

STARLITE FERRIES, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

With Report of Independent Auditors

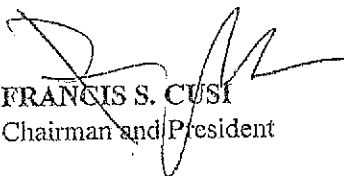
**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**


The Commissioner
Bureau of Internal Revenue
Quezon City

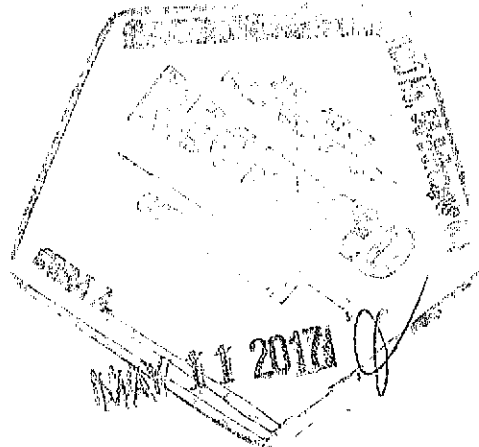
The Management of Starlite Ferries, Inc. is responsible for all information and representation contained in the annual income tax return for the year ended December 31, 2016. Management is likewise responsible for all information and representation contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period including but not limited, to the value added tax and/or percentage tax return, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2016 and the accompanying Annual Income Tax Return are in accordance with the books and records of Starlite Ferries, Inc. complete and correct in all material respects. The Management likewise affirms that:

- a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulation and other issuances of the Department of Finance and the Bureau of Internal Revenue.
- b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulation No. 8-2007 and other relevant issuances;
- c) Starlite Ferries, Inc. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


FRANCIS S. CUSI
Chairman and President


MA. ANGELES S. CUSI
Chief Financial Officer





REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Starlite Ferries, Inc.
Old PPA Admin Building
Sta. Clara, Batangas City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Starlite Ferries, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Starlite Ferries, Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect 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 financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

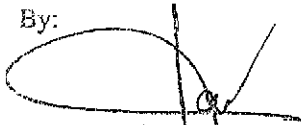
Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation No. 15-2010 in Note 27 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

N. A. CALDERON & CO. CPA's

Tax Identification No. 008-837-788-000
BIR Accreditation No. 08-006268-000-2015
Issued on September 29, 2015; valid until September 29, 2018
Firm's BOA Accreditation/PRC Cert. of Reg. No. 5612
Issued on January 26, 2015; valid until December 31, 2017
Firm's SEC Accreditation No. 0310-F
Issued on May 8, 2015; valid until May 7, 2018

By:



NAPOLEON A. CALDERON

Partner (Signing for the firm)

CPA License No. 041359

Tax Identification No. 02-921-214

BIR Accreditation No. 08-006268-001-2015,

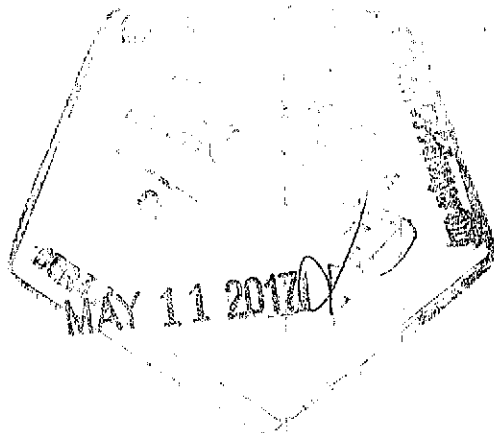
Issued on September 29, 2015; valid until September 29, 2018

SEC Accreditation No. 1485-A

Issued on May 8, 2015; Valid until May 7, 2018

P.T.R. No. 5913573, issued on January 4, 2017, Makati City

Makati City
May 8, 2017

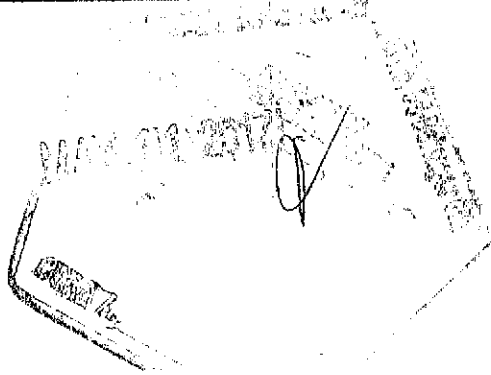


STARLITE INDUSTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Notes	2016	2015
ASSETS			
Current assets			
Cash	5	P 27,872,662	P 5,945,906
Receivables	4,6,16	371,002,731	431,014,405
Inventories	5,7	7,752,760	8,422,444
Other current assets	8	16,598,054	9,148,768
		423,226,207	454,531,523
Noncurrent assets			
Property and equipment	5,9	1,723,686,544	488,129,193
Investment properties	10	12,618,150	12,618,150
Deferred tax asset	21	3,198,563	2,504,469
Other noncurrent assets	11	9,434,166	28,001,113
		1,748,937,423	531,252,925
		P 2,172,163,630	P 985,784,448
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and other liabilities	12	P 149,568,219	P 108,595,752
Income tax payable			6,103,998
Current portion of loans payable	13	11,272,910	19,919,331
		160,841,129	134,619,081
Noncurrent liabilities			
Advances from shareholders	16	177,897,702	156,816,221
Advances from related parties	16	10,743,478	8,937,164
Loans payable - net of current portion	13	1,662,945,600	539,026,349
Retirement liability	17	9,683,945	8,348,228
Other noncurrent liabilities	14	34,823,049	34,823,049
		1,896,093,774	747,951,011
EQUITY			
Share capital	2,15	80,000,000	80,000,000
Retained earnings	2	35,040,754	23,026,383
Accumulated remeasurement gain	17	187,973	187,973
		115,228,727	103,214,356
		P 2,172,163,630	P 985,784,448

See Accompanying Notes to Financial Statements.

