982	Passenger and Cargo Ship
44. MV Starlite Jupiter	SFI	1989	Passenger and Cargo Ship
45. MV Starlite Seajet	SFI	1978	Passenger Ship
46. MV Starlite Blue Sea	SFI	1973	Passenger Ship
47. MV Starlite Pioneer	SFI	2015	Passenger and Cargo Ship
48. MV Starlite Tamaraw	SFI	1981	Cargo Ship
49. MV Starlite Eagle	SFI	2016	Passenger and Cargo Ship
50. MV Starlite Reliance	SFI	2015	Passenger and Cargo Ship
51. MV Starlite Saturn	SFI	2016	Passenger and Cargo Ship
52. MV Starlite Archer	SFI	2017	Passenger and Cargo Ship
53. West Ocean 1**	2Go	1977	Cargo Ship
54. West Ocean 5**	2Go	1979	Cargo Ship
55. San Agustin Uno	2Go	1985	Cargo Ship
56. San Rafael Uno	2Go	1989	Cargo Ship
57. San Rafael Dos	2Go	1985	Cargo Ship
58. St. Nuriel	2Go	2000	Passenger Ship
59. St. Uriel	2Go	1992	Passenger Ship
60. St. Sealthiel	2Go	2000	Passenger Ship
61. St. Jhudiel	2Go	1996	Passenger Ship
62. St. Braquel	2Go	1996	Passenger Ship
63. St. Emmanuel	2Go	1998	Passenger Ship
64. St. Camael	2Go	2017	Passenger Ship
65. St. Sariel	2Go	2017	Passenger Ship
66. Supercat 36	2Go	1990	Passenger Ship
67. Supercat 38	2Go	1990	Passenger Ship
68. St. Michael the Archangel	2Go	1990	Passenger and RORO
69. St. Pope John Paul II	2Go	1984	Passenger and RORO
70. St. Leo the Great	2Go	1992	Passenger and RORO
71. St. Francis of Xavier	2Go	1991	Passenger and RORO
72. St. Therese of Child Jesus	2Go	1989	Passenger and RORO
73. St. Augustine of Hippo	2Go	1988	Passenger and RORO
74. St. Anthony de Padua	2Go	1986	Passenger and RORO
75. St. Ignatius of Loyola	2Go	1989	Passenger and RORO

*\*vessels at dry docking stage*

*\*\*operated by 2Go under a bare boat agreement*

As of the date of this Information Statement, all of the above mentioned vessels are in good working condition.

Further, Trans-Asia owns a 1,509.28 sq.m. land located at M.J. Cuenco Ave. corner Osmeña Blvd., Brgy. San Nicholas, Cebu City and a building constructed thereon with a total floor area of 2,940 sq.m., which houses Trans-Asia Shipping's main office. Trans-Asia also owns three (3) container yards located at Quezon Blvd. within Pier 5, North Reclamation Area, Brgy. Cebu Port Center, Cebu City, with an aggregate area of 7,889 sq.m.



Some of the vessels and real estate properties owned by CLC and its Subsidiaries are used to secure long-term loans. The details of these loans are as follows:

### Secured Term Loans

	Security	Terms	Interest Rates	Outstanding Balance	
				2017	2016
China Banking Corporation (CBC)	Continuing Suretyship	6 years	4.50%	P 1,800,000,000	P -
Philippine Business Bank (PBB)	MV Eagle, MV Navigator				
	MV Archer, MV Saturn	10 years	7.50%	1,037,444,850	-
Development Bank of the Philippines (DBP)	MV Pioneer, MV Reliance	15 years	6.95%	606,000,000	-
PBB	MT Chelsea Dominance	7 years	6.06%	373,008,825	375,883,200
CBC	MT Chelsea Charlize	7 years	3.25%	366,102,000	397,760,000
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.54%	335,482,560	441,680,061
PBB	MT Chelsea Endurance	7 years	6.06%	316,379,375	323,180,000
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	299,361,844	308,180,768
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	296,250,000	-
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	296,250,000	-
CTBC Bank (Phils) Inc.	Continuing Suretyship	5 years	4.09%	296,250,000	-
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	197,500,000	-
BDO	MT Chelsea Denise II	5 years	6.46%	196,140,000	242,300,000
BDO	Trans - Asia 1	10 years	5.00%	179,959,247	-
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	134,052,501	239,376,297
BDO	Chattel Mortgage	8 years	4.50%	88,118,410	-
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	67,114,859	-
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBCComm)	Mtug Pindasan, Mtug Samal		6.00% to 6.50%		
AUB	Mtug Sigaboy	5 years	6.50%	25,696,844	45,948,735
	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	22,222,222	44,444,444
BDO	Trans - Asia 8 and 9	3.50 years	4.25%	-	18,978,175
BDO	Trans - Asia 10	9.38 years	4.25%	39,584	45,833
DBP	MT Chelsea Cherylyn	2 years	5.00%	-	28,000,000
CBC	Trans - Asia 12	8 years	4.25%	-	71,100,000
CBC	Trans - Asia 5	10 years	5.00%	-	61,759,197
				<b>6,933,373,121</b>	<b>2,598,636,710</b>

### Secured Bank Loans

	Security	Terms	Interest Rates	Outstanding Balance	
				2017	2016
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	890,502,192	40,700,000
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	300,000,000	200,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%	130,765,000	158,000,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	57,300,000	-
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	10,434,324	35,476,703
BDO	Real Estate Mortgage	180 days	4.00%	-	19,500,000
	MT Chelsea Denise	180 days	5.50%	-	54,100,000
SBC	Real Estate Mortgage	120 days	4.00%	-	49,000,000
CBC	Mortgage	181 days	4.50%	-	1,800,000,000
CTBC	Continuing Suretyship	180 days	4.00%	-	700,000,000
Robinsons Bank Corporation	MT Chelsea Resolute,				
				<b>P 1,389,001,516</b>	<b>P 3,056,776,703</b>

### Item 4. Legal Proceedings

In the course of the Group's business, it has been involved in legal proceedings both as plaintiff and defendant. The Company's management believes that an adverse resolution in such cases will not materially affect the financial position of the Company. The Company is not involved in any legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) which it believes may have a material adverse effect on the financial position of the Company.

The following are the material legal proceedings which the Company is currently involved in:

- a. *Michael, Incorporated vs. Pilipinas Kao Incorporated, Civil Case No. 37046, Regional Trial Court of Cebu City; (b) Pilipinas Kao, Inc. vs. Michael, Inc., Civil Case No. 37180, Regional Trial Court of Cebu City.*

These consolidated cases which were filed in September 2010, refer to the Complaint of MI against Pilipinas Kao, Inc. ("PKI") for Collection of Sum of Money and Damages with Prayer for Preliminary Attachment, and PKI's Complaint against MI for Specific Performance, Reimbursement and Damages.

The transactions subject of the complaints refers to the Charter Agreement between MI and PKI whereby MI agreed to transport on its vessel M/Tkr Ernesto Uno the crude coconut oil ("CCO") of PKI. The Charter Agreement was for a period of two (2) years from January 8, 2009 to January 7, 2011, and the agreed Charter Rate was PhP2,050,000 per month. From December 2009 to July 2010, MI transported PKI's CCO from Mindanao to various ports of destination, and accordingly billed PKI Charter Fees in the amount of PhP15,921,666.67. However, PKI refused to pay the Charter Fees on its allegation that the CCO transported by MI was contaminated with seawater. In its Answer to PKI's Complaint, MI alleged that it proposed several plans to PKI to resolve the alleged contamination but the same were refused by PKI.

As these cases have been consolidated, they are being jointly heard. The cross-examination of MI's witness Ignacia S. Braga IV was completed at the March 9, 2017 hearing. The hearing scheduled on June 23, 2017 for the opening of the deposition of Virgen Hernandez was reset due to the unavailability of the Presiding Judge.

The next hearing is scheduled on February 1, 2018 for presentation of Gigi Romarosa as witness for Michael, Inc.

- b. *Fortis Tugs Corporation vs. Marinemax Shipping Corporation and Vicente Sandoval, Jr., Civil Case No.027, Regional Trial Court of Taguig City.*

This Complaint, which was filed on March 23, 2016, seeks to recover from defendants the sum of PhP11,613,082.78, which represents payment for the tugboat services rendered by the plaintiff to the defendants from the period November 2013 to October 2015. The plaintiff has a prayer for the issuance of a Writ of Preliminary Attachment against the properties of the defendants on the ground that the latter are guilty of fraud in issuing checks to the plaintiff in payment of their obligations and thereafter issuing a stop payment order on the said checks. Plaintiff also prayed for the grant of Exemplary Damages in the amount of PhP100,000 and Attorney's Fees in the same amount.

Defendants filed a Motion to Dismiss the Complaint filed by Fortis Tugs, while the plaintiff filed its Motion to Declare Defendants in Default. Both Motions have been submitted for resolution. Plaintiff has also filed its Motion for Issuance of a Warrant of Arrest against defendant Vicente Sandoval, and is awaiting resolution of the same.

- c. *Ryan Subong et.al. vs. Trans-Asia Shipping Lines, Inc., Civil Case No, 26205, Regional Trial Court of Iloilo City*

The original Complaint was filed by 79 plaintiffs on April 11, 2000. Plaintiffs were the passenger-survivors and heirs of the casualties of the sinking of MV Asia South Korea which sank off the vicinity of Bantayan Island en route to Iloilo on December 23, 1999. Their total

claim for damages is in the amount of PhP380,000,000.00. An Amended and Second Amended Complaint were filed in April and August 2000 respectively. Defendant Trans-Asia Shipping's main defense is that the cause of the accident was force majeure as the vessel was seaworthy and properly manned at the time of accident.

On April 18, 2013, the Regional Trial Court issued its Decision ordering Trans-Asia Shipping to pay PhP801,000.00 for four deaths and PhP585,000.00 for 13 survivors or a total of PhP1,386,000.00. Although Trans-Asia Shipping offered to pay in accordance with the Decision, not a single plaintiff accepted payment. Instead, some of the plaintiffs filed their Motion for New Trial, some filed Motion of Reconsideration of the Decision, and some filed their Notice of Appeal.

The trial court issued an Order granting new trial for two plaintiffs and set the hearing for reception of evidence for said plaintiffs. The trial court also issued its Order dated March 22, 2016 modifying the award of damages to PhP8,865,399.96 for four deaths and 11 survivors, plus 15% interest on the total monetary award. Trans-Asia Shipping filed its Motion for Reconsideration of the two Orders, which was denied by the trial court. Trans-Asia Shipping has filed its Notice of Appeal. At the May 17, 2017 hearing, plaintiff manifested that they are willing to study the settlement of the case.

In August 2017, the parties signed a Compromise Agreement whereby Trans-Asia Shipping paid the total amount of PHP 8,839,313.95 for thirteen (13) Complainants (4 Deaths and 9 Survivors). In October 2017, another three (3) plaintiffs signed a Compromise Agreement whereby Trans-Asia Shipping paid the total amount of PhP 594,250.00. On October 6, 2017, the trial court issued its Orders approving the two Compromise Agreements and declaring the case as CLOSED AND TERMINATED insofar as the 16 Complainants are concerned.

Trans-Asia Shipping is currently working for the settlement of the remaining three (3) plaintiffs (all survivors) with a probable settlement amount from PhP600,000.00 to PhP1,000,000.00 only.

- d. *Nelly A. Gangoso, et. al. vs. Trans-Asia Shipping Lines, Inc., Civil Case No. CEB-36075, Regional Trial Court of Cebu City.*

This Complaint was filed by 5 plaintiffs on October 2009 arising from the sinking of MV Asia South Korea. A Compromise Agreement dated June 18, 2013 was entered into by four of the plaintiffs pursuant to which said plaintiffs agreed to withdraw their claims against Trans-Asia Shipping in return for the payment by defendant of the amount of PhP75,000.00 each to said plaintiffs. Plaintiff Nelly A. Gangoso pursued this case against Trans-Asia Shipping. Plaintiff Nelly Gangoso and defendant Trans-Asia have completed the presentation of their respective documentary and testimonial evidence. Plaintiff has filed her Memorandum, and defendant was supposed to file its Memorandum on April 28, 2017. On May 28, 2017, a Decision was issued by the trial court, awarding a total of PhP1,050,000 in favor of the plaintiff. Trans-Asia filed its Motion for Reconsideration of the said Decision and when the same was denied, Trans-Asia filed its Appeal which is now pending resolution by the Court of Appeals.

- e. *Trans-Asia Shipping Lines, Inc. vs. Philippine Fire and Marine Insurance Corporation, et.al. Civil Case No. 39098, Regional Trial Court of Cebu City.*

This Complaint was filed by Trans-Asia in September 2012 to collect the insurance proceeds arising from the sinking of MV Asia Malaysia, which proceeds are in the approximate amount

of PhP120,000,000. Said Complaint was filed when defendant Philippine Fire only offered to pay the amount of PhP50,000,000. Defendant Philippine Fire filed its Motion to Dismiss the complaint on the ground of lack of jurisdiction and insufficient docket fees paid. When said Motion to Dismiss was denied, defendant Philippine Fire filed a Petition for Certiorari with the Court of Appeals in December 2014. Said Petition for Certiorari was dismissed by the Court of Appeals on June 28, 2016. On March 30, 2017, the regional trial court issued an Order setting the case for pre-trial on June 9, 2017. At the 9 June hearing, the case was remanded to the Executive Judge for transfer to Branch 11, which is the only commercial court in Cebu City. At Branch 11, Philippine Fire filed a Motion to Suspend Proceedings attaching the Notice of Stay Order issued by the Insurance Commission. Trans-Asia filed its Opposition to Philippine Fire's Motion to Suspend Proceedings. This matter is now pending resolution by the trial court.

**Item 5. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of this calendar year covered by this report.

### III. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

#### Item 1. Principal market where the registrant's common equity is traded

The Company's common shares are traded at the Philippine Stock Exchange ("PSE") beginning August 8, 2017. The high and low sale prices of each quarterly period for year 2017 are as follows:

Period	High	Low
3Q 2017	11.22	9.35
4Q 2017	10.36	8.29

As of February 22, 2018, the market capitalization of the Company, based on the closing price of PhP7.61 per share, was approximately PhP13.9 billion.

#### Item 2. Holders

The following are the top registered holders of the Company's securities based on the records as of December 31, 2017:

Name of Stockholders	Number of shares held	% to Total
Udenna Corporation	1,275,384,606	70.000002%
PCD Nominee Corporation (Filipino)	509,658,972	27.972845%
PCD Nominee Corporation (Non-Filipino)	35,705,130	1.959691%
Caroline G. Taojo	800,000	.000439%
Noe B. Taojo	400,000	.000220%
Myra P. Villanueva	9,300	.000005%
Milagros P. Villanueva	7,300	.000004%
Myrna P. Villanueva	7,300	.000004%
Marietta V. Cabreza	5,000	.000003%
Eduardo A. Bangayan	1	.000000%
Miguel Rene A. Dominguez	1	.000000%
Jesus S. Guevara II	1	.000000%
Gener T. Mendoza	1	.000000%
Arthur Kenneth L. Sy	1	.000000%
Cherylyn C. Uy	1	.000000%
Efren E. Uy	1	.000000%
<b>TOTAL</b>	<b>1,821,977,615</b>	<b>100.0000%</b>

#### Item 3. Dividends

The Company's dividend policy is to declare at least 20% of its prior year's net income as dividends, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings subject to statutory limitations.

Each holder of a common share is entitled to such dividends as may be declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of

business plans, and working capital.

**Item 4. Recent sale of securities**

The Company has not sold or transferred any securities that are not registered under the Code nor did it issue any additional securities in exchange for any properties, services and other securities.

**Item 5. Corporate Governance**

The Company adopted a Manual of Corporate Governance (the “Manual”) to ensure its compliance with the leading practice on good corporate governance and related Philippine SEC rules and regulations. The Manual was approved and adopted by its Board of Directors and deemed effective as of March 27, 2017.

The Manual features the following provisions:

- *Protection of investors.* The Manual provide for shareholders’ rights and protection, investor relations and a disclosure system to ensure transparency and accountability.
- *Board of Directors and Management.* The detailed qualifications and disqualifications, duties, functions and responsibilities of the Board and executive officers are also enumerated in the Manual.
- *Checks and balances.* The Manual contains the vision, strategic objectives, key policies, procedures for the management of the Company, and mechanisms for monitoring and evaluating management’s performance.
- *Compliance with the Manual.* The appointment of a Compliance Officer to monitor compliance with and violations of the Manual is also provided.
- *Creation of committees.* The Manual mandates the creation of the Nomination Committee, the Audit Committee, the Corporate Governance Committee, the Board Risk Oversight Committee and the Related Party Transaction Committee, to ensure the performance of certain important functions of the Board and of Management.

The Company will continue to improve its corporate governance, and will amend, the Manual as may be necessary.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Chelsea Logistics Holdings Corp. and subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the periods ended December 31, 2017 and 2016 in accordance with the prescribed financial reporting framework indicated therein, 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 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 consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.


Punongbayan & Arauto, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
\_\_\_\_\_  
**DENNIS A. UY**

Chairman of the Board  
TIN 170-020-135

  
\_\_\_\_\_  
**CHRYSS ALFONSUS V. DAMUY**

President and Chief Executive Officer  
TIN 913-898-959

  
\_\_\_\_\_  
**IGNACIA S. BRAGA IV**

Vice President - Finance /  
Chief Finance Officer  
TIN 108-038-078

SUBSCRIBED AND SWORN to before me this 21 day of February 2018 at Taguig City, affiants exhibited to me their respective TIN.

Doc. No. 299  
Page No. 01  
Book No. 100  
Series of 2018.

**ATTY. JOWELL A. MENDOZA**  
NOTARY PUBLIC FOR TAGUIG CITY  
EXPIR. DEC. 31, 2018  
APP. NO. 20 (2016-2018)  
TAGUIG CITY, PASIG CITY  
JANUARY 3, 2018  
IBP No. 1053103, 1/5/2017  
ROLL NO. 55561  
MCLE COMPLIANCE NO. V-0023127-7/23/16  
32<sup>ND</sup> ST. CAR PLAZA BONIFACIO  
GLOBAL, TAGUIG CITY



**P&A**  
**Grant Thornton**

An instinct for growth™

## **Report of Independent Auditors**

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**Punongbayan & Araullo**

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

**The Board of Directors and Stockholders**  
**Chelsea Logistics Holdings Corp. and Subsidiaries**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
Stella Hizon Reyes Road  
Bo. Pampanga, Davao City

### ***Opinion***

We have audited the consolidated financial statements of Chelsea Logistics Holdings Corp. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2017 and the period August 26, 2016 to December 31, 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the periods then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. 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 audits 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significant 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.

#### **(a) Consolidation Process**

##### *Description of the Matter*

The Group's consolidated financial statements comprise the financial statements of Chelsea Logistics Holdings Corp. and its subsidiaries as enumerated in Note 1 to the consolidated financial statements, after elimination of intercompany transactions. The Group's consolidation process is significant to our audit because of the complexity of the process. It involves layers of consolidation, identification and elimination of intercompany transactions to properly reflect realization of profits.

The Group's policy on consolidation process is more fully described in Note 2 to the consolidated financial statements.

##### *How the Matter was Addressed in the Audit*

Among others, our audit procedures to address the risk associated with the Group's consolidation process are as follows:

- Obtaining an understanding of the Group structure and consolidation process, including the procedures for identifying intercompany transactions and reconciling intercompany balances; and,
- Testing significant consolidation adjustments, which include elimination of intercompany balances, revenues, expenses and investments and recognition of equity transactions, by identifying such intercompany transactions and balances among the entities or business activities within the Group.

#### **(b) Revenue Recognition**

##### *Description of the Matter*

The Group's revenues from rendering of services consist of freight revenues, charter fees, passage fees and tugboat fees representing 93% of the total revenues of the Group. In our view, revenue recognition is significant to our audit because the amount is significant and it involves voluminous transactions at any given period of time, requires proper observation of cut-off procedures and directly impacts the Group's profitability.

The Group's disclosure on its revenue recognition policy is more fully described in Note 2 to the consolidated financial statements.

##### *How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- Updating our understanding of the Group's revenue recognition policy, revenue processes and controls over the recognition and measurement of revenues from rendering services;

- Testing charter agreements, billing invoices, vessel fixture notes, bills of lading and other related supporting documents, on a sample basis, of revenue transactions throughout the current period to determine whether revenue transaction is valid and actually occurred;
- Confirming trade receivables, on a sample basis, as of the end of the reporting period from rendering of services; and, performing alternative procedures such as, but not limited to, examining cash receipts, or billing invoices and vessel fixture notes.
- Testing billing invoices and vessel fixture notes immediately prior and subsequent to the current period to determine whether the related revenue transactions are recognized in the proper reporting period; and,
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per vessel and per customer and sales mix composition and following up variances from our expectations, and verifying test the underlying data used in the analyses are valid.

**(c) Business Combination**

*Description of the Matter*

As disclosed in Note 25, in 2017, the Group completed the acquisitions of Udenna Investments B.V., (UIBV), Worklink Services, Inc. (WSI) and Starlite Ferries, Inc. (SFI) for P6,048.0 million, P600.0 million and P1,677.8 million, respectively. The Group has determined these acquisitions to be business combinations for which the purchase price is to be allocated between the identifiable assets and liabilities at their respective fair values.

Following the various acquisitions, the management has determined Goodwill amounting to P3,917.4 million, P478.5 million and P1,167.7 million, respectively. We, therefore, considered the accounting treatment of the acquisition of these subsidiaries in the consolidated financial statements as a key audit matter due to the significance of the goodwill and due to the nature of transactions which involves significant management's judgments and estimates, especially on the valuation of the fair value of net assets acquired as of the acquisition date.

The Group's disclosure on policies on business combinations is presented in Note 2.13 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures included, among others, the following:

- reviewing the relevant minutes of meeting of the Parent Company for the approval of the transaction and executed share purchase agreement;
- examining the cash consideration given and verifying the net assets acquired as of the acquisition date;
- obtaining the valuations prepared by independent appraisers on certain properties;
- assessing the competencies and capabilities of the appraisers;
- testing the reasonableness of the fair values of the identifiable assets and liabilities of the acquired entities at the acquisition date; and,
- recalculating the consideration, goodwill and determining the appropriate treatment of the difference between the net assets acquired and considerations given.

**(d) Impairment of Goodwill**

*Description of the Matter*

Under Philippine Accounting Standard 36, *Impairment of Assets*, the Group is required to annually test the amount of its goodwill for impairment. As of December 31, 2017, goodwill amounted to P5.6 billion. We considered the impairment of goodwill as a key audit matter because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flow projections used in determining the cash generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill is more fully described in Note 2 to the consolidated financial statements while their corresponding carrying amounts are presented in Note 25 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to goodwill included, among others, the following:

- Evaluating the reasonableness of the assumptions and methodology used in determining the cash-generating units attributable to the goodwill, which include the discount rate and the cash flow projections by comparing them to external and historical data; and, performing sensitivity analysis of the projections and discount rate to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash-generating units to exceed the recoverable amount; and,
- Comparing the net present value of excess earnings attributable to the cash-generating units over which the goodwill was allocated.

**(e) Fair Value of Vessels under Property and Equipment**

*Description of the Matter*

The carrying amount of the Group's vessels under the Property and Equipment account amounted to P10.1 billion. As allowed under PAS 16, *Property, Plant and Equipment*, the Group measures its vessels based on a revalued amount which represent fair market values at the date of the revaluation. Management determined the fair value based on appraisals by independent appraiser every after drydocking of vessels, which is performed once every two years.

The disclosure on fair value of the Group's vessels was significant in our audit as the amount is material to the consolidated financial statements and the determination of fair values includes significant assumptions and estimates.

The methods and assumptions used in determining the fair value of vessels is more fully described in Notes 3 and 29 to the consolidated financial statements while the fair value of vessels as at December 31, 2017 is presented in Note 10.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to valuation of vessels included:

- Determining whether the independent appraisers engaged by the Group has the necessary professional competency, reputation, experience and objectivity;

- Evaluating the results of the work performed by the independent appraisers by understanding the methods and data used in determining the fair value of vessels; and,
- Assessing the appropriateness and reasonableness of assumptions used such as the selection of comparable properties and determination of price adjustments due to size and features.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission Form 17-A, which we obtained prior to the date of the auditors' report, and the Group's SEC Form 20-IS (Definitive Information Statement) and Annual Report, which are expected to be made available to us after that date, for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

If, based on the work performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these 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 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.

### *Auditors' 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 auditors' 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 PSA, 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 auditors' 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 auditors' report. However, future events or conditions may cause 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


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 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 auditors' 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 audits resulting in this independent auditors' report is Ramilito L. Nañola.

**PUNONGBAYAN & ARAULLO**

  
By: **Ramilito L. Nañola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 6616015, January 3, 2018, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-3 (until May 19, 2019)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-19-2015 (until Mar. 18, 2018)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 21, 2018

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 and 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	P 1,441,704,190	P 508,940,431
Trade and other receivables - net	5	876,420,381	944,516,250
Subscription receivable	22	-	350,000,000
Financial assets at fair value through profit or loss	6	3,947,736	11,279,636
Available-for-sale financial assets	9	-	3,065,089
Inventories	7	184,863,983	78,874,626
Advances to related parties	21	2,488,434,793	194,446,078
Other current assets	8	<u>1,926,336,910</u>	<u>542,685,688</u>
Total Current Assets		<u>6,921,707,993</u>	<u>2,633,807,798</u>
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	10	10,999,596,427	7,818,568,442
Investments in an associate and a joint venture	11	2,268,935,614	45,560,925
Goodwill	25	5,637,918,869	74,294,814
Post-employment benefit asset	18	8,190,054	4,873,519
Deferred tax assets	20	215,516,180	7,300,178
Other non-current assets - net	12	<u>327,749,182</u>	<u>175,499,300</u>
Total Non-current Assets		<u>19,457,906,326</u>	<u>8,126,097,178</u>
<b>TOTAL ASSETS</b>		<u>P 26,379,614,319</u>	<u>P 10,759,904,976</u>

	Notes	2017	2016
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	P 1,380,849,406	P 1,358,754,469
Interest-bearing loans	13	3,434,490,978	5,029,479,642
Advances from related parties	21	1,040,772,152	85,759,255
Advances from customers	2	14,521,850	14,484,000
Deposits for future stock subscription	15	180,000,000	50,000,000
Income tax payable		50,809,743	75,923,029
Total Current Liabilities		6,101,444,129	6,614,400,395
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans	13	6,897,669,657	2,343,302,536
Post-employment benefit obligation	18	36,588,880	4,046,544
Deferred tax liabilities - net	20	170,537,584	223,354,572
Other non-current liabilities		15,985,657	14,131,942
Total Non-current Liabilities		7,120,781,778	2,584,835,594
Total Liabilities		13,222,225,907	9,199,235,989
<b>EQUITY</b>			
Capital stock	22	1,821,977,615	500,000,000
Additional paid-in capital	22	9,998,370,157	-
Revaluation reserves	22	1,429,917,004	1,370,998,267
Other reserves	22	( 1,058,033,280 )	( 1,058,033,280 )
Retained earnings		965,156,916	747,704,000
Total Equity		13,157,388,412	1,560,668,987
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 26,379,614,319</b>	<b>P 10,759,904,976</b>

*See Notes to Consolidated Financial Statements.*



**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**AND THE PERIOD AUGUST 26 TO DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>			
Freight		P 1,387,445,706	P -
Charter fees	21	1,194,216,186	1,422,433,646
Passage fees		773,491,556	-
Tugboat fees		261,321,170	118,200,515
Rendering of services		243,826,107	-
Sale of goods		25,815,744	3,456,051
Standby charges	21	<u>23,050,935</u>	<u>94,295,146</u>
		3,909,167,404	1,638,385,358
<b>COST OF SALES AND SERVICES</b>	16	<u>2,862,147,364</u>	<u>1,261,203,111</u>
<b>GROSS PROFIT</b>		1,047,020,040	377,182,247
<b>OTHER OPERATING EXPENSES</b>	17	<u>529,672,911</u>	<u>155,452,662</u>
<b>OPERATING INCOME</b>		<u>517,347,129</u>	<u>221,729,585</u>
<b>OTHER INCOME (CHARGES) - Net</b>			
Finance costs	19	( 516,979,233 )	( 260,854,770 )
Finance income	19	10,401,760	730,801
Share in net loss of an associate	11	( 1,962,214 )	-
Gain on bargain purchase	25	-	158,228,158
Other Income	6, 9, 19	<u>143,921,531</u>	<u>15,490,554</u>
		( <u>364,618,156</u> )	( <u>86,405,257</u> )
<b>PROFIT BEFORE PRE-ACQUISITION INCOME AND TAX</b>		152,728,973	135,324,328
<b>PRE-ACQUISITION INCOME</b>		<u>105,375,776</u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>		47,353,197	135,324,328
<b>TAX EXPENSE (INCOME)</b>	20	( <u>113,866,526</u> )	<u>3,644,520</u>
<b>NET PROFIT</b>		<u>P 161,219,723</u>	<u>P 131,679,808</u>
<b>Earnings Per Share (Basic and Diluted)</b>	23	<u>P 0.12</u>	<u>P 0.26</u>

*See Notes to Consolidated Financial Statements.*

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**AND THE PERIOD AUGUST 26 TO DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>NET PROFIT</b>		<b>P 161,219,723</b>	<b>P 131,679,808</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Items that will not be reclassified subsequently to profit or loss:			
Share in the revaluation of vessels of an associate	11	108,049,607	-
Revaluation of vessels	10	67,317,920	801,886,530
Tax expense	20	( 3,549,887 )	( 23,690,669 )
Remeasurement of post-employment benefit obligation	18	( 1,317,864 )	( 47,994 )
Tax expense	20	395,360	-
Currency exchange differences on translating financial statements of foreign operations	22	( 223,517 )	-
		<u>170,671,619</u>	<u>778,147,867</u>
Items that will be reclassified subsequently to profit or loss:			
Fair value gain on disposed available-for-sale financial assets reclassified to profit or loss	9	( 49,607 )	-
Tax expense	20	14,882	-
		<u>( 34,725 )</u>	<u>-</u>
<b>Other Comprehensive Income - net of tax</b>		<u>170,636,894</u>	<u>778,147,867</u>
<b>TOTAL COMPREHENSIVE INCOME BEFORE PRE-ACQUISITION OTHER COMPREHENSIVE INCOME</b>		<u>331,856,617</u>	<u>909,827,675</u>
<b>PRE-ACQUISITION OTHER COMPREHENSIVE INCOME</b>	10	<u>55,484,964</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u><b>P 276,371,653</b></u>	<u><b>P 909,827,675</b></u>

*See Notes to Consolidated Financial Statements.*

**CHESEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udeana Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**AND THE PERIOD AUGUST 26 TO DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2017	22	P 500,000,000	-	P 1,370,998,267	(P 1,058,033,280)	P 747,704,000	P 1,560,668,987
Issuance of shares during the period	11, 22	1,321,977,615	9,998,370,157	-	-	-	11,320,347,772
Total comprehensive income for the period		-	-	115,151,930	-	161,219,723	276,371,653
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(56,233,193)	-	56,233,193	-
Balance at December 31, 2017		<u>P 1,821,977,615</u>	<u>P 9,998,370,157</u>	<u>P 1,429,917,004</u>	<u>(P 1,058,033,280)</u>	<u>P 965,156,916</u>	<u>P 13,157,388,412</u>
Balance at August 26, 2016		P 1,000,000,000	P -	P 582,411,766	P -	P 561,933,606	P 2,144,345,372
Subscription of shares during the period	22	500,000,000	-	-	-	-	500,000,000
Effect of business combination		(1,000,000,000)	-	-	(1,058,033,280)	-	(2,058,033,280)
Total comprehensive income for the period		-	-	778,147,867	-	131,679,808	909,827,675
Transfer of revaluation reserves through depreciation, net of tax		-	-	(54,090,586)	-	54,090,586	-
Other comprehensive income from acquired subsidiaries	22	-	-	64,529,220	-	-	64,529,220
Balance at December 31, 2016		<u>P 500,000,000</u>	<u>P -</u>	<u>P 1,370,998,267</u>	<u>(P 1,058,033,280)</u>	<u>P 747,704,000</u>	<u>P 1,560,668,987</u>

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**AND THE PERIOD AUGUST 26 TO DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 47,353,197	P 135,324,328
Adjustments for:			
Depreciation and amortization	10, 12	744,566,055	457,719,091
Interest expense	19	507,987,399	163,588,166
Unrealized foreign currency gain - net	19	( 5,526,564 )	75,771,709
Interest Income	19	( 4,875,196 )	( 393,954 )
Share in net loss of an associate	11	1,962,214	-
Gain on sale of available-for-sale (AFS) financial assets	9	( 743,911 )	-
Gain on sale of property and equipment	10	( 376,008 )	-
Gain on sale of financial assets at fair value through profit or loss (FVTPL)	6	( 87,784 )	-
Fair value gain on disposed AFS reclassified to profit or loss	9	( 49,607 )	-
Gain on bargain purchase	25	-	( 158,228,158 )
Operating profit before working capital changes		1,290,209,795	673,781,182
Decrease (increase) in trade and other receivables		976,280,103	( 248,985,365 )
Increase in inventories		( 105,989,357 )	-
Increase in advances to related parties		( 2,293,988,715 )	( 353,995,562 )
Increase in other current assets		( 1,388,176,902 )	( 374,611,539 )
Increase in post-employment benefit asset		( 1,998,671 )	-
Decrease (increase) in other non-current assets		( 22,040,864 )	3,253,168
Decrease in trade and other payables		( 538,458,658 )	( 278,550,987 )
Increase in advances from customers		37,850	9,375,509
Increase in post-employment benefit obligation		5,216,732	-
Increase (decrease) in other non-current liabilities		1,853,715	( 2,465,686 )
Cash used in operations		( 2,077,054,972 )	( 572,199,280 )
Interest received		4,875,196	393,954
Cash paid for income taxes		( 76,686,630 )	( 498,135 )
Net Cash Used In Operating Activities		( 2,148,866,406 )	( 572,303,461 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of subsidiaries and addition to interest in a joint venture	11	( 2,290,863,390 )	( 1,834,117,990 )
Acquisitions of property and equipment	10	( 1,351,743,010 )	( 1,116,845,333 )
Additions to drydocking costs	12	( 325,647,628 )	( 34,463,540 )
Proceeds from disposal of financial assets at FVTPL	6	7,419,684	-
Proceeds from disposal of property and equipment	10	7,175,264	-
Proceeds from disposal of AFS financial assets	9	3,809,000	-
Net Cash Used In Investing Activities		( 3,949,850,080 )	( 2,985,426,863 )
Balance carried forward		( P 6,098,716,486 )	( P 3,557,730,324 )

	Notes	2017	2016
<i>Balance brought forward</i>		( P 6,098,716,486 )	( P 3,557,730,324 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from Issuance of shares of stock	22	5,272,347,772	150,000,000
Proceeds from interest-bearing loans	13	2,588,916,550	5,217,206,036
Repayments of interest-bearing loans	13	( 2,151,099,154 )	( 1,052,466,589 )
Proceeds from advances from related parties	21	1,438,012,897	-
Repayments of advances from related parties	21	( 533,000,000 )	( 290,681,863 )
Collection of subscription receivable	22	350,000,000	-
Interest paid	19	( 320,911,526 )	( 158,961,980 )
Additional deposits for future stocks subscriptions	15	180,000,000	-
Net Cash From Financing Activities		6,824,266,539	3,865,095,604
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		27,270,309	4,786,753
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		752,820,362	312,152,033
<b>CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARIES</b>		179,943,397	165,961,224
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		508,940,431	30,827,174
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		P 1,441,704,190	P 508,940,431

**Supplemental Information for Non-cash Investing and Financing Activities:**

In 2017, the Company acquired UIBV from Udenna Corporation (Udenna) through share-for-share swap, where the Company issued 775,384,615 common shares in favor of Udenna, in exchange for shares of UIBV (see Note 11).

In 2017, the Group acquired certain transportation equipment through obtaining mortgage loans from a local bank totaling P40.7 million (see Notes 10 and 13).

The Group recognized revaluation increment, gross of tax, amounting to P11.8 million in 2017 (see Notes 10 and 22).

In 2016, subscribed capital stock amounting to P350.0 million has not been collected as of December 31, 2016 and is presented as Subscription Receivable under current assets in the 2016 consolidated statement of financial position. Such receivable was subsequently collected in 2017 (see Note 22).

*See Notes to Consolidated Financial Statements.*

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
**(Formerly Chelsea Logistics Corp.)**  
**(A Subsidiary of Udenna Corporation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**  
**(Amounts in Philippine Pesos)**

**1. CORPORATE INFORMATION**

**1.1 Information and Operations**

Chelsea Logistics Holdings Corp. (CLC or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to subscribe for, invest and re-invest in, purchase, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, deal in and hold investment or otherwise, any and all properties of every kind and description and wherever situated, including but not limited to shares of stocks, bonds, debentures, notes, evidences of indebtedness, promissory notes, or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, including, but not limited to, securities in corporations engaged in shipping and logistics.

On November 28, 2016 and May 12, 2017, the Company's Board of Directors (BOD) and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, to amend the Company's Articles of Incorporation and By-laws, which amendments were approved by the SEC on December 21, 2016 and June 27, 2017, respectively.

On August 8, 2017, the shares of stock of the Company were initially listed at the Philippine Stock Exchange (PSE).

The Company is a subsidiary of Udenna Corporation (Udenna), a company primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing.

The registered office of the Company and Udenna, which is also their principal place of business, is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City.

**1.2 Subsidiaries and their Operations**

As of December 31, the Company holds ownership interests in the following subsidiaries:

<u>Subsidiaries</u>	<u>Explanatory Notes</u>	<u>Percentage of ownership</u>	
		<u>2017</u>	<u>2016</u>
<b>Direct interest:</b>			
Chelsea Shipping Corporation (CSC)	(a)	100%	100%
Trans-Asia Shipping Lines Corporation (Trans-Asia)	(b)	100%	100%
Udenna Investments B. V. (UIBV)	(c)	100%	-

Subsidiaries and associate	Explanatory Notes	Percentage of ownership	
		2017	2016
<b>Direct interest:</b>			
Starlite Ferries, Inc. (Starlite)	(d)	100%	-
Work-link Services, Inc. (WSI)	(e)	100%	-
<b>Indirect interest:</b>			
Bunkers Manila, Inc. (BMI) <sup>1</sup>	(f)	100%	100%
Michael, Inc. (MI) <sup>1</sup>	(g)	100%	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) <sup>1</sup>	(h)	100%	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC) <sup>1</sup>	(i)	100%	100%
Fortis Tugs Corporation (FTC) <sup>1</sup>	(j)	100%	100%
Davao Gulf Marine Services, Inc. (DGMSI) <sup>2</sup>	(k)	100%	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) <sup>1</sup>	(l)	100%	100%
Quality Metals & Shipworks, Inc. (QMSI) <sup>3</sup>	(m)	100%	100%
Oceanstar Shipping, Inc (Oceanstar) <sup>3</sup>	(n)	100%	100%
Dynamic Cuisine, Inc (DCI) <sup>3</sup>	(o)	100%	100%
Starsy Shoppe, Inc. (SSI) <sup>3</sup>	(p)	100%	100%
KGLI-NM Holdings, Inc. (KGLI-NM) Preferred C shares	(q)	80%	-

<sup>1</sup>Wholly owned subsidiary of CSC

<sup>2</sup>Wholly owned subsidiary of FTC

<sup>3</sup>Wholly owned subsidiary of Trans-Asia

Except for UIBV, all the subsidiaries and associate were organized and incorporated in the Philippines.

- (a) Incorporated on July 17, 2006 and is engaged in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.
- (b) Incorporated on March 25, 1974 and is engaged in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas.
- (c) Incorporated on August 25, 1994 under the laws of the Netherlands, having its corporate seat in Amsterdam, and is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV is formerly known as KGL Investment B.V, a private company with limited liability.
- (d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.
- (e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land & sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.

- (f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.
- (g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.
- (h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.
- (i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.
- (j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.
- (k) Incorporated on January 18, 2012 and is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.  
  
On December 15, 2016, FTC acquired 100% of the outstanding capital stock of DGMSI, a Davao-based tug service provider.
- (l) Incorporated on June 9, 2016 and is primarily engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.
- (m) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.
- (n) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.
- (o) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.
- (p) Incorporated on March 31, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.
- (q) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.



UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in and owns 60% of the voting stock in Negros Navigation Co., Inc. (Nenaco). Nenaco, in turn, owns 88.31% of 2GO Group, Inc. (2GO). Hence, CLC has a 28.15% indirect economic interest in 2GO.

CLC together with CSC, Trans-Asia, UIBV, Starlite, WSI and their respective subsidiaries are collectively referred herein as the Group.

### **1.3 Approval of Consolidated Financial Statements**

The consolidated financial statements of the Group as of and for the year ended December 31, 2017 (including the comparative consolidated financial statements as of December 31, 2016 and for the period ended August 26 to December 31, 2016) were authorized for issue by the Company's BOD on February 21, 2018.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### **2.1 Basis of Preparation of Consolidated Financial Statements**

#### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### **(b) Presentation of Consolidated Financial Statements**

The consolidated financial statements are presented in accordance with PAS 1. The Group presents a consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

The consolidated financial statements presented consist of consolidated balances of the Group as of and for the year ended December 31, 2017 and 2016.

#### **(c) Functional and Presentation Currency**

These consolidated financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2017 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements	:	Annual Improvements to PFRS (2014-2016 Cycle) PFRS 12, Disclosure of Interest in Other Entities – Clarification of the Scope of the Standard

Discussed below are the relevant information about these amendments.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. A reconciliation between the opening and closing balances of these items is provided in Notes 13 and 21. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Notes 13 and 21, the application of these amendments has had no impact on the Group's consolidated financial statements.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments has no impact on the Group's consolidated financial statements as the Group already assessed the sufficiency of the future taxable profits in a way that is consistent with these amendments.

- (iii) Annual Improvements to PFRSs 2014-2016 Cycle – *PFRS 12, Disclosure of Interests in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The amendment did not result in additional or changes in the disclosures in the Group's consolidated financial statements as the Group has no interest in other entities classified as held for sale.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments and interpretations to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related. and. in most arrangements. does not require separation from the host

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management has initially assessed that all financial assets and financial liabilities will continue to be measured using the same bases as is currently adopted under PAS 39.

- (ii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management is currently assessing the impact of this standard on the Group's consolidated financial statements.

- (iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- (iv) Annual Improvements to PFRS 2014 - 2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.
- (v) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of these new amendments in its consolidated financial statements.

(vi) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment in its consolidated financial statements.

(vii) PFRS 16, *Leases* (effective from January 1, 2019). This new standard on leases will replace PAS 17, *Leases*, and three related interpretations. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its consolidated financial statements.

(viii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures– Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

- (ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the tax authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its consolidated financial statements.
- (x) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that when a specific borrowing remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of an entity's general borrowings used in calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### **2.3 Basis of Consolidation**

The Group's consolidated financial statements as of and for the periods ended December 31, 2017 and 2016 comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, associate and joint venture as follows:

*(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the investee; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Company obtains control.

The Company reassesses whether or not it controls an entity if facts and circumstances indicates that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Except for acquisitions involving entities under common ownership, the acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. 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, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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 the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less 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 (see Note 2.13).

*(b) Investments in an Associate*

An associate is an entity over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investment in an associate.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

*(c) Investment in a Joint Venture*

A joint venture pertains to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture entity pertains to an entity whose economic activities are controlled jointly by the Group and by other venturers independent of the Group (joint venturers). Investment in joint venture is accounted for under the equity method of accounting. Under this method, on initial recognition the investment in joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share in the profit or loss of the investee after the date of the acquisition. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The investments in joint ventures are subject to impairment testing (see Note 2.19).

**2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 26, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.



## **2.5 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Disclosure*. All other non-derivative financial instruments are treated as debt instruments.

### **(a) Classification and Measurement of Financial Assets**

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

#### **(i) Financial Assets at FVTPL**

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

#### **(ii) Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Subscription Receivables, Advances to Related Parties and Security deposits and Restricted cash, presented as part of Other Current Assets and Other Non-current Assets accounts, in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(iii) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets presented as Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include equity securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

*(b) Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables*

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the agreement. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

*(ii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(iii) Items of Income and Expenses Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance income or Finance costs account in the consolidated statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(iv) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.6 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisitions, such as purchase price and other taxes that are not subsequently recoverable from taxing authority is determined using the first-in, first-out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of fuel and spare parts inventories is the current replacement cost.

## **2.7 Property and Equipment**

Vessels are measured at fair value less accumulated depreciation and accumulated impairment losses, if any. Land is measured at cost less any accumulated impairment losses. All other items of property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two periods on the vessel which are capitalized (see Note 2.8).

Following initial recognition at cost, vessels are carried at revalued amounts, which are the fair values at the date of revaluations less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined based on appraisals performed by external professional appraiser every after drydocking, which is done once every two periods. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 29.4).

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of financial position. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amount included in Revaluation Reserves is transferred to Retained Earnings.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Vessels and vessel equipment	5 to 30 periods
Building	20 periods
Office furniture, fixtures and equipment	2 to 10 periods
Transportation equipment	2 to 5 periods

Building and leasehold improvements are amortized over the estimated useful lives of the assets of five periods or the lease term, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## **2.8 Drydocking Costs**

Drydocking costs are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are amortized on the straight-line basis over two periods or until the next drydocking occurs, whichever comes earlier. When significant drydocking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

Amortization of drydocking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of drydocking costs, presented as part of the Other Non-current Assets account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.7).

## **2.9 Other Assets**

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

## **2.10 Financial Liabilities**

Financial liabilities, which include interest-bearing loans, trade and other payables [except output value-added tax (VAT) and other tax-related liabilities] and advances from related parties are recognized when the Group becomes a party to the contractual terms of the instrument.

Interest-bearing loans are raised for support of the investing activities and working capital requirements of the Group. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.21). All other interest-related charges incurred on a financial liability are recognized as an expense in the consolidated statement of profit or loss.

Trade and other payables and advances from related parties are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.11 Deposits for Future Stock Subscriptions***

Deposits for future stock subscription refer to the amount of money or property received by the Group with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. A company should not consider a deposit for stock subscription as an equity instrument unless all of the following elements are present:

- (i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
- (ii) The Group's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,
- (iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity accounts when the company meets the foregoing criteria.

## **2.12 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

## **2.13 Business Combinations**

Business combination involving entities under common control are accounted for under the pooling of interest method. Under this method, the assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize new assets and liabilities.

All other business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition costs, is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

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 PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## **2.14 Advances from Customers**

Advances from customers are measured at the amount of cash received from the customers and are derecognized once the related revenue transactions are consummated.

## **2.15 Provisions and Contingencies**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. 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. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments 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.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## **2.16 Revenue and Expense Recognition**

Revenue comprises revenue from sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding VAT and discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its vessels, is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB) [see Note 3.1(a)]. Under a TC and BB, revenue is recognized based on the terms of the contract, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.



- (c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.
- (d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.
- (e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.
- (f) *Logistics services* – Revenue is recognized when contractually-agreed tasks have been substantially performed. Service fees are also recognized when cargoes are received by either the shipper or consignee for export and import transactions.
- (g) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- (h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term [see Note 2.17(b)].
- (i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.21).

## **2.17 Leases**

The Group accounts for its leases as follows:

### **(a) Group as Lessee**

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### **(b) Group as Lessor**

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term [see Note 2.16(h)].

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## **2.18 Functional Currency and Foreign Currency Transactions**

### **(a) Transactions and Balances**

The accounting records of the Group, except UIBV, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of UIBV are maintained in United States (U.S.) dollar.

Foreign currency 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 the consolidated statement of profit or loss as part of Finance Income or Finance Costs.

### **(b) Translation of Financial Statements of Foreign Subsidiary**

The operating results and financial position of UIBV are translated to Philippine pesos, the Group's functional and presentation currency, as presented below.

- (i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (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 a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

## **2.19 Impairment of Non-financial Assets**

Goodwill is tested for impairment at least annually. All other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## **2.20 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

### **(a) Post-employment Defined Benefit Plan**

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, periods of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability or asset recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated regularly 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 for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corp., 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 post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs or Finance income account in the consolidated statement of profit and loss.

Past service costs are recognized immediately in profit or loss in the period of a plan

*(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(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 when it can no longer withdraw the offer of such benefits and when it 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 reporting period are discounted to their present value.

*(d) Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

*(e) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.21 Borrowing Costs**

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.22 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent 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.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## **2.23 Related Party Transactions and Relationships**

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## **2.24 Equity**

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise gains and losses arising from the revaluation of the Group's vessels, remeasurements of post-employment defined benefit plan, cumulative translation adjustments on financial statements of foreign subsidiaries and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets, net of applicable taxes.

Other reserves pertain to the difference between the Group's cost of investment and the capital stock of the acquired entities in a business combination accounted for under the pooling-of-interest method.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of profit or loss.

## **2.25 Earnings Per Share**

Basic earnings per share is computed by dividing net profit attributable to the Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Company does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

## **2.26 Events After the End of the Reporting Period**

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

# **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

### **3.1 Critical Management Judgments in Applying Accounting Policies**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### **(a) Revenue Recognition for Charter Arrangements**

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB agreements, management considers the following criteria: (1) whether the fulfillment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract [see Note 2.16(a)].

#### **(b) Distinction Between Operating and Finance Leases**

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of December 31, 2017 and 2016, management has determined that its current lease agreements are all operating leases.

#### **(c) Capitalization of Borrowing Costs**

The Group determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to bring the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

#### **(d) Recognition of Provisions and Contingencies**

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.15 and relevant disclosures are presented in Note 24.

#### **(e) Impairment of AFS Financial Assets**

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management has not recognized any impairment loss on its AFS financial assets in 2016. Future changes in those information and circumstances might

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Impairment of Trade and Other Receivables, Subscription Receivable, Advances to Related Parties and Security deposits*

Adequate amount of allowance for impairment is made and provided for specific and groups of accounts where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with its counterparties, their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. Meanwhile, based on management assessment, no impairment loss on subscription receivable, advances to related parties and security deposits is required to be recognized in 2017 and 2016 (see Notes 8, 12, 21.4, and 24.3).

*(b) Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes and action from the competitors. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

*(c) Estimating Useful Lives of Property and Equipment and Drydocking Costs*

The Group estimates the useful lives of property and equipment and drydocking costs based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and drydocking costs are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 10 and 12, respectively. Based on management's assessment as at December 31, 2017 and 2016, there is no change in the estimated useful lives of property and equipment and drydocking costs during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(d) Fair Value Measurement of Vessels*

The Group's vessels, included as part of Property and Equipment, are carried at revalued amounts at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the



For the Group's vessels with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those assets.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation recognized on the Group's vessels are disclosed in Note 10.

*(e) Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2017 and 2016 will be fully utilized in the coming periods. The carrying value of deferred tax assets as of December 31, 2017 and 2016 is disclosed in Note 20.2.

*(f) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.19). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2017 and 2016.

*(g) Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 18.2.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

	<u>2017</u>	<u>2016</u>
Cash on hand and in banks	P 1,426,064,323	P 468,448,292
Short-term placements	<u>15,639,867</u>	<u>40,492,139</u>
	<u>P 1,441,704,190</u>	<u>P 508,940,431</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1.00% to 3.50% both in 2017 and 2016.

The balances of cash on hand and in banks as of December 31, 2017 and 2016 did not include an amount of P31.0 million and P39.4 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 12). Such amount is not available for the general use of the Group.

#### 5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Trade receivables	21.1, 21.3	P 802,786,761	P 740,293,250
Due from agencies		54,229,144	190,407,635
Advances to officers and employees		19,001,031	10,374,828
Claims receivables		15,794,361	12,794,398
Others		<u>2,210,859</u>	<u>5,212,452</u>
		894,022,156	959,082,563
Allowance for doubtful accounts		( <u>17,601,775</u> )	( <u>14,566,313</u> )
		<u>P 876,420,381</u>	<u>P 944,516,250</u>

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables were found to be impaired; hence, adequate amount of allowance for impairment has been provided.

A reconciliation of the allowance for impairment at the beginning and end of December 31, 2017 and 2016 is shown below.

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	P 14,566,313	P 17,580,172
Impairment losses during the year	3,035,462	-
Beginning balance from acquired subsidiaries	-	12,303,319
Write-off of receivables	<u>-</u>	( <u>15,317,178</u> )
Balance at end of period	<u>P 17,601,775</u>	<u>P 14,566,313</u>

Trade and other receivables are unsecured and do not bear any interest. All receivables, except for advances to officers and employees, are subject to credit risk exposure (see Note 27.2).

Due from agencies represent claims from authorized agencies for tickets issued to customers.

Claims receivables include charges made by the customer to the Group for claims on damages due to handling of items. These are reimbursable from the transacting agency.

Advances to officers and employees represent unsecured, non-interest bearing cash advances for business-related expenditures and are subject to liquidation.

Certain trade receivables amounting to P28.3 million and P20.5 million as of December 31, 2017 and 2016, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 13.1).

## **6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

This account represents investments in equity securities that are listed in the PSE and in the New York Stock Exchange that have been designated by management as financial assets at FVTPL upon initial recognition.

The fair values of equity securities have been determined directly by reference to quoted bid prices in active markets (see Note 29.2). The carrying amounts of the above financial assets are designated as at FTVPL on initial recognition.

In 2015, the Group purchased 8,800 preference shares of San Miguel Corporation, a publicly listed company. Additional preference shares were purchased in 2016 at par with quantity of 29,400 and 93,400 shares. Moreover, the Group invested in corporate securities from China Banking Corporation with par value of \$20,000. All investments stated herein are held by the Group with the intention of selling in the near term.

In 2017, the Group sold its investments from China Banking Corporation for a total proceeds of P7,419,684 and recognized a gain amounting to P87,784 and is presented as part of Other income under Other Income (Charges) in the 2017 consolidated statement of profit or loss (see Note 19.3).

There were no changes in the fair value of financial assets at FVTPL for the periods ended December 31, 2017 and 2016.

## 7. INVENTORIES

This account includes the following:

	Note	2017	2016
Spare parts		P 87,620,499	P 36,185,728
Fuel and lubricants	21.2	49,034,701	38,901,683
Shipping supplies		39,829,380	1,090,920
Food, beverage and other supplies		5,350,929	1,421,117
Electrical parts		3,028,474	1,275,178
		<u>P 184,863,983</u>	<u>P 78,874,626</u>

As of December 31, 2017 and 2016, based on management's assessment, the net realizable value of inventories is higher than its cost.

## 8. OTHER CURRENT ASSETS

The breakdown of this account as of December 31, 2017 and 2016 follows:

	Notes	2017	2016
Advances to suppliers		P 1,477,527,421	P 268,962,167
Deferred input VAT		185,770,148	82,322,433
Creditable withholding taxes		96,556,752	65,785,594
Input VAT		69,644,935	55,181,622
Prepayments		31,937,943	30,759,478
Deferred charges		29,780,327	-
Restricted cash	4	29,406,231	34,388,529
Security deposits	21.3, 24.3	5,122,339	4,600,998
Others		590,814	684,867
		<u>P 1,926,336,910</u>	<u>P 542,685,688</u>

Advances to suppliers include down payments made to suppliers for the acquisition of vessels, supply of spare parts, parcels of land and other services. It also includes advances for land acquisitions pertaining to Trans-Asia's advance payments for the purchase of certain parcels of land, which are bought for use in operations as container yards.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group obtained a life insurance policy from Insular Life (policy provider) with an investment component linked to it. The net amount of premium paid, after deducting fund administration and management fees and insurance charges, was invested in the equity fund to be managed and administered by the policy provider. The investment is to be held indefinitely and may be sold in response to the liquidity requirements or changes in market condition.

In 2017, the Group sold all of its investment in Insular Life for a total proceeds of P3,809,000 and recognized a gain amounting to P743,911 and is presented as part of Miscellaneous under the Other Income account in the 2017 consolidated statement of profit or loss (see Note 19.3).

In addition, fair value gain on disposed AFS amounting to P49,607 was reclassified to profit or loss and is presented as part of Other income under Other Income (Charges) account in the 2017 consolidated statement of profit or loss.

As of December 31, 2016, the fair value of the equity fund amounted to P3,065,089, consisting of 436,633 unit shares.

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of December 31, 2017 and 2016, are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
December 31, 2017							
Cost or revalued amounts	P 211,673,989	P 12,863,128,955	P 114,549,466	P 51,089,515	P 128,551,325	P 588,837,757	P 13,957,831,007
Accumulated depreciation and amortization	-	( 2,792,252,270 )	( 46,095,605 )	( 30,714,077 )	( 86,958,008 )	-	( 2,956,019,960 )
Accumulated impairment loss	-	( 2,214,620 )	-	-	-	-	( 2,214,620 )
Net carrying amount	<u>P 211,673,989</u>	<u>P 10,068,662,065</u>	<u>P 68,453,861</u>	<u>P 20,375,438</u>	<u>P 41,593,317</u>	<u>P 588,837,757</u>	<u>P 10,999,596,427</u>
December 31, 2016							
Cost or revalued amounts	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	( 2,053,621,702 )	( 23,075,954 )	( 26,555,834 )	( 44,427,026 )	-	( 2,147,680,516 )
Accumulated impairment loss	-	( 2,214,621 )	-	-	-	-	( 2,214,621 )
Net carrying amount	<u>P 104,250,013</u>	<u>P 7,311,131,493</u>	<u>P 35,874,526</u>	<u>P 18,088,713</u>	<u>P 13,566,446</u>	<u>P 335,657,251</u>	<u>P 7,818,568,442</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2017 and 2016 is shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment losses	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442
Balance from acquired subsidiaries at January 1, 2017, net of accumulated depreciation and amortization	-	1,825,913,470	14,089,612	-	12,377,408	-	1,852,380,490
Additions	107,423,976	1,268,178,847	44,002,428	3,682,827	30,191,753	433,531,471	1,887,011,302
Revaluation increment	-	67,317,920	-	-	-	-	67,317,920
Redclassification	-	180,118,385	-	-	232,580	( 180,350,965 )	-
Disposal	-	( 9,335,148 )	( 8,507,385 )	-	( 1,606,112 )	-	( 19,448,645 )
Depreciation and amortization charges for the year	-	( 574,662,902 )	( 17,005,320 )	( 1,396,102 )	( 13,168,758 )	-	( 606,233,082 )
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment losses	<u>P 211,673,989</u>	<u>P 10,068,662,065</u>	<u>P 68,453,861</u>	<u>P 20,375,438</u>	<u>P 41,593,317</u>	<u>P 588,837,757</u>	<u>P 10,999,596,427</u>
Balance of CSC at January 1, 2016, net of accumulated depreciation and amortization and impairment losses	P -	P 4,576,445,613	P 7,002,013	P 394,715	P 2,861,561	129,613,034	P 4,716,316,936
Balance from acquired subsidiaries at December 31, 2016, net of accumulated depreciation and amortization	104,250,013	1,082,671,008	768,677	17,836,662	10,099,512	327,543,911	1,543,169,783
Additions	-	1,073,870,174	34,183,273	190,018	2,618,283	5,983,585	1,116,845,333
Revaluation increment	-	801,886,530	-	-	-	-	801,886,530
Redclassification	-	72,873,835	-	-	( 126,932,888 )	( 54,059,053 )	( 54,059,053 )
Disposal	-	-	( 1,082,142 )	-	( 29,762 )	( 550,391 )	( 1,662,295 )
Depreciation and amortization charges for the year	-	( 296,615,667 )	( 4,997,295 )	( 332,682 )	( 1,983,148 )	-	( 303,928,792 )
Balance at December 31, 2016, net of accumulated depreciation and amortization and impairment losses	<u>P 104,250,013</u>	<u>P 7,311,131,493</u>	<u>P 35,874,526</u>	<u>P 18,088,713</u>	<u>P 13,566,446</u>	<u>P 335,657,251</u>	<u>P 7,818,568,442</u>

Prior to the acquisition of WSI and Starlite, WSI and Starlite recognized depreciation expense amounting to P3.9 million and P87.3 million, respectively in 2017. These expenses were considered in the determination of pre-acquisition income from these subsidiaries.

In addition, total additions and disposals amounted to P494.5 million and P12.7 million, respectively, were made by these subsidiaries prior to acquisition. Revaluation increment amounting to P55.4 million was also recognized prior to the acquisition and is presented as Pre-acquisition Other Comprehensive Income in the 2017 consolidated statement of other comprehensive income.

The fair values of the Group's vessels were based on the latest appraisal reports as shown below.

<b>Name of Vessel</b>	<b>Date of Report</b>	<b>Net Appraised Values</b>
MV Starlite Reliance	November 22, 2017	P 450,000,000
MT Denise	November 11, 2017	195,000,000
MT Jasaan	July 7, 2017	43,000,000
MT Excellence	June 14, 2017	150,000,000
MT BMI Patricia	June 5, 2017	56,000,000
MV Trans-Asia 3	February 11, 2017	207,385,000
M/Tug Pindasan	January 6, 2017	40,419,000
M/Tug Samal	January 6, 2017	33,451,000
M/Tug Sigaboy	January 6, 2017	28,880,000
M/Tug Fortis II	November 11, 2016	80,090,000
MT Chelsea Charlize	June 27, 2016	470,000,000
MT Chelsea Endurance	June 8, 2016	347,422,000
MT Chelsea Donatela	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000
MV Asia Philippines	May 17, 2016	71,000,000
MV Trans-Asia 2	May 7, 2016	90,000,000
MV Trans-Asia 8	April 28, 2016	90,000,000
MV Trans-Asia 10	April 27, 2016	85,500,000
MV Asia Pacific	April 27, 2016	71,000,000
MV Trans-Asia 9	April 25, 2016	86,000,000
MV Starlite Annapolis	April 4, 2016	34,869,000
MV Starlite Blue Sea	March 31, 2016	5,495,000
MV Starlite Jupiter	March 31, 2016	29,568,000
MV Starlite Navigator	March 31, 2016	29,674,000
MV Starlite Pacific	March 31, 2016	17,956,000
MV Starlite Polaris	March 31, 2016	10,065,000
MV Starlite Ferry	March 31, 2016	19,675,000
MV Starlite Tamaraw	March 31, 2016	25,270,000
MT Chelsea Resolute	March 28, 2016	242,000,000
MT Chelsea Intrepid	March 17, 2016	120,000,000
MT Chelsea Enterprise	March 4, 2016	135,000,000
MV Starlite Pioneer	February 24, 2016	462,265,000
MT Chelsea Denise II	December 23, 2015	487,000,000
M/Tug Fortis I	November 17, 2015	85,000,000
MT Ernesto Uno	November 10, 2015	150,000,000
MT Chelsea Diamond	August 5, 2015	1,021,886,700
MT Chelsea Cherylyn	December 29, 2014	880,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of last appraisals. Further, no appraisal report was obtained for MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno, MV St. Nicholas of Myra, MT Chelsea Dominance, MTug Fortis III, MTug Fortis V, MTug Fortis VII, MV Starlite Saturn, MV Starlite Eagle, MV Starlite Archer and MV Trans-Asia 12 as the Group has newly-acquired the vessels towards the end of 2016 and early 2017; hence, management believes that the acquisition costs approximate their fair values.

In 2017, the Group acquired new vessels namely, MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno, MV St. Nicholas of Myra, MV Archer, Fortis V and Fortis VII.

In 2016, CSC acquired new vessels namely, MT Chelsea Charlize, MT Chelsea Endurance and MT Chelsea Dominance, which commenced operations in March 2016, August 2016 and November 2016, respectively. Total capitalized borrowing costs for these tankers amounted to P6.1 million for the year ended December 31, 2016. The capitalization rates used range from 4.32% to 4.50% per annum.

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cost	<b>P10,096,699,931</b>	P 6,378,900,455
Accumulated depreciation	<b>( 1,768,872,688 )</b>	<b>( 1,196,043,233 )</b>
Net carrying amount	<b><u>P 8,327,827,243</u></b>	<b><u>P 5,182,857,222</u></b>

Depreciation and amortization is classified in the consolidated statements of profit and loss as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cost of sales and services	16	<b>P 583,897,981</b>	P 296,615,667
Other operating expenses		<b><u>22,335,101</u></b>	<b><u>7,313,125</u></b>
	17	<b><u>P 606,233,082</u></b>	<b><u>P 303,928,792</u></b>

The Group's vessels with a net carrying amount of P8,755.6 million and P7,022.4 million as of December 31, 2017 and 2016, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

## 11. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

The carrying value of the Group's investment in an associate and a joint venture as of the end of the reporting periods is as follows:

	<u>2017</u>	<u>2016</u>
Associate – KGLI-NM		
Cost	<b>P 2,104,212,296</b>	P -
Equity share in other comprehensive income of an associate	<b>108,049,607</b>	-
Equity share in net loss of an associate	<b>( 1,962,214 )</b>	-
	<b><u>2,210,299,689</u></b>	<b><u>-</u></b>
Jointly controlled entity –		
Meridian Maritime Training Center		
Center (Meridian)	<b><u>58,635,925</u></b>	<b><u>45,560,925</u></b>
	<b><u>P 2,268,935,614</u></b>	<b><u>P 45,560,925</u></b>

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in and owns 60% of the voting stock in Nenaco. Nenaco, in turn owns 88.31% of 2Go. Hence, the Company has a 28.15% indirect economic interest in 2Go.

Presented below are the financial information of the Group's associate in 2017.

Total Assets	P 18,205,544,373
Total Liabilities	18,045,884,835
Total Revenues	21,591,089,000
Net Loss	( 276,244,000 )

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agree to establish and operate a training facility on a parcel of land at the Calaca Seaport (formerly Phoenix Petroterminals Industrial Park) in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which includes the acquisition of the site, construction costs of the structures of the facility and government taxes, assessments and fees related thereto.

In 2017, CSC made additional investment in the Meridian amounting to P13.1 million.

As of December 31, 2017 and 2016, management believes that the investments in an associate and a joint venture are not impaired.

## 12. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

	Notes	2017	2016
Drydocking costs – net		P 303,509,254	P 169,125,830
Security deposits	21.3, 24.3	12,730,611	1,114,347
Other investments		8,272,236	-
Restricted cash	4	1,637,081	5,000,000
Software		1,600,000	-
Others		-	259,123
		<u>P 327,749,182</u>	<u>P 175,499,300</u>



A reconciliation of the net carrying amount of drydocking costs at the beginning and end of December 31, 2017 and 2016 is shown below.

	Note	2017	2016
Balance at beginning of period	P	169,125,830	P -
Beginning balance of CSC		-	160,258,939
Additions		325,647,628	34,463,540
Reclassification from CIP	10	-	54,059,053
Balance from acquired subsidiaries		21,259,891	74,134,597
Amortization charges for the period		( 212,524,095 )	( 153,790,299 )
Balance at end of period		<u>P 303,509,254</u>	<u>P 169,125,830</u>

Prior to the acquisition of Starlite, amortization charges amounting to P17.1 million was recognized in its books. These charges were considered in the determination of pre-acquisition income in the 2017 consolidated statement of profit or loss.

Amortization of drydocking costs is presented as part of the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 16).

### 13. INTEREST-BEARING LOANS

The short-term and long-term interest-bearing loans are broken down as follows as of December 31:

	Note	2017	2016
Current:			
Bank loans	13.2	P 2,445,380,253	P 4,576,345,754
Term loans	13.1	968,128,892	445,149,306
Mortgage loans	13.3	<u>20,981,833</u>	<u>7,984,582</u>
		<u>3,434,490,978</u>	<u>5,029,479,642</u>
Non-current:			
Term loans	13.1	6,746,237,521	2,151,830,061
Mortgage loans	13.3	140,997,812	191,472,475
Bank loans	13.2	<u>10,434,324</u>	<u>-</u>
		<u>6,897,669,657</u>	<u>2,343,302,536</u>
		<u>P10,332,160,635</u>	<u>P 7,372,782,178</u>

A reconciliation of the carrying amounts of interest-bearing loans at the beginning and end of December 31, 2017 is shown below.

	Term loans (see Note 13.1)	Bank loans (see Note 13.2)	Mortgage loans (see Note 13.3)	Total
Balance as of January 1, 2017	P 2,596,979,367	P 4,576,345,754	P 199,457,057	P 7,372,782,178
Balance from acquired subsidiaries	2,446,689,650	7,561,112	-	2,454,250,762
Additions	1,404,093,151	1,184,823,399	40,735,902	2,629,652,452
Repayments	( 559,970,152 )	( 1,512,915,688 )	( 78,213,314 )	( 2,151,099,154 )
Reclassification	1,800,000,000	( 1,800,000,000 )	-	-
Conversion from USD to PHP	20,298,400	-	-	20,298,400
Restatement of foreign currency denominated loans	6,275,997	-	-	6,275,997

### 13.1 Term Loans

The details of the Group's term loans as of December 31, 2017 and 2016 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				2017	2016
China Banking Corporation (CBC)	Continuing Suretyship	6 years	4.50%	P 1,800,000,000	P -
Philippine Business Bank (PBB)	MV Eagle, MV Navigator				
	MV Archer, MV Saturn	10 years	7.50%	1,037,444,850	-
PBB	Unsecured	15 years	7.00%	800,000,000	-
Development Bank of the Philippines (DBP)	MV Pioneer, MV Reliance	15 years	6.95%	606,000,000	-
PBB	MT Chelsea Dominance	7 years	6.06%	373,008,825	375,883,200
CBC	MT Chelsea Charlize	7 years	3.25%	366,102,000	397,760,000
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.25%	335,482,560	441,680,061
PBB	MT Chelsea Endurance	7 years	6.06%	316,379,375	323,180,000
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	299,361,844	308,180,768
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	296,250,000	-
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	296,250,000	-
CTBC Bank (Philis) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	296,250,000	-
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	197,500,000	-
BDO	MT Chelsea Denise II	5 years	6.46%	196,140,000	242,300,000
BDO	Trans - Asia 1	10 years	5.00%	179,959,247	-
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	134,052,501	239,376,297
BDO	Chattel Mortgage	8 years	4.50%	88,118,410	-
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	67,114,859	-
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal		6.00% to		
AUB	Mtug Sigaboy	5 years	6.50%	25,696,844	45,948,735
	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	22,222,222	44,444,444
BDO	Trans - Asia 8 and 9	3.50 years	4.25%	-	18,978,175
BDO	Trans - Asia 10	9.38 years	4.25%	39,584	45,833
DBP	MT Chelsea Cheryllyn	2 years	5.00%	-	28,000,000
CBC	Trans - Asia 12	8 years	4.25%	-	71,100,000
CBC	Trans - Asia 5	10 years	5.00%	-	61,759,197
				<u>7,733,373,121</u>	<u>2,598,636,710</u>
Discount on loans payable				( 19,006,708 )	( 1,657,343 )
				<u>P 7,714,366,413</u>	<u>P 2,596,979,367</u>

(a) *Omnibus Loan and Security Agreement (OLSA) with BDO – MT Great Princess and MT Chelsea Denise II*

In 2013, PN-X-Chelsea entered into a MOA with China Shipbuilding & Exports Corporation (CSEC) for the acquisition of one unit of oil tank (MT Great Princess) in the amount of US\$21,187,500. In connection with the acquisition of an oil tank vessel, PN-X-Chelsea entered into an OLSA amounting to US\$14 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, BDO granted the loan and released the first tranche amounting to US\$4 million. The second tranche was availed by PN-X in February 2014. The loan is payable for a period of five periods from initial drawdown date in US\$560,000 quarterly principal installments and any unpaid balance on the maturity date, with two quarter grace period, commencing after the second tranche. The loan bears effective interest rate of 5.25% per annum.

In 2014, PN-X-Chelsea entered into a MOA with CSEC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US\$7,300,000. In connection with the MOA, PN-X-Chelsea entered in another OLSA with the same local bank for P300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46% per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015.

Interest incurred on these loans amounted to P49.5 million and P44.8 million in 2017 and 2016, respectively, and are presented as part of Finance costs under the Other Income (Charges) account in the consolidated statements of profit or loss (see Note 19.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P1,354,798 and P1,457,769, respectively, were amortized in 2017 and 2016 using the effective interest rates of 5.54% and 5.58% for each tranche. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 19.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The loans are secured by a chattel mortgage of MT Great Princess and MT Chelsea Denise II, respectively (see Note 10). The carrying amounts of these vessels, presented as part of the Property and Equipment account, amounted to P1,894.5 million and P2,002.4 million as of December 31, 2017 and 2016, respectively.

The OLSA requires PNX-Chelsea to maintain debt to equity ratio of not more than 2.00:1.00 and debt service coverage ratio (DSCR) of at least 1.20, except on drydocking year where minimum DSCR shall be 1.00. As of December 31, 2017, the Company has complied with these covenants.

*(b) OLSA with BDO – MT Chelsea Great Diamond*

On April 26, 2011, CSC entered into a MOA with CSEC for the acquisition of one unit of oil tank (MT Chelsea Great Diamond) in the amount of US\$19.8 million.

In connection with the MOA, CSC entered into an OLSA amounting to US\$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable in 27 consecutive equal quarterly principal installments starting in August 2012. The loan is subject to quarterly repricing of interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

Related debt issuance costs amounted to P8.2 million, of which P0.6 million and P0.9 million was amortized in 2017 and 2016, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 19.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P914.0 million and P989.6 million as of December 31, 2017 and 2016, respectively (see Note 10). The loan is also secured by collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group (see Notes 5 and 21.8).

The OLSA requires CSC to maintain debt-to-equity ratio of not more than 1.50:1.00 and DSCR of at least 2.50. As of December 31, 2017, CSC has breached these covenants. CSC's management, however, believes that the breach has no material impact in the consolidated financial statements as the loan is due for settlement in 2018; hence, the current classification.

*(c) Term Loan Agreement (TLA) with CBC – MT Chelsea Charlize*

On May 23, 2016, PNX-Chelsea entered into loan agreement with CBC amounting to US\$8.0 million to finance the acquisition of MT Chelsea Charlize. The loan is subject to annual interest rate of 3.25% and is payable in 24 equal quarterly installments commencing on August 23, 2017.

Interest incurred on this loan amounting to 8.0 million and P7.7 million in 2017 and 2016, respectively, and is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.1). The related unpaid interest as of December 31, 2017 and 2016 amounted to P1.3 million and P1.4 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position.

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P445.1 million and P460.8 million as of December 31, 2017 and 2016, respectively (see Note 10).

*(d) TLA with PBB – MT Chelsea Endurance and MT Chelsea Dominance*

On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into term loan agreements with PBB amounting to US\$6.5 million and US\$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. On the anniversary year, these loans were converted into Php loans. The loans are subject to annual effective interest rate of 6.06% and are payable in 24 equal quarterly installments with one-year grace period from date of each release.

Interest incurred on these loans totaling P34.9 million and P6.3 million, excluding capitalized borrowing costs of P6.1 million (see Note 10), in 2017 and 2016, respectively, and is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.1). The related unpaid interest as of December 31, 2017 and 2016 amounted to P6.6 million and P4.6 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P731.2 million and P763.8 million, respectively, as of December 31, 2017 and 2016 (see Note 10).

*(e) TLA with AUB – MTug Fortis I, MTug Fortis II, MTug Fortis III and MTug Fortis V*

In 2013, FTC obtained interest-bearing loans from a bank to partially finance the acquisition of tugboats amounting to P100.0 million. The loan bears fixed interest rate at 7.0% for the first three periods from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the “Repricing Date”). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.0% subject to a floor of 7.0%. The loan is payable in 18 quarterly installments over a period of five periods. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

On April 12, 2017, FTC obtained additional interest-bearing loans amounting to P69.7 million from the same bank to partially refinance the acquisition of MTug Fortis III and MTug Fortis V and for working capital requirements. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 monthly installments.

Interest expense related to these loans amounted to P5.5 million and P4.7 million in 2017 and 2016, respectively, and is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.1).

Certain trade receivables amounting to P27.5 million and P20.4 million as of December 31, 2017 and 2016, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P247.0 million and P155.6 million as of December 31, 2017 and 2016, respectively, were used as collateral to secure the payment of these loans (see Note 10).

*(f) TLA with DBP*

On October 30, 2014, CSC entered into loan agreement with DBP amounting to P140.0 million to finance the drydocking and repairs and maintenance expenses of MT Chelsea Resolute, MT Chelsea Cherylyn and MT Chelsea Denise. The loan is subject to annual interest rate of 5.00% and is payable in eight equal quarterly installments commencing on the first quarter from the initial drawdown.

In addition, CSC obtained P160.0 million loan for CSC's working capital requirements. The loan bears a fixed interest rate of 5.00% per annum and is payable in ten equal quarterly installments commencing on February 28, 2015. These loans have been fully settled as of December 31, 2017.

*(g) TLA with BDO – Trans-Asia 10, 8 and 9*

In 2014, Trans-Asia availed loans from BDO for the acquisition of MV Trans-Asia 10 totaling to P120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to P79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of MV Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly.

Trans-Asia made additional loans from BDO totaling to P263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

Interest expense incurred on these loans amounted to P13.2 million in 2017 and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1)

*(h) TLA with CBC – Trans-Asia*

Trans-Asia Shipping secured borrowings from CBC in 2010 in the amount of P135.0 million. This loan is payable for a term of ten periods inclusive of two periods grace period at 5.00% per annum. Interest is to be paid quarterly in arrears based on diminishing balance.

In addition, a loan from CBC amounting to P71.1 million was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two periods and interest is payable monthly in arrears based on diminishing balance. This loan was used to partially finance the purchase of MV Trans-Asia 12, a vessel owned by one of its subsidiaries, Oceanstar. These loans have been fully settled as of December 31, 2017.

(i) *TLA with UCPB and PBComm – DGMSI*

In 2014, DGMSI obtained loans from UCPB and PBComm to fund its acquisition of secondhand tugboats imported from Japan and Korea for use in the expansion of its business activity. The same loans are collateralized with three of its tugboats acquired and a time deposit placement amounting to P5.0 million. These loans have interest rates of ranging from 6.00% to 6.50% per annum, and are subject to annual resetting. These loans will mature on various dates in 2019.

Interest expense incurred on these loans amounted to P2.5 million and P8.8 million in 2017 and 2016, respectively, and is presented as part of Finance costs under the Other Income (Charges) account in the consolidated statements of profit or loss (see Note 19.1).

(j) *TLA with CBC – CLC*

In 2016, the Company obtained a P1.8 billion loan from CBC to finance the acquisition of the outstanding shares of CSC. The loan is subject to annual interest rate of 4.50% and is payable on a lump sum basis in 181 days. The loan is secured by means of mortgage, pledge, assignment or any other form of encumbrance upon any and all properties or assets of the Company's President and Chairman of the BOD (see Note 21.8).

In 2017, the Company converted its P1.8 billion bank loan to a six-year term loan from China Bank with a grace period of four quarters which commenced on the date of conversion. The principal is payable per quarter amounting to P45 million with balloon payment at maturity and shall commence on the quarter after the grace period and the interest shall be paid on arrears. The loan is secured by the same properties as mentioned in the initial bank loan.

Related interest expense amounting to P82.7 million and P3.8 million in 2017 and 2016, respectively, is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1). Accrued interest amounted to P450,000 and is presented as part of Accrued expenses under Trade and Other Payables account in the 2017 consolidated statement of financial position (see Note 14).

(k) *TLA with CTBC, MICBC, RBC and FCB – Trans-Asia*

In 2017, Trans-Asia entered into a five-year loan facility agreement amounting to P300.0 million each with CTBC, MICBC and RBC and P200.0 million with FCB to bridge the facility obtained by CSC to fund the acquisition of Trans-Asia and for general working capital purposes. In the same year, Trans-Asia made a drawdown of P1,100.0 million loan to bridge the loan obtained by CSC in 2016. The loan is subject to annual interest rate of 6.10% and is payable on quarterly basis. Principal repayments shall be 5% of the loan in the first and second year, 15% in the third and fourth year and 60% in the fifth year of the drawdown. The loan is secured by Trans-Asia shares, a corporate guarantee by Udenna and individual surety of the Company's chairman of the BOD (see Note 21.8).

Interest expense incurred on these loans amounted to P17.1 million and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

(l) *TLA with PBB – Starlite*

In 2015, Starlite entered into a 10-year term loan agreement amounting to P1,037.4 million with PBB to finance the acquisition of MV Eagle, MV Archer and MV Saturn. The loans are subject to a fixed interest rate of 7.5% and the principal is payable in arrears.

In 2017, Starlite obtained a 15-year term loan agreement amounting to P800.0 million with PBB. The loan is subject to annual interest rate of 7.0% and principal repayments including the interest shall commence on the first quarter after a grace period of one year from the date of availment.

Interest incurred on these loans amounted to P98.5 million in 2017 and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

Certain vessels of Starlite with net carrying amounts of P1,283.4 million as of December 31, 2017 were used as collateral to secure the payment of these loans (see Note 10).

(m) *TLA with DBP – Starlite*

In 2016 and 2015, Starlite entered into a 15-year term loan agreement amounting to P306.0 million and P300.0 million, respectively, with DBP to finance the acquisition of MV Pioneer and MV Reliance. The loan is subject to annual interest rate of 6.95% and is payable on a quarterly basis. Principal repayments shall commence after the grace period of three periods.

Interest incurred on these loans amounted to P42.7 million in 2017 and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

Certain vessels of Starlite with net carrying amounts of P735.9 million as of December 31, 2017 were used as collateral to secure the payment of these loans (see Note 10).

### 13.2 Bank Loans

The details of the Group's bank loans are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				2017	2016
Primary Institutional Lenders	Unsecured	30 to 96 days	4.25% to 5.00%	P 923,290,258	P 885,569,051
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	890,502,192	40,700,000
PBB	Unsecured	1 year	7.00%	-	-
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	300,000,000	200,000,000
Unicapital	Unsecured	90 days	5.50%	140,000,000	-
PBCor	MT Ernesto Uno	180 to 270 days	4.75%	130,765,000	158,000,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	57,300,000	-
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	10,434,324	35,476,703
BPI	Unsecured	48 days	9.47% to 10.28%	2,436,125	-
Chinabank Savings	Unsecured	48 days	0.71%	1,086,678	-
BDO	Real Estate Mortgage	180 days	4.00%	-	19,500,000
	MT Chelsea Denise	180 days	5.50%	-	54,100,000
SBC	Real Estate Mortgage	120 days	4.00%	-	49,000,000
CBC	Mortgage	181 days	4.50%	-	1,800,000,000
CTBC	Continuing Suretyship	180 days	4.00%	-	700,000,000
Maybank Philippines, Inc.	Unsecured	90 days	5.50%	-	592,000,000
Robinsons Bank Corporation	MT Chelsea Resolute,				
UCPB	Restricted Time Deposit	1 year	6.00%	-	5,000,000
Metropolitan Bank and Trust Corporation	Unsecured	120 days	4.00%	-	37,000,000

The bank loans were obtained to finance the drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P1,637.4 million and P513.3 million as of December 31, 2017 and 2016, respectively (see Notes 10 and 21.8).

Interest expense on these bank loans is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit and loss (see Note 19.1).

### 13.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance	
				2017	2016
BDO	Real Estate Mortgage	10 years	4.25%	P 120,000,000	P 130,000,000
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	27,411,954	-
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	3,996,246	-
CBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	3,839,567	-
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.30%	3,129,183	-
PNB	Chattel Mortgage on Transportation Equipment	1 year	7.30%	2,358,952	-
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	1,243,743	20,082,057
CBC	Real Estate Mortgage	10 years	6.00%	-	49,375,000
				<u>P 161,979,645</u>	<u>P 199,457,057</u>

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rates ranging from 4.25% to 8.50% both in 2017 and 2016. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P57.6 million and P700.6 million as of December 31, 2017 and 2016, respectively (see Note 10).

## 14. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2017	2016
Trade payables	21.2, 21.6	P 1,053,282,818	P 1,029,988,283
Accrued expenses	13	168,041,389	173,269,627
Deferred output VAT		69,258,421	86,646,995
Output VAT		19,601,544	21,269,557
Deposits payable		885,112	4,356,975
Provisions	24.4	801,086	8,865,400
Others		68,979,036	34,357,632
		<u>P 1,380,849,406</u>	<u>P 1,358,754,469</u>



Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans, and professional fees rendered to the Group during the year.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered which remained uncollected as of the end of the reporting periods.

Others include withholding taxes payable and other government-related liabilities.

#### 15. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

An analysis of the movements in the balance of deposits on future stock subscription is presented below.

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	P 50,000,000	P -
Addition during the period	180,000,000	-
Reversal to advances	( 50,000,000 )	-
Balance acquired from subsidiaries	<u>-</u>	<u>50,000,000</u>
Balance at end of period	<u>P 180,000,000</u>	<u>P 50,000,000</u>

The balance as at December 31, 2017 represents preferred shares subscription of certain individuals in Trans-Asia. These are presented as current liability in the 2017 consolidated statement of financial position as the requirements of SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity has not been complied with as of the end of the reporting period.

# **16. COST OF SALES AND SERVICES**

The details of this account are shown below.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Bunkering	21.2	P 866,546,176	P 111,014,486
Depreciation and amortization	10, 12	796,422,076	450,405,966
Salaries and employee benefits	18.1	363,097,068	245,574,960
Port expenses		150,630,581	74,970,543
Repairs and maintenance		134,730,583	41,885,766
Insurance		129,593,972	43,711,854
Charter hire fees		98,368,503	225,917,157
Delivery		68,572,958	-
Outside services		58,332,810	2,516,058
Supplies		44,880,251	20,647,275
Cost of inventories sold		37,614,552	-
Commission		30,922,895	-
Taxes and licenses		19,945,187	7,510,533
Rentals	24.3	12,070,650	-
Transportation and travel		13,977,232	20,687,554
Utilities and communication		9,075,640	4,293,925
Professional fees		1,678,765	6,134,546
Representation and entertainment		445,624	-
Miscellaneous		<u>25,241,841</u>	<u>5,932,488</u>
		<u>P 2,862,147,364</u>	<u>P 1,261,203,111</u>

## 17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the periods ended December 31, 2017 and 2016 are presented below.

	Notes	2017	2016
Bunkering	21.2	P 867,597,634	P 111,014,486
Depreciation and amortization	10, 12	818,757,177	457,719,091
Salaries and employee benefits	18.1	556,278,918	289,168,164
Port expenses		150,630,581	74,970,543
Repairs and maintenance		143,485,999	43,492,411
Insurance		131,132,352	44,367,683
Charter hire fees		98,368,503	225,917,157
Outside services		87,737,674	6,251,615
Taxes and licenses		83,877,950	53,911,811
Delivery		68,572,958	-
Supplies		58,233,572	22,975,037
Professional fees		53,393,537	14,460,709
Rentals	21.3, 24.3	42,592,958	13,763,342
Cost of inventories sold		37,614,552	-
Commission		37,080,468	-
Transportation and travel		35,995,891	25,059,162
Utilities and communication		29,305,379	7,846,000
Representation and entertainment		15,438,646	11,321,465
Advertising and promotions		8,151,043	-
Technology		4,778,362	-
Miscellaneous	21.8(b)	62,796,121	14,417,097
		<b>P 3,391,820,275</b>	<b>P 1,416,655,773</b>

These expenses are classified in the consolidated statements of profit or loss as follows:

	Note	2017	2016
Cost of sales and services	16	P 2,862,147,364	P 1,261,203,111
Other operating expense		529,672,911	155,452,662
		<b>P 3,391,820,275</b>	<b>P 1,416,655,773</b>

## 18. SALARIES AND EMPLOYEE BENEFITS

### 18.1 Salaries and Employee Benefits

The details of salaries and employee benefits are presented below.

	Notes	2017	2016
Short-term employee benefits		P 456,034,336	P 267,623,922
Bonus and incentives		37,365,878	4,687,313
Post-employment benefits	18.2(b)	16,011,360	1,744,827
Other employee benefits		46,867,344	15,112,102

These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	2017	2016
Cost of sales and services	16	P 363,097,068	P 245,574,960
Other operating expense		<u>193,181,850</u>	<u>43,593,204</u>
	17	<u>P 556,278,918</u>	<u>P 289,168,164</u>

## 18.2 Post-employment Defined Benefits

### (a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five periods of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The post-employment defined benefit plan of Trans-Asia also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

- (i) For regular employees who were hired before December 1, 2006
  - more than two periods to five periods – 7.5 days per year of service
  - five periods and nine months to ten periods – 15 days per year of service
  - ten periods and nine months to 15 periods – 22.5 days per year of service
  - 15 periods and nine months and above – 30 days per year of service
- (ii) For regular employees who were hired starting December 1, 2006
  - five periods and nine months to nine periods – 7.5 days per year of service
  - nine periods and nine months to 15 periods – 15 days per year of service
  - 15 periods and five months to 20 periods – 22.5 days per year of service
  - 20 periods and nine months and above – 30 days per year of service

Further, Trans-Asia has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two periods of service to Trans-Asia and by employees who has been hired starting December 31, 2006 and has rendered at least five periods and nine months of service to Trans-Asia. The total number of periods of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of periods he/she availed as advance retirement.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from an independent actuary covering the year ended December 31, 2017.

(i) *Post-employment Benefit Asset*

The amounts of post-employment defined benefit asset of Trans-Asia and MI as of December 31, 2017 and 2016, which is recognized in the consolidated statements of financial position are determined as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets	<b>P 41,456,400</b>	P 39,693,662
Present value of the obligation	<b>( 32,885,129)</b>	<b>( 34,820,143)</b>
	<b>8,571,271</b>	4,873,519
Effect of the asset ceiling	<b>( 381,217)</b>	-
	<b><u>P 8,190,054</u></b>	<b><u>P 4,873,519</u></b>

The movements in the present value of post-employment defined benefit obligation recognized in the 2017 and 2016 books are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	<b>P 34,820,143</b>	P -
Balance from acquired subsidiaries	-	34,820,143
Current service cost	<b>6,856,642</b>	-
Interest cost	<b>1,848,950</b>	-
Actuarial gains	<b>( 10,007,052)</b>	-
Benefits paid	<b>( 633,554)</b>	-
Balance at end of period	<b><u>P 32,885,129</u></b>	<b><u>P 34,820,143</u></b>

The movements in the fair value of plan assets in 2017 and 2016 are presented below.

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	<b>P 39,693,662</b>	P -
Balance from acquired subsidiaries	-	39,693,662
Balance from MI	<b>1,502,033</b>	-
Interest income	<b>2,090,913</b>	-
Return on plan assets (excluding amounts included in net interest)	<b>( 1,196,654)</b>	-
Benefits paid	<b>( 633,554)</b>	-
Balance at end of period	<b><u>P 41,456,400</u></b>	<b><u>P 39,693,662</u></b>

The composition of the fair value of plan assets as at December 31, 2017 and December 31, 2016 by category and risk characteristics is shown below.

	<u>2017</u>		<u>2016</u>
Cash and cash equivalents	P 22,866,053	P	24,287,260
Debt securities:			
Philippine government bonds	11,373,808		15,057,197
Corporate bonds	6,140,132		349,205
Equity securities	332,850		-
Unit investment trust funds	743,292		-
Others	265		-
	<u>P 41,456,400</u>	P	<u>39,693,662</u>

*(ii) Post-employment Benefit Obligation*

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>2017</u>		<u>2016</u>
Present value of the obligation	P 42,261,263	P	11,078,452
Fair value of plan assets	( 5,672,383 )	(	7,031,908 )
	<u>P 36,588,880</u>	P	<u>4,046,544</u>

The movements in the present value of post-employment defined benefit obligation recognized in the books are as follows:

	<u>2017</u>		<u>2016</u>
Balance at beginning of period	P 11,078,452	P	9,930,479
Balance from acquired subsidiaries	15,709,900		-
Actuarial gains	10,209,258		-
Current service cost	9,154,718		1,744,827
Interest cost	1,234,567		502,961
Benefits paid	( 5,125,632 )	(	1,099,815 )
Balance at end of period	<u>P 42,261,263</u>	P	<u>11,078,452</u>

The movements in the fair value of plan assets are presented below.

	<u>2017</u>		<u>2016</u>
Balance at beginning of period	P 7,031,908	P	-
Balance of MI reclassified to asset	( 1,502,033 )	(	-
Interest income	296,954		193,664
Return on plan assets (excluding amounts included in net interest)	( 154,446 )	(	47,994 )
Beginning balance of CSC	-		3,775,541
Benefits paid	-	(	1,099,815 )
Contributions to the plan	-		<u>4,210,512</u>

The composition of the fair value of plan assets at the end of the reporting periods by category and risk characteristics is shown below.

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	P 9,923	P 2,310,013
Equity securities	1,689,378	1,675,037
Debt securities	1,956,795	1,575,737
Unit investment trust funds	2,011,278	978,370
Short-term commercial papers (STCP)	-	481,170
Others	5,009	11,581
	<u>P 5,672,383</u>	<u>P 7,031,908</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P1.0 million in 2017 and P0.1 million in 2016.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

*(iii) Post-employment benefit expense*

The amounts of post-employment benefit expense recognized in the consolidated statements of profit or loss and consolidated statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2017</u>	<u>2016</u>
<i>Recognized in profit or loss:</i>		
Current service cost	P 16,011,360	P 1,744,827
Net interest expense	695,650	309,297
	<u>P 16,707,010</u>	<u>P 2,054,124</u>
<i>Recognized in other comprehensive loss:</i>		
Return on plan assets (excluding amounts included in net interest expense)	P 1,351,100	P 47,994
Net actuarial gain	( 33,236 )	
	<u>P 1,317,864</u>	<u>P 47,994</u>

Current service cost is allocated and presented in the consolidated statements of profit or loss under the following accounts:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cost of sales and services	16	P 6,094,866	P 341,876
Other operating expenses		9,916,494	1,402,951
	18.1	<u>P 16,011,360</u>	<u>P 1,744,827</u>

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2017</u>	<u>2016</u>
Discount rates	<b>5.70%</b>	5.34%
Expected rate of salary increase	<b>5.00% - 8.00%</b>	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.



(i) *Sensitivity Analysis*

The table in the succeeding page summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016.

	Impact on Post-employment Benefit Obligation			
	Change in Assumption		Increase in Assumption	Decrease in Assumption
<b><u>December 31, 2017</u></b>				
Discount rate	+/- 1.0%	( P	7,316,857 ) P	8,852,349
Salary growth rate	+/- 1.0%		7,960,557 (	6,748,143 )
<b><u>December 31, 2016</u></b>				
Discount rate	+/- 1.0%	( P	2,684,155 ) P	3,000,038
Salary growth rate	+/- 1.0%		2,660,712 (	2,408,560 )

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2017 and 2016 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

*(iii) Funding Arrangements and Expected Contributions*

As of December 31, 2017, the plan is underfunded by P36.6 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 periods' time when a significant number of employees is expected to retire.

CSC expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten periods follows:

	<u>2017</u>	<u>2016</u>
Within one year	P 6,573,460	P 3,936,306
More than one year but not more than five years	29,145,966	9,836,624
More than five periods but not more than ten years	<u>40,137,840</u>	<u>11,709,576</u>
	<u>P 75,857,266</u>	<u>P 25,482,506</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is not presented since the Group had not engaged the services of a qualified actuary in the measurement of its post-employment defined benefit obligation as of December 31, 2017.

**19. OTHER INCOME (CHARGES)**

**19.1 Finance Costs**

The details of this account follow:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Interest expense on:			
Interest-bearing loans	13	P 507,291,749	P 162,081,934
Post-employment benefits	18.2(b)	695,650	309,297
Deficiency taxes		<u>-</u>	<u>1,196,935</u>
		507,987,399	163,588,166
Bank charges		5,956,372	2,271,549
Impairment loss		3,035,462	-
Foreign currency exchange losses – net		-	85,419,316
Others		<u>-</u>	<u>9,575,739</u>
		<u>P 516,979,233</u>	<u>P 260,854,770</u>

## 19.2 Finance Income

The breakdown of this account is shown below.

	<u>2017</u>	<u>2016</u>
Foreign currency exchange gains	P 5,526,564	P 336,847
Interest income	<u>4,875,196</u>	<u>393,954</u>
	<u>P 10,401,760</u>	<u>P 730,801</u>

## 19.3 Other Income

Presented below are the details of other income for the periods ended December 31, 2017 and 2016.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Insurance claims		P 62,784,384	P -
Handling and tracking		34,729,429	-
Rebates		14,828,417	-
Rental income	21.3, 24.2	7,422,943	9,273,407
Miscellaneous	6, 9	<u>24,156,358</u>	<u>6,217,147</u>
		<u>P 143,921,531</u>	<u>P 15,490,554</u>

Handling and trucking pertains to excess customer charges over amounts payable to various truckers.

Rebates pertain to the share of Trans-Asia on all cargo handling charges based on the Cebu Port Authority Tariff rates.

Miscellaneous includes gain on sale of scrap materials, excess customer charges over baggage, beddings and other services.

## 20. TAXES

### 20.1 Registration with the Board of Investments (BOI)

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Great Diamond and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). For MT Chelsea Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Great Diamond started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

Starlite had also registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer which commenced on March 2017, August 2016, May 2016, April 2016 and December 2015, respectively, for a period of four periods. As a registered entity, Starlite is entitled to tax and non-tax incentives, which includes a four-year ITH. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2017 and 2016, the PNx's BOI registration of MT Chelsea Dominance and MT Chelsea Charlize, which commenced in November 2016 and September 2015, respectively, for a period of four periods, was transferred to the Company following its acquisition. The tax and non-tax incentives of MT Chelsea Dominance and MT Chelsea Charlize are similar to that of MT Great Princess and MT Chelsea Denise II.

## 20.2 Current and Deferred Taxes

The components of tax expense (income) as reported in the consolidated statements of profit and loss and other comprehensive income are shown below.

	<u>2017</u>	<u>2016</u>
<i>Recognized in profit or loss:</i>		
Regular corporate income tax	P 154,047,913	P 17,240,934
Minimum corporate income tax (MCIT)	806,885	3,904,564
Final tax at 20% and 7.5%	<u>763,602</u>	<u>77,532</u>
	155,618,400	21,223,030
Deferred tax income relating to origination and reversal of temporary differences	( <u>269,484,924</u> )	( <u>17,578,510</u> )
	( <u>P 113,866,526</u> )	P <u>3,644,520</u>
<i>Recognized in other comprehensive income:</i>		
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>P 3,139,645</u> )	P <u>23,690,669</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of profit or loss for the periods ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Tax on pretax profit (loss) at 30%	P 14,205,959	P 40,597,298
Adjustments for income subjected to lower tax rates	( 549,211 )	( 39,792 )
Tax effects of:		
Deductible expenses charged to APIC	( 169,579,640 )	-
Net profit on BOI-registered activities	( 36,538,741 )	( 5,844,379 )
Pre-acquisition income	31,612,733	-
Nondeductible expenses	30,684,374	9,701,934
Derecognition of unutilized DTA	9,918,118	4,595,154
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	3,782,582	3,191,646
Excess of optional standard deduction	2,597,300	-
Gain on bargain purchase	-	( 47,468,447 )
Benefit from previously unrecognized DTA	-	( 2,812,324 )
MCIT	<u>-</u>	<u>1,723,430</u>
	( <u>P 113,866,526</u> )	P <u>3,644,520</u>

The net deferred tax assets of the Group and certain subsidiaries pertain to the following:

	<u>2017</u>	<u>2016</u>
NOLCO	P 205,236,419	P 6,273,377
Retirement benefit obligation	7,826,009	-
Impairment losses on trade and other receivables	1,829,076	969,728
Impairment losses on property and equipment	611,054	664,386
MCIT	482,989	-
Accrued expenses	90,000	-
Revaluation reserves on property and equipment	( 559,367 )	( 607,313 )
	<u>P 215,516,180</u>	<u>P 7,300,178</u>

In 2017, the Group recognized DTA from the acquired subsidiaries amounting to P2.0 million.

The net deferred tax liabilities (DTL) of the Group are as follows:

	<u>2017</u>	<u>2016</u>
Revaluation reserves on property and equipment	( P 250,001,452 )	( P 244,406,814 )
NOLCO	73,383,371	9,745,600
MCIT	8,040,124	8,040,180
Capitalized borrowing costs	( 7,165,158 )	( 7,261,261 )
Revaluation surplus on disposed vessel	( 3,036,983 )	( 3,036,983 )
Impairment losses on long-term financial assets	2,721,268	2,721,268
Provision on estimated liability	2,659,620	2,659,620
Loss on contamination	2,057,831	2,057,831
Post-employment benefit obligation	1,975,112	( 248,092 )
Impairment losses on trade and other receivables	730,189	678,898
Unrealized foreign currency loss – net	( 403,390 )	6,233,047
Others	( 1,498,116 )	( 537,866 )
	<u>( P 170,537,584 )</u>	<u>( P 223,354,572 )</u>

In 2017, the Group recognized DTL from the acquired subsidiaries amounting to P7.3 million.

The net deferred tax expense (income) reported in the consolidated statements of profit or loss and consolidated statements of comprehensive income is shown below.

	2017		2016	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):				
NOLCO	P 262,600,813	P -	P 3,630,009	P -
Revaluation reserves of vessels	8,528,446	( 3,549,887 )	14,488,398	23,705,067
Unrealized foreign currency loss – net	( 6,636,437 )	-	( 1,410,986 )	-
Post-employment benefit obligation	4,940,882	395,360	646,915	( 14,398 )
Impairment loss on receivables	910,639	-	4,595,155	-
MCIT	189,554	-	( 2,341,804 )	-
Capitalized borrowing costs	-	-	( 320,344 )	-
Impairment loss on property and equipment	( 53,332 )	-	-	-
Others	( 995,641 )	14,882	( 629,039 )	-
	<u>P 269,484,924</u>	<u>( P 3,139,645 )</u>	<u>( P 17,578,510 )</u>	<u>P 23,690,669</u>

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or regular corporate income tax, whichever is higher.

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
<b>NOLCO:</b>						
2017	P 906,451,769	P -	P -	P -	P 906,451,769	2020
2016	10,638,820	-	-	-	10,638,820	2019
2015	11,642,046	-	-	-	11,642,046	2018
2014	<u>102,860,292</u>	<u>71,744,568</u>	<u>-</u>	<u>P 81,115,724</u>	<u>-</u>	<u>2017</u>
	<u>P 1,031,592,927</u>	<u>P 71,744,568</u>	<u>P -</u>	<u>P 81,115,724</u>	<u>P 928,732,695</u>	
<b>MCIT:</b>						
2017	P 772,955	P -	P -	P -	P 772,955	2020
2016	4,392,543	-	-	-	4,392,543	2019
2015	3,357,615	-	-	-	3,357,615	2018
2014	<u>583,401</u>	<u>-</u>	<u>-</u>	<u>P 583,401</u>	<u>-</u>	<u>2017</u>
	<u>P 9,106,514</u>	<u>P -</u>	<u>P -</u>	<u>P 583,401</u>	<u>P 8,523,113</u>	

Except for Trans-Asia, DGMSI and FTC, which opted to claim OSD, the Group opted to claim itemized deductions in computing for its income tax due in 2017. In 2016, the Group opted to claim itemized deductions in computing for its income tax due.

## 21. RELATED PARTY TRANSACTIONS

The Group's related parties include its parent company, related parties under common ownership, the Group's key management personnel and stockholders.

A summary of the Group's transactions with its related parties for the periods ended December 31, 2017 and 2016 and the related outstanding balances as of December 31, 2017 and 2016 is presented below.

Related Party Category	Notes	Amounts of Transactions		Outstanding Balances	
		2017	2016	2017	2016
<b>Udenna --</b>					
Cash advances granted	21.4	P 2,428,234,009	P 10,000,000	P 2,428,234,009	P -
<b>P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)</b>					
Chartering of services rendered	21.1	531,535,742	954,615,182	271,054,727	460,059,177
Fuel purchases	21.2	118,384,647	132,524,625	( 77,121,463 )	( 66,940,095 )
Cash advances obtained	21.4	84,830,229	-	( 929,026 )	( 85,759,255 )
Repayment of advances	21.4	-	370,816,632	-	-
Acquisition of CSC's shares	21.6	-	2,000,000,000	( 500,000,000 )	( 500,000,000 )
<b>Other related parties under common ownership</b>					
Rental income	21.3	5,044,967	9,273,407	1,131,385	1,600,540
Rental expense	21.3	2,295,681	2,356,626	( 378,191 )	-
Donation	21.8 (b)	360,000	360,000	( 90,000 )	-
Cash advances granted	21.4	( 194,446,078 )	-	60,200,784	194,446,078
Cash advances obtained	21.4	( 1,039,843,126 )	-	( 1,039,843,126 )	-

Unless otherwise stated, the outstanding receivables and payables from and to related parties are unsecured, noninterest-bearing and are generally settled in cash upon demand or through offsetting arrangement with the related parties.

### 21.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statements of profit or loss. The related outstanding receivable as of December 31, 2017 and 2016, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties in 2017 and 2016 based on management's assessment.

### 21.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 16) while the remaining fuel and lubricants inventory amounting to P49.0 million and P38.9 million as of December 31, 2017 and 2016, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability arising from these transactions as of December 31, 2017 and 2016 is presented as part of Trade under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14). The outstanding liability is unsecured and non-interest bearing.

### 21.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related rent expense is presented as part of Rentals under Other Operating Expenses in the consolidated statements of profit or loss (see Note 17). The outstanding security deposit arising from this transaction is presented as part of Security deposits under the Other Current Assets account in the consolidated statements of financial position (see Notes 8 and 12).

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.3). The related receivable as of December 31, 2017 and 2016, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. No impairment loss was recognized on the outstanding receivables from these transactions as management has determined that such financial assets are fully collectible.

### 21.4 Advances to and from Related Parties

In the normal course of business, the Group grants to and obtains unsecured, noninterest-bearing cash advances from its related parties mainly for working capital requirements and other purposes. As of December 31, 2017 and 2016, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	P 194,446,078	P 27,250,735
Net advances during the period	<u>2,293,988,715</u>	<u>167,195,343</u>
Balance at end of period	<u>P 2,488,434,793</u>	<u>P 194,446,078</u>

Based on management's assessment, no impairment loss is recognized in 2017 and 2016 related to the advances granted to related parties.

The movement in the Advances from Related Parties account in 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	P 85,759,255	P -
Beginning balance of CSC	-	376,441,118
Net advances (repayments) during the period	<u>955,012,897</u>	<u>( 290,681,863 )</u>
Balance at end of period	<u>P 1,040,772,152</u>	<u>P 85,759,255</u>



## 21.5 Transactions with Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, and UITF with fair value totaling P47.1 million and P46.7 million as of December 31, 2017 and 2016, respectively.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 18.2.

## 21.6 Acquisition of CSC's Shares

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion.

As of December 31, 2017 and 2016, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statement of financial position (see Note 14).

## 21.7 Key Management Personnel Compensation

The Group's key management personnel compensation includes short-term benefits and post-employment defined benefit and are included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of profit or loss (see Note 17).

## 21.8 Others

- (a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 13).
- (b) The Group granted donations amounting to P0.4 million in 2017 and 2016 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 17).

# 22. EQUITY

## 22.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2017	2016	2017	2016
<b>Authorized - P1 par value:</b>	<b><u>2,000,000,000</u></b>	<b><u>2,000,000,000</u></b>	<b><u>P 2,000,000,000</u></b>	<b><u>P 2,000,000,000</u></b>
<b>Issued and outstanding –</b>				
Balance at beginning of period	500,000,000	-	P 500,000,000	P -
Issuance and subscription during the period	<u>1,321,977,615</u>	<u>500,000,000</u>	<u>1,321,977,615</u>	<u>500,000,000</u>
Balance at end of period	<u>1,821,977,615</u>	<u>500,000,000</u>	<u>P 1,821,977,615</u>	<u>P 500,000,000</u>

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 is presented under current assets in the 2016 consolidated statement of financial position and was collected in full in 2017.

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna (see Note 11).

On July 11, 2017, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Company's outstanding capital stock. On August 8, 2017, the Company's shares were listed in the PSE and the trading of offer shares commenced. The Company offered to the public 546,593,000 primary shares at an offer price of P10.68 per share. In addition, the Group recognized the APIC amounting to P9,998,370,157, net of issuance costs amounting to P565,265,468, in the 2017 consolidated statement of financial position. As at December 31, 2017, the Company's listed shares closed at P8.78 per share.

## 22.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown below.

	Property and Equipment (see Note 10)	AFS Financial Assets (see Note 9)	Post-employment Benefit Obligation (see Note 18.2)	Investment in Associate and a Joint Venture (see Note 11)	Cumulative translation adjustments	Total
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	( 1,317,864 )	-	-	( 1,317,864 )
Disposal of AFS financial assets	-	( 49,607 )	-	-	-	( 49,607 )
Gain on revaluation of tankers	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	( 55,484,954 )	-	-	-	-	( 55,484,954 )
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	( 223,517 )	( 223,517 )
Depreciation transferred to retained earnings - revalued tankers	( 65,518,941 )	-	-	-	-	( 65,518,941 )
Other comprehensive income before tax	( 53,685,985 )	( 49,607 )	( 1,317,864 )	108,049,607	( 223,517 )	52,772,634
Tax income (expense)	5,735,861	14,882	395,360	-	-	6,146,103
Other comprehensive income after tax	( 47,950,124 )	( 34,725 )	( 922,504 )	108,049,607	( 223,517 )	58,918,737
Balance at December 31, 2017	<u>P 1,287,281,993</u>	<u>P -</u>	<u>P 34,808,921</u>	<u>P 108,049,607</u>	<u>( P 223,517 )</u>	<u>P 1,429,917,004</u>
Balance as of January 1, 2016	P 750,787,751	P 136,199	P 15,902,734	P -	P -	P 766,554,286
Remeasurements of post-employment benefit obligation	-	-	28,326,702	-	-	28,326,702
Fair value gains on AFS financial assets	-	244,177	-	-	-	244,177
Gain on revaluation of tankers	865,452,258	-	-	-	-	865,452,258
Effect of business combination	( 184,142,520 )	-	-	-	-	( 184,142,520 )
Depreciation transferred to retained earnings - revalued tankers	( 73,463,526 )	-	-	-	-	( 73,463,526 )
Other comprehensive income before tax	607,846,212	244,177	28,326,702	-	-	636,417,091
Tax income (expense)	( 23,401,846 )	( 73,253 )	( 8,498,011 )	-	-	( 31,973,110 )
Other comprehensive income after tax	584,444,366	170,924	19,828,691	-	-	604,443,981
Balance as of December 31, 2016	<u>P 1,335,232,117</u>	<u>P 34,725</u>	<u>P 35,731,425</u>	<u>P -</u>	<u>P -</u>	<u>P 1,370,998,267</u>

## 22.3 Other Reserves

Other reserves pertain to the excess of the acquisition price over the net identifiable assets of CSC amounting to P1.0 billion. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method (see Note 21.6).

## 23. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders are computed as follows:

	<u>2017</u>	<u>2016</u>
Net profit	P 161,219,723	P 131,679,808
Divided by weighted average shares outstanding	<u>1,309,830,939</u>	<u>500,000,000</u>
Earnings per share – basic and diluted	<u>P 0.12</u>	<u>P 0.26</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2017 and 2016; hence, diluted earnings per share is equal to the basic earnings per share.

## 24. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### 24.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

### 24.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office space. The leases have terms ranging from one to five years, with renewal options, and include annual escalation from 5.00% to 10.00%. The future minimum lease receivables under these agreements are presented below.

	<u>2017</u>	<u>2016</u>
Within one year	P 919,465	P 817,966
More than one year but not more than five years	<u>635,685</u>	<u>1,109,347</u>
	<u>P 1,555,150</u>	<u>P 1,927,313</u>

Rent income amounted to P7.4 million and P9.3 million in 2017 and 2016, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statement of profit and loss (see Note 19.3).

### **24.3 Operating Lease Commitments – Group as Lessee**

The Group is a lessee under an operating lease covering certain office and warehouse spaces. The lease has a term of five years commencing on June 10, 2009, with renewal options, and includes annual escalation rate of 3.0% on the second year and 6.0% from third to fifth year. The future minimum lease payables under this operating lease are as follows as of:

	<u>2017</u>		<u>2016</u>
Within one year	P 4,177,691	P	8,023,352
More than one year but not more than five years	-		1,680,000
More than five years	<u>-</u>		<u>1,260,000</u>
	<u>P 4,177,691</u>	P	<u>10,963,352</u>

Total rentals from these operating leases amounted to P42.6 million and P9.7 million and is included as part of Rentals under the Cost of Sales and Services and Other Operating Expenses account in the consolidated statement of profit or loss (see Notes 16 and 17).

The related security deposit on this operating lease amounted to P5.1 million and P5.7 million as of December 31, 2017 and 2016, respectively, and is shown as Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 12).

### **24.4 Legal Claims**

Trans-Asia is a defendant in an ongoing litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that Trans-Asia will be found liable; hence, a provision for the claim has been made in the consolidated financial statements. The related liability is presented as part of Provisions under Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

Various legal and labor claims were brought against the Trans-Asia during the period. Management considers these claims to be unjustified and the probability that these will require settlement at the Trans-Asia's expense is remote.

### **24.5 Unused Lines of Credit**

As of December 31, 2017 and 2016, the Group has unused lines of credit amounting to P236.0 million and P419.3 million, respectively.

### **24.6 Others**

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's consolidated financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's consolidated financial statements.

## 25. GOODWILL

The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P1.1 million, respectively. As such, goodwill amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets and net liability was recognized in the consolidated statements of financial position.

In 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite for a total cost of P6,048.0 million, P600.0 million and P1,677.8 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Cash and cash equivalents	P 25,508,842	P 65,588,642	P 88,983,637	P 180,081,121
Trade and other receivables	765,659	63,365,673	844,057,036	908,188,368
Prepayments and other current assets	-	4,936,396	89,270,689	94,207,085
Property and equipment	-	13,864,952	2,301,692,380	2,315,557,332
Investment in an associate	2,104,212,296	-	-	2,104,212,296
Other non-current assets	-	5,614,686	11,470,799	17,085,485
Trade and other payables	-	( 18,282,601 )	( 360,025,772 )	( 378,308,374 )
Interest-bearing loans	-	( 7,561,112 )	( 2,446,689,650 )	( 2,454,250,762 )
Other non-current liabilities	-	( 6,025,955 )	( 18,663,921 )	( 24,689,876 )
<b>Net Assets</b>	<b>P 2,130,486,797</b>	<b>P 121,500,681</b>	<b>P 510,095,198</b>	<b>P 2,762,082,676</b>

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to P3,917.4 million, P478.5 million and P1,167.7 million, respectively, is presented as part of Goodwill account in the 2017 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

The revenues and net profit recognized by UIBV, WSI and Starlite at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Revenues	P -	P 192,467,905	P 786,745,751	P 979,213,656
Net profit	P -	P 45,611,439	P 59,764,337	P 105,375,776

In 2016, the Company acquired 100% ownership interest in Trans-Asia for a total consideration of P216.3 million. The fair values of the identifiable assets and liabilities assumed from Trans-Asia as at the date of acquisition were determined to be higher than the total cost; hence, the Group recognized a gain amounting to P158.2 million and is presented as Gain on Bargain Purchase under Other Income (Charges) section of the 2016 consolidated statement of profit or loss.

Based on management's assessment, no impairment of goodwill is required to be recognized in 2017 and 2016.

## **26. SEGMENT INFORMATION**

### ***26.1 Business Segments***

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

- (a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;
- (b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;
- (c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas;
- (d) Distribution and warehousing services is involved in the logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crating, etc.
- (e) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels; and,
- (f) Investing and other activities include holding companies.

Segment accounting policies are the same as the policies described in Note 2.4.

### ***26.2 Segment Assets and Segment Liabilities***

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

### ***26.3 Intersegment Transactions***

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2017.

## 26.4 Analysis of Segment Information

The tables presented below present revenue and profit information regarding business segments for the periods ended December 31, 2017 and 2016 and certain asset and liability information regarding segments as at December 31, 2017 and 2016.

	Investing and Other Activities	Tenbaring	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
<b>2017</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 1,227,036,207	P 261,321,370	P 2,180,760,492	P 240,049,535	P -	P -	P 3,909,167,404
Intersegment sales	203,293,982	-	12,473,814	-	-	204,735,092	( 420,502,888)	-
Total revenues	203,293,982	1,227,036,207	273,794,984	2,180,760,492	240,049,535	204,735,092	( 420,502,888)	3,909,167,404
Cost of sales and services	-	1,053,472,688	147,451,363	1,569,346,286	125,538,141	183,547,791	( 217,208,906)	2,862,147,364
Other operating expenses	60,674,201	189,548,415	50,077,835	247,416,585	34,357,486	39,948,017	( 92,349,729)	529,672,911
Operating profit (loss)	142,619,781	( 15,984,898)	76,265,686	363,997,621	80,153,908	( 18,760,716)	( 110,944,253)	517,347,129
Other income (charges) - net	( 54,433,571)	( 209,382,650)	( 11,591,672)	( 84,700,326)	( 1,181,265)	( 272,925)	( 3,055,747)	( 364,618,156)
Profit (loss) before pre-acquisition income and tax	88,186,210	( 225,367,548)	64,674,014	279,297,295	78,972,643	( 19,033,641)	( 114,000,000)	152,728,973
Pre-acquisition income	-	-	-	( 59,764,337)	( 45,611,439)	-	-	( 105,375,776)
Profit (loss) before tax	88,186,210	( 225,367,548)	64,674,014	219,532,958	33,361,204	( 19,033,641)	( 114,000,000)	47,353,197
Tax expense (income)	( 196,012,113)	( 43,543,308)	21,623,650	84,175,814	23,960,290	( 4,074,059)	-	( 113,866,526)
Net profit (loss)	P 284,198,323	( P 181,826,240)	P 43,051,164	P 185,356,144	P 9,397,914	( P 14,959,582)	( P 114,000,000)	P 161,219,723
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 38,953,605,041	P 11,412,403,836	P 853,396,994	P 6,938,410,534	P 168,650,550	P 64,814,514	( P 11,409,463,150)	P 26,579,634,319
Total liabilities	P 4,684,787,343	P 7,772,852,340	P 516,755,576	P 5,267,921,618	P 37,831,516	P 64,173,046	( P 5,135,483,332)	P 13,222,225,907
<b>2016</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 1,520,184,843	P 118,200,515	P -	P -	P -	P -	P 1,638,385,358
Intersegment sales	-	82,708,009	15,825,995	-	-	104,191,190	( 202,725,194)	-
Total revenues	-	1,602,892,852	134,026,510	-	-	104,191,190	( 202,725,194)	1,638,385,358
Cost of sales and services	-	1,234,433,037	71,571,705	-	-	84,548,888	( 129,350,519)	1,261,203,111
Other operating expenses	-	159,148,430	16,369,358	-	-	22,604,713	( 52,669,839)	155,452,662
Operating profit (loss)	-	209,311,385	46,085,447	-	-	( 2,962,411)	( 20,704,836)	221,729,585
Other income (charges) - net	158,228,158	( 220,444,185)	( 13,133,944)	-	-	( 260,122)	( 10,795,164)	( 86,405,257)
Profit (loss) before tax	158,228,158	( 21,132,800)	32,951,503	-	-	( 3,222,533)	( 31,500,000)	135,324,328
Tax expense (income)	-	( 5,960,942)	10,006,233	-	-	( 400,771)	-	3,644,520
Net profit (loss)	P 158,228,158	( P 15,171,858)	P 22,945,220	P -	P -	( P 2,821,762)	P -	P 131,679,808
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P -	P 11,908,450,237	P 666,997,557	P 2,039,746,696	P 11,785,643,138	P 50,415,773	( P 3,905,705,287)	P 10,759,804,976
Total liabilities	P -	P 2,670,587,723	P 472,688,162	P 1,504,934,459	P 7,305,299,467	P 49,875,662	( P 498,850,017)	P 9,199,235,589

## 27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 28. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Group, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described in the succeeding paragraphs.

## 27.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

### (a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are primarily denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the December 31, 2017 and 2016 closing rates follow:

	<u>2017</u>	<u>2016</u>
Financial assets	P 191,301,896	P 158,797,465
Financial liabilities	( <u>834,908,373</u> )	( <u>1,780,781,091</u> )
Net exposure	( <u>P 643,606,477</u> )	( <u>P 1,621,983,626</u> )

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P69.3 million and P209.7 million in 2017 and 2016, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2017 and 2016 by the same amount. This sensitivity of the net result for the period assumes a +/- 10.77% and +/-12.93% change of the Philippine peso/U.S. dollar exchange rate for the periods ended December 31, 2017 and 2016, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous nine months for 2017 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

### (b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2017 and 2016, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 13). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.



Cash in banks are tested on a reasonably possible change of +/- 0.54% and +/- 0.45% in 2017 and 2016, respectively. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.23% and +/- 0.58% in 2017 and 2016, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous nine months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P18.6 million and +/-P19.5 million for the periods ended December 31, 2017 and 2016, respectively.

## 27.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as summarized below.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	4	P 1,441,704,190	P 508,940,431
Trade and other receivables – net (excluding advances to officers and employees)	5	857,419,350	934,141,422
Restricted cash	8, 12	31,043,312	39,388,529
Security deposits	8, 12	17,852,950	5,715,345
Subscription receivable	22	-	350,000,000
Advances to related parties	21.4	<u>2,488,434,793</u>	<u>194,446,078</u>
		<u>P 4,836,454,595</u>	<u>P 2,032,631,805</u>

None of the financial assets are secured by collateral or other credit enhancements, except for cash as described below.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash and cash equivalents which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

In respect of trade and other receivables, 31.61% and 49.25% of the Group's outstanding receivables as of December 31, 2017 and 2016, respectively, represent claims from related parties. Based on historical information about default rates, management considers the credit quality of trade and other receivables that are not past due or impaired to be good.

Financial assets that are past due but not impaired pertain only to trade and other receivables as detailed below.

	<u>2017</u>	<u>2016</u>
Not more than three months	P 271,416,774	P 388,227,653
More than three months but not more than one year	77,355,212	238,062,334
More than one year	<u>118,815,142</u>	<u>118,924,564</u>
	<u>P 467,587,128</u>	<u>P 745,214,551</u>

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.

### 27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

			Current		Non-current	
			Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P	2,852,209,328	P 1,626,989,697	P 6,652,104,772	P 805,378,747
Trade and other payables (except for government-related obligations)	14		1,222,209,318	-	-	-
Advances from related parties	21.4		<u>520,386,076</u>	<u>520,386,076</u>	-	-
		P	<u>4,594,804,722</u>	<u>P 2,147,375,773</u>	<u>P 6,652,104,772</u>	<u>P 805,378,747</u>

As at December 31, 2016, the Group's financial liabilities have contractual maturities which are presented below.

			Current		Non-current	
			Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P	4,914,912,928	P 346,581,267	P 2,149,517,592	P 471,995,901
Trade and other payables (except for government-related obligations)	14		1,250,837,917	-	-	-
Advances from related parties	21.4		<u>42,879,628</u>	<u>42,879,627</u>	-	-
		P	<u>6,208,630,473</u>	<u>P 389,460,894</u>	<u>P 2,149,517,592</u>	<u>P 471,995,901</u>

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 28.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

		December 31, 2017		December 31, 2016	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets:</b>					
<b>Loans and Receivables:</b>					
Cash and cash equivalents	4	P 1,441,704,190	P 1,441,704,190	P 508,940,431	P 508,940,431
Trade and other receivables - net	5	857,419,350	857,419,350	934,141,422	934,141,422
Restricted cash	8, 12	31,043,312	31,043,312	39,388,529	39,388,529
Security deposits	8, 12	17,852,950	17,852,950	5,715,345	5,715,345
Subscriptions receivables	22.1	-	-	350,000,000	350,000,000
Advances to related parties	21.4	2,488,434,793	2,488,434,793	194,446,078	194,446,078
<b>Financial Assets at FVTPL -</b>					
Equity securities	6	3,947,736	3,947,736	11,279,636	11,279,636
<b>AFS Financial Assets -</b>					
Equity securities	9	-	-	3,065,089	3,065,089
		<u>P 4,840,402,331</u>	<u>P 4,840,402,331</u>	<u>P 2,046,976,530</u>	<u>P 2,046,976,530</u>
<b>Financial Liabilities:</b>					
<b>At amortized cost:</b>					
Trade and other payables	14	P 1,222,209,318	P 1,222,209,318	P 1,250,837,917	P 1,250,837,917
Interest-bearing loans	13	10,332,160,635	10,332,160,635	7,372,782,178	7,372,782,178
Advances from related parties	21.4	1,040,772,152	1,040,772,152	85,759,255	85,759,255
		<u>P 12,595,142,105</u>	<u>P 12,595,142,105</u>	<u>P 8,709,379,350</u>	<u>P 8,709,379,350</u>

See Notes 2.5 and 2.10 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

### 28.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2017 and 2016 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by the parent company. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set off to the extent of the Group's outstanding cash deposited in the same banks.

## 29. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### 29.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, 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.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## **29.2 Financial Instruments Measured at Fair Value**

The table below shows the classes of financial assets measured at fair value in the consolidated statements of financial position on a recurring basis.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Financial assets at FVTPL	6	P 3,947,736	P 11,279,636
AFS financial assets	9	<u>-</u>	<u>3,065,089</u>
		<u>P 3,947,736</u>	<u>P 14,344,725</u>

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the Philippines and U.S. stock exchanges at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 2017 and December 31, 2016.

### 29.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of December 31, 2017 and 2016, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		2017			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>Loans and Receivables</i>					
Cash and cash equivalents	P	1,441,704,190	P -	P -	P 1,441,704,190
Trade and other receivables - net		-	-	857,419,350	857,419,350
Restricted cash		31,043,312	-	-	31,043,312
Security deposits		-	-	17,852,950	17,852,950
Advances to related parties		-	-	2,488,434,793	2,488,434,793
	<b>P</b>	<b>1,472,747,502</b>	<b>P -</b>	<b>P 3,363,707,093</b>	<b>P 4,836,454,595</b>
<b>Financial Liabilities:</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans		-	-	10,332,160,635	10,332,160,635
Advances from related parties		-	-	1,040,772,152	1,040,772,152
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>P 12,595,142,105</b>	<b>P 12,595,142,105</b>
		2016			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>Loans and Receivables</i>					
Cash and cash equivalents	P	508,940,431	P -	P -	P 508,940,431
Trade and other receivables - net		-	-	934,141,422	934,141,422
Restricted cash		39,388,529	-	-	39,388,529
Security deposits		-	-	5,715,345	5,715,345
Subscription receivable		-	-	350,000,000	350,000,000
Advances to related parties		-	-	194,446,078	194,446,078
	<b>P</b>	<b>548,328,960</b>	<b>P -</b>	<b>P 1,484,302,845</b>	<b>P 2,032,631,805</b>
<b>Financial Liabilities:</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 1,250,837,917	P 1,250,837,917
Interest-bearing loans		-	-	7,372,782,178	7,372,782,178
Advances from related parties		-	-	85,759,255	85,759,255
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>P 8,709,379,350</b>	<b>P 8,709,379,350</b>

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

### 29.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 10). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.

### 30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>2017</u>	<u>2016</u>
Total liabilities	<b>P 13,222,225,907</b>	P 9,199,235,989
Total equity	<b><u>13,157,388,412</u></b>	<u>1,560,668,987</u>
Debt-to-equity ratio	<b><u>1.00 : 1.00</u></b>	<u>5.89 : 1.00</u>

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 3.00 : 1.00. This is in line with the Group's bank covenants related to its borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

### 31. EVENTS AFTER THE REPORTING PERIOD

As discussed in Notes 1, 11, 21 and 22, the Company acquired all of UIBV's shares of stock via a share-for-share swap transaction with the parent company on March 27, 2017. On February 19, 2018, the Philippine Competition Commission (PCC) declared the acquisition of UIBV by the parent company as void for violation of the notification requirements under Section 17 of the Philippine Competition Act and Rule 4, Section 3(b)(4) of the Act's Implementing Rules and Regulations. A fine amounting to P19.7 million was also imposed on the parent company for said violation. The remedies available to the parent company as regards the PCC Decision are to file a Motion for Reconsideration with the PCC, file an appeal with the Court of Appeals or submit itself to the notification requirements of the PCC. The parent company's management is currently weighing its options and will choose the course of action, which it deems will be best to protect the interests of the group and its shareholders.



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**Report of Independent  
Certified Public Accountants  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange Commission  
Filed Separately from the Basic  
Consolidated Financial Statements**

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**The Board of Directors and Stockholders  
Chelsea Logistics Holdings Corp. and Subsidiaries  
(Formerly Chelsea Logistics Corp.)  
(A Subsidiary of Udenna Corporation)**  
Stella Hizon Reyes Road  
Bo. Pampanga, Davao City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Chelsea Logistics Holdings Corp. and Subsidiaries (the Group) for the year ended December 31, 2017, on which we have rendered our report dated February 21, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 (as amended), and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Ramilito L. Nañola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 6616015, January 3, 2018, Makati City

SEC Group A Accreditation

Partner – No. 0395-AR-3 (until May 19, 2019)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-19-2015 (until Mar. 18, 2018)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 21, 2018

**Certified Public Accountants**

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**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
**(Formerly Chelsea Logistics Corp.)**  
**(A Subsidiary of Udenna Corporation)**  
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**Financial Statements**

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Consolidated Statements of Comprehensive Income for the year ended December 31, 2017 (with Comparative Figures for the period August 26 to December 31, 2016)  
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**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

<i>Name of issuing entity and association of each issue (i)</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at end of reporting period</i>	<i>Income received and accrued</i>
San Miguel Corporation	38,200	P <u>3,947,736</u>	P <u>3,947,736</u>	P <u>-</u>

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES  
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Non-current	
<b>Advances to Related Parties</b>							
Udenna Corporation	-	P 2,428,234,009	-	-	P 2,428,234,009	-	P 2,428,234,009
Others	194,446,078	-	134,245,294	-	60,200,784	-	60,200,784
	<b>P 194,446,078</b>	<b>P 2,428,234,009</b>	<b>P 134,245,294</b>	<b>-</b>	<b>P 2,488,434,793</b>	<b>-</b>	<b>P 2,488,434,793</b>
<b>Advances to Officers and Employees:</b>							
(presented as part of Trade and Other Receivables)	<b>P 10,374,828</b>	<b>P 8,626,203</b>	<b>-</b>	<b>-</b>	<b>P 19,001,031</b>	<b>-</b>	<b>P 19,001,031</b>
<b>Advances from Related Parties</b>							
Udenna Development (Udevco) Corporation	-	759,984,846	-	-	759,984,846	-	759,984,846
Calaca Industrial Seaport Corp.	-	99,500,000	-	-	99,500,000	-	99,500,000
LapuLapu Leisure, Inc.	-	43,000,000	-	-	43,000,000	-	43,000,000
P-H-O-E-N-I-X Petroleum Philippines, Inc.	85,759,255	-	84,830,229	-	929,026	-	929,026
Others	-	137,358,280	-	-	137,358,280	-	137,358,280
	<b>P 85,759,255</b>	<b>P 1,039,843,126</b>	<b>P 84,830,229</b>	<b>-</b>	<b>P 1,040,772,152</b>	<b>-</b>	<b>P 1,040,772,152</b>

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udena Corporation)*  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

Name and designation of debtor	Affected Accounts	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
				Amounts collected	Amounts written off	Current	Not current	
Chelsea Shipping Corp.	Trade Receivables	P 26,880,000	-	P 26,880,000	-	-	-	-
Trans-Asia Shipping Lines, Inc.	Trade Payables	26,880,000	-	26,880,000	-	-	-	-
Chelsea Logistics Holdings Corp.	Trade Receivables	-	26,880,000	15,240,000	-	11,640,000	-	11,640,000
Trans-Asia Shipping Lines, Inc.	Trade Payables	-	26,880,000	15,240,000	-	11,640,000	-	11,640,000
Chelsea Ship Management & Marine Services Corp.	Trade Receivables	18,814,493	46,267,791	58,224,604	-	6,857,680	-	6,857,680
Chelsea Shipping Corp.	Trade Payables	5,437,871	20,675,915	22,667,669	-	3,446,117	-	3,446,117
PNX-Chelsea Shipping Corp.	Trade Payables	11,022,245	20,292,164	28,514,018	-	2,800,391	-	2,800,391
Michael, Inc.	Trade Payables	1,673,656	3,362,828	4,756,256	-	280,228	-	280,228
Fortis Tugs Corporation	Trade Payables	70,093	1,936,884	1,745,138	-	261,839	-	261,839
Bunkers Manila, Inc.	Trade Payables	610,627	-	541,522	-	69,105	-	69,105
Chelsea Marine Manpower Resources, Inc.	Trade Receivables	7,124,549	182,693,774	175,531,703	-	14,286,620	-	14,286,620
Chelsea Shipping Corp.	Trade Payables	1,131,325	77,409,879	74,424,777	-	4,116,427	-	4,116,427
PNX-Chelsea Shipping Corp.	Trade Payables	5,336,662	65,052,303	67,513,630	-	2,875,335	-	2,875,335
Michael, Inc.	Trade Payables	42,502	21,291,164	19,103,216	-	2,230,450	-	2,230,450
Fortis Tugs Corporation	Trade Payables	86,693	10,630,021	8,244,126	-	2,472,588	-	2,472,588
Bunkers Manila, Inc.	Trade Payables	527,367	6,521,140	6,245,954	-	802,553	-	802,553
Davao Gulf Marine Services, Inc.	Trade Payables	-	1,789,267	-	-	1,789,267	-	1,789,267
Chelsea Shipping Corp.	Trade Receivables	55,934,764	73,129,259	25,933,999	-	103,130,024	-	103,130,024
PNX-Chelsea Shipping Corp.	Trade Payables	31,420,418	42,841,554	-	-	74,261,972	-	74,261,972
Michael, Inc.	Trade Payables	7,981,478	8,665,237	9,555,788	-	7,090,927	-	7,090,927
Bunkers Manila, Inc.	Trade Payables	658,040	-	-	-	658,040	-	658,040
Chelsea Ship Management & Marine Services Corp.	Trade Payables	5,254,024	2,758,589	3,740,675	-	4,271,938	-	4,271,938
Chelsea Marine Manpower Resources, Inc.	Trade Payables	1,689,277	447,599	1,689,277	-	447,599	-	447,599
Fortis Tugs Corporation	Trade Payables	8,931,527	10,179,238	2,711,217	-	16,399,548	-	16,399,548
Davao Gulf Marine Services, Inc.	Trade Payables	-	8,237,042	3,801,261	-	4,435,781	-	4,435,781

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udena Corporation)*  
**SCHEDULE D - INTANGIBLE ASSETS**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	<i>Ending balance</i>
		P	P	P		
Goodwill	P 74,294,814	P 5,563,624,055	-	-	-	P 5,637,918,869

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
Term loans	P 12,462,347,965	P 968,128,892	P 6,746,237,521
Bank loans	2,692,000,000	2,445,380,253	10,434,324
Mortgage loans	<u>165,000,000</u>	<u>20,981,833</u>	<u>140,997,812</u>
	<b><u>P 15,319,347,965</u></b>	<b><u>P 3,434,490,978</u></b>	<b><u>P 6,897,669,657</u></b>

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
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- Nothing to report -

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount of guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
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- Nothing to report -

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**

*(Formerly Chelsea Logistics Corp.)*

*(A Subsidiary of Udenna Corporation)*

**SCHEDULE H - CAPITAL STOCK**

**DECEMBER 31, 2017**

<i><b>Title of Issue</b></i>	<i><b>Number of Shares Authorized</b></i>	<i><b>Number of Shares Issued and Outstanding under Related Balance</b></i>	<i><b>Number of Shares. Reserved for Options, Warrants, Conversions</b></i>	<i><b>Number or Shares Held By</b></i>		
				<i><b>Related Parties (Parent, Affiliates)</b></i>	<i><b>Directors, Officers and Employees</b></i>	<i><b>Others</b></i>
Common Shares	2,000,000,000	1,821,977,615	Not Applicable	1,275,384,609	2,267,308	544,325,698

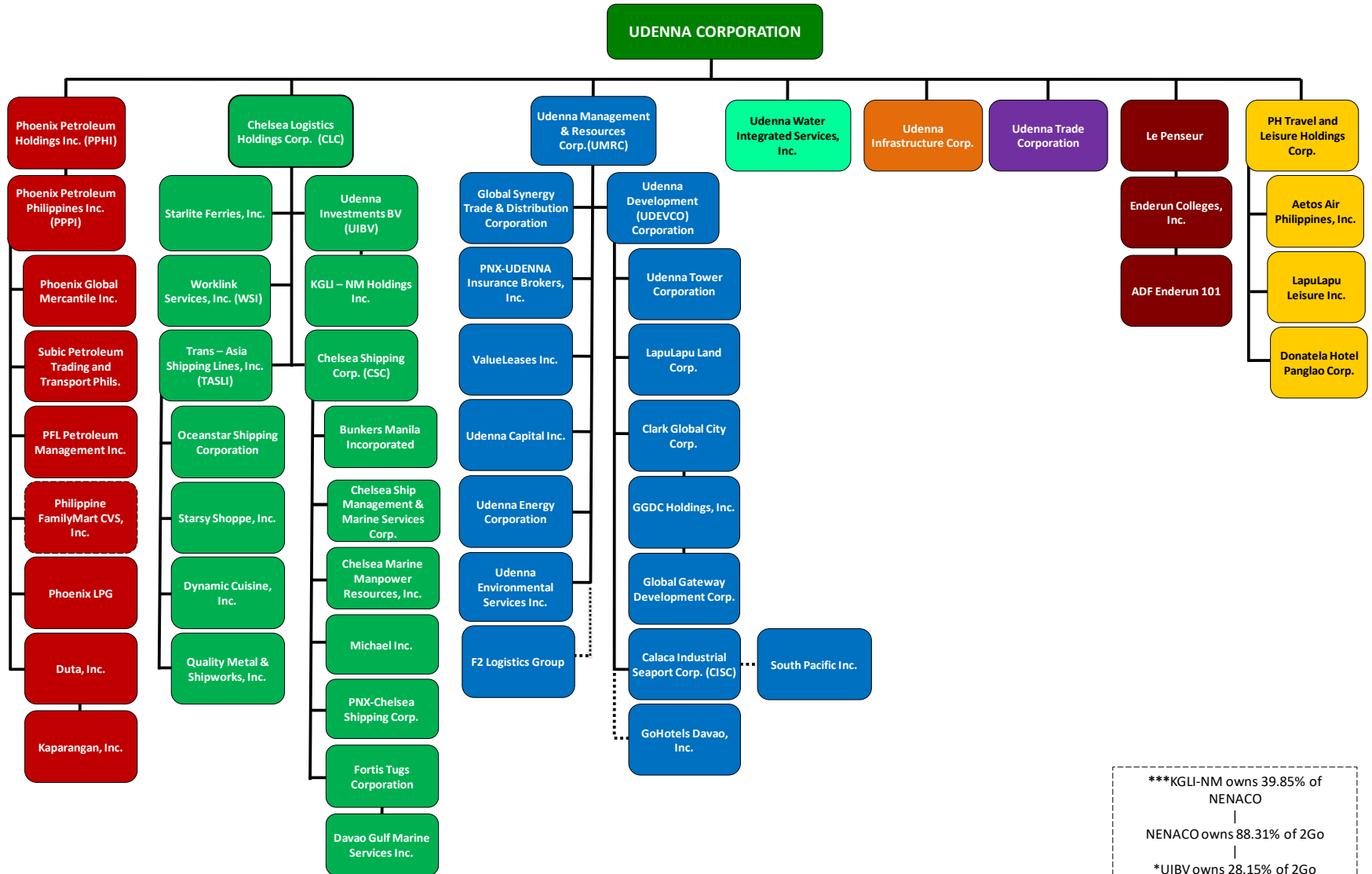


**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
 Stella Hizon Reyes Road, Bo. Pampanga, Davao City

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**For the Year Ended December 31, 2017**

<b>DEFICIT AT BEGINNING OF YEAR</b> <i>(As Presented in the 2016 Audited Financial Statements)</i>		( P	12,819,414 )
<b>Less: Deferred tax income</b>		(	<u>5,525,139</u> )
<b>DEFICIT AT BEGINNING OF YEAR</b> <i>(As Adjusted)</i>		(	18,344,553 )
<b>Net Profit Actually Realized during the Year</b>			
Net profit for the year	225,094,994		
Less: Deferred tax income	( <u>194,416,292</u> )		<u>30,678,702</u>
<b>RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION</b>			
<b>AT END OF YEAR</b>		<b>P</b>	<b><u>12,334,149</u></b>

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
 Map Showing the Relationship Between and Among Related Entities  
 December 31, 2017



CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Corp.)  
(A Subsidiary of Udenma Corporation)

Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<b>Philippine Financial Reporting Standards (PFRS)</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> * (effective January 1, 2018)			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
<b>PFRS 8</b>	Operating Segments	✓		
	Financial Instruments (2014)* (effective January 1, 2018)			✓
<b>PFRS 9</b>	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers* (effective January 1, 2018)			✓
<b>PFRS 16</b>	Leases* (effective January 1, 2019)			✓
<b>PFRS 17</b>	Insurance Contracts* (effective January 1, 2021)			✓
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**

*(Formerly Chelsea Logistics Corp.)*

*(A Subsidiary of Udenma Corporation)*

**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Adopted by the Securities and Exchange Commission and the**

**Financial Reporting Standards Council as of December 31, 2017**

<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**

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**Schedule of Philippine Financial Reporting Standards and Interpretations  
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<b>PAS 10</b>	Events After the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (effective January 1, 2019)			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
<b>(Revised)</b>	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
<b>PAS 23</b>	Borrowing Costs	✓		
<b>(Revised)</b>	Amendment to PAS 23: Eligibility for Capitalization			✓
<b>PAS 24</b>	Related Party Disclosures	✓		
<b>(Revised)</b>				
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Separate Financial Statements	✓		
<b>(Revised)</b>	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
<b>PAS 28</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss* (effective January 1, 2018)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* (effective January 1, 2019)			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings Per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
<b>PAS 40</b>	Investment Property			✓
	Amendment to PAS 40: Reclassification to and from Investment Property* (effective January 1, 2018)			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**

*(Formerly Chelsea Logistics Corp.)*

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**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Adopted by the Securities and Exchange Commission and the**

**Financial Reporting Standards Council as of December 31, 2017**

<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
	Reassessment of Embedded Derivatives**	✓		
<b>IFRIC 9</b>	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**

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**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Adopted by the Securities and Exchange Commission and the**

**Financial Reporting Standards Council as of December 31, 2017**

<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners**	✓		
<b>IFRIC 18</b>	Transfers of Assets from Customers**	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments**	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine**			✓
<b>IFRIC 21</b>	Levies	✓		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration ( <i>effective January 1, 2018</i> )			✓
<b>IFRIC 23</b>	Uncertainty Over Income Tax Treatments ( <i>effective January 1, 2019</i> )			✓
<b><i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i></b>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Group.

\*\* These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	<u>2017</u>		<u>2016</u>	
<b>Current Ratio</b>				
Current Assets	<u>6,921,707,993</u>		<u>2,633,807,798</u>	
Current Liabilities	6,101,444,129	1.13	6,614,400,395	0.40
<b>Debt-to-equity Ratio</b>				
Total Liabilities	<u>13,222,225,907</u>		<u>9,199,235,989</u>	
Total Equity	13,157,388,412	1.00	1,560,668,987	5.89
<b>Asset-to-equity Ratio</b>				
Total Assets	<u>26,379,614,319</u>		<u>10,759,904,976</u>	
Total Equity	13,157,388,412	2.00	1,560,668,987	6.89
<b>Interest Coverage Ratio</b>				
EBITDA	<u>1,368,526,928</u>		<u>756,237,631</u>	
Interest Expense	507,291,749	2.70	163,588,166	4.62
<b>Gross Profit Ratio</b>				
Gross Profit	<u>1,047,020,040</u>		<u>377,182,247</u>	
Total Revenues	3,909,167,404	27%	1,638,385,358	23%
<b>EBITDA Margin</b>				
EBITDA	<u>1,368,526,928</u>		<u>756,237,631</u>	
Total Revenues	3,909,167,404	35%	1,638,385,358	46%
<b>Net Profit Ratio</b>				
Net Profit	<u>161,219,723</u>		<u>131,679,808</u>	
Total Revenues	3,909,167,404	0.04	1,638,385,358	0.08
<b>Book Value Per Share</b>				
Total Equity	<u>13,157,388,412</u>		<u>1,560,668,987</u>	
Number of Shares Outstanding	1,821,977,615	7.22	500,000,000	3.12
<b>Earnings Per Share</b>				
Net Profit	<u>161,219,723</u>		<u>131,679,808</u>	
Weighted Average No. of Shares	1,309,830,939	0.12	500,000,000	0.26



### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JESUS S. GUEVARA II**, Filipino, of legal age and a resident of 122 Stanford St., Cubao, Quezon City, after having been duly sworn to in accordance with law do hereby declared that:

1. I am an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP.;
2. I am affiliated with the following companies or organizations:

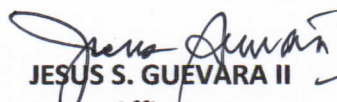
Company/Organization	Position/Relationship	Period of Service
Alternative Power Resource Holdings, Inc.	Director	August 2017 to present
Lipa Bank, Inc.	Director	2009 to present
Phividec Industrial Authority	Chairman	July 2017 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations;

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code;

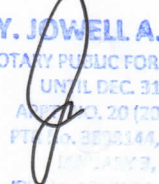
5. I shall inform the Corporate Secretary of CHELSEA LOGISTICS HOLDINGS CORP. of any changes in the abovementioned information within five days from its occurrence.

**FEB 23 2018**  
Done, this \_\_\_\_ February 2018 at **TAGUIG CITY**.

  
**JESUS S. GUEVARA II**  
Affiant

**FEB 23 2018**  
SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of February 2018, affiant exhibited to me his TIN 125-805-086.

Doc. No. 456  
Page No. 93  
Book No. 100  
Series of 2018.

  
**ATTY. JOWELL A. MENDOZA**  
NOTARY PUBLIC FOR TAGUIG CITY  
UNTIL DEC. 31, 2018  
APPOINTED BY: 20 (2016-2018)  
PT. NO. 3832144, PASIG CITY  
NOTARY 3, 2013  
ISSUED: 1/6/2017  
RD. NO. 13961  
MCLE COMPLIANCE NO. V-0023127-7/23/16  
32<sup>ND</sup> ST. CNA PLAZA BONTIFACIO  
GLOBAL, TAGUIG CITY

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **GENER T. MENDOZA**, Filipino, of legal age and a resident of 14D South Tower, Pacific Plaza Towers, Bonifacio Global City, Taguig City, after having been duly sworn to in accordance with law do hereby declared that:

1. I am an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP.;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
GNCA Holdings, Inc.	President	1997 to present
IPM Holdings, Inc.	Regular Director	2007 to present
ACM Landholdings, Inc.	Director	2010 to present
Organizational Change Consultants International, Inc.	Director	2009 to present
Dualtech Training Center Foundation, Inc.	Director	2012 to present
Rose Pharmacy, Inc.	Director	2016 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations;

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code;

5. I shall inform the Corporate Secretary of CHELSEA LOGISTICS HOLDINGS CORP. of any changes in the abovementioned information within five days from its occurrence.

Done, this 26 February 2018 at TAGUIG.

  
**GENER T. MENDOZA**  
Affiant

**FEB 26 2018**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of February 2018, affiant exhibited to me his TIN 102-092-109.

Doc. No. 519;  
Page No. 105;  
Book No. 100;  
Series of 2018.

**ATTY. JOWELL A. MENDOZA**

NOTARY PUBLIC FOR TAGUIG CITY

UNTIL DEC. 31, 2018

APR. 20, 20 (2015-2018)

PTR NO. 3832144, PASIG CITY

JANUARY 3, 2015

IBP NO. 1058109, 3/8/2017

ROLL NO. 5366

MCLE COMPLIANCE NO. V-0023127-7/23/16

32<sup>ND</sup> ST. CAR PLAZA BONIFACIO

GLOBAL, TAGUIG CITY

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MIGUEL RENE A. DOMINGUEZ**, Filipino, of legal age and a resident of 3 Akasya SACI, Maribulan, Alabel, Sarangani, after having been duly sworn to in accordance with law do hereby declared that:

1. I am an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP.;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Alsons Agribusiness Unit	Vice President	
Sarangani Agricultural Company	Director	
Philippine Business for Social Progress	Director	

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of CHELSEA LOGISTICS HOLDINGS CORP., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations;
4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code;
5. I shall inform the Corporate Secretary of CHELSEA LOGISTICS HOLDINGS CORP. of any changes in the abovementioned information within five days from its occurrence.

Done, this FEB 23 2018 February 2018 at TAGUIG CITY

**MIGUEL RENE A. DOMINGUEZ**  
Affiant

FEB 23 2018

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of February 2018, affiant exhibited to me his TIN 921-338-194.

Doc. No. 443  
Page No. 90;  
Book No. 100;  
Series of 2018.

**ATTY. JOWELL A. MENDOZA**  
NOTARY PUBLIC FOR TAGUIG CITY  
INTL DEC. 31, 2018  
APP. NO. 20 (2016-2018)  
PTR No. 3838144, PASIG CITY  
JANUARY 9, 2018  
IBP No. 1058109, 1/6/2017  
ROLL NO. 59061  
MCLE COMPLIANCE NO. V-0023127-7/23/16  
32<sup>ND</sup> ST. CAT PLAZA BONIFACIO  
GLOBAL TAGUIG CITY