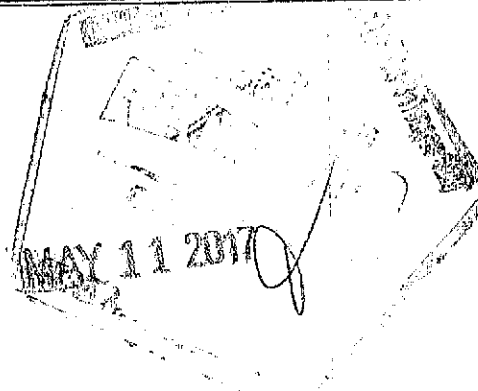


STARLITE FLORIANES, INC.

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year Ended December 31	
		2016	2015
REVENUES	18 P	546,441,767	P 390,119,504
COST OF SERVICES	19	423,192,765	304,444,227
GROSS INCOME		<u>123,249,002</u>	85,675,277
OPERATING EXPENSES	20	56,533,757	52,203,155
OPERATING INCOME		66,715,245	33,472,122
OTHER INCOME (EXPENSES)			
Interest expense	14	(53,176,782)	(11,261,986)
Casualty loss	9	(14,687,535)	-
Interest income	5	762,729	371,722
Gain on sale of vessel	10	-	22,974,365
Others		12,000,000	1,339,286
		<u>(55,101,588)</u>	13,423,386
INCOME BEFORE TAX		11,613,657	46,895,508
PROVISION FOR (BENEFIT FROM) INCOME TAX	21	(400,715)	13,957,136
NET INCOME		P 12,014,372	P 32,938,372
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified into profit or loss			
Remeasurement (loss) gain defined benefit plan	17	-	(441,214)
Income tax effect	21	-	(132,364)
		-	(308,850)
TOTAL COMPREHENSIVE INCOME		P 12,014,372	P 32,629,522
EARNINGS PER SHARE			
Basic and diluted	22 P	15.02	P 41.17

See Accompanying Notes to Financial Statements.

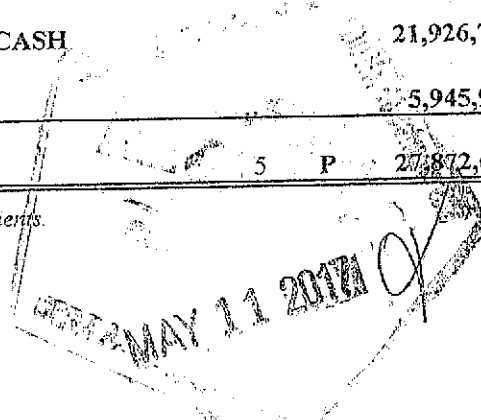


STARLITE FELS, INC.

STATEMENTS OF CASH FLOWS

		Year Ended December 31	
	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax	P	11,613,657	P 46,895,508
Adjustments for:			
Prior period adjustment		-	(881,472)
Depreciation and amortization	9	94,933,799	67,608,327
Interest income	5	762,729	371,722
Casualty loss	9	14,687,535	-
Retirement expense	17	1,335,717	1,290,322
Operating income before changes in operating assets and liabilities		123,333,436	115,284,407
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Receivables	7	60,011,674	(291,587,741)
Inventories	8	669,684	161,544
Other current assets	9	(7,449,286)	(3,664,730)
Other noncurrent assets	11	18,566,948	(15,115,131)
Increase/(decrease) in:			
Accounts payable and other liabilities	12	40,972,467	(12,654,981)
Advances from shareholders	16	21,081,481	26,500,000
Advances from related parties	16	1,806,314	8,937,164
Other noncurrent liabilities	14	-	(70,157)
Net cash generated from (used in) operations		258,992,715	(172,209,625)
Contributions paid	17	-	(460,743)
Interest received	2	(762,729)	(371,722)
Income tax paid		(6,397,377)	(9,262,385)
Net cash provided by (used in) operating activities		251,832,610	(182,304,475)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property and equipment	10	(1,345,178,684)	(385,112,491)
Investment property	11	-	(2,077,679)
Net cash used in investing activities		(1,345,178,684)	(387,190,170)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of loans	13	1,123,919,251	513,994,071
Issuance of share capital	2,15	-	47,480,100
Payments of loans		(8,646,421)	-
Net cash provided by financing activities		1,115,272,830	561,474,171
NET INCREASE (DECREASE) IN CASH		21,926,756	(8,020,474)
CASH, BEGINNING OF YEAR		5,945,906	13,966,380
CASH, END OF YEAR	5	P 27,872,662	P 5,945,906

See Accompanying Notes to Financial Statements.



STARLITE FERRIES, INC.
STATEMENTS OF CHANGES IN EQUITY

		Share Capital <i>(Note 2,15)</i>		Retained Earnings <i>(Note 2)</i>		Revaluation Reserve <i>(Note 2)</i>		Accumulated Remeasurement Gain (Losses) <i>(Note 17)</i>		Total Equity
Balances as at January 1, 2016,	P	80,000,000	P	23,026,383	P	-	P	187,973	P	103,214,356
Net income for the year		-		12,014,372		-		-		12,014,372
Balances as at December 31, 2016	P	80,000,000	P	35,040,754	P	-	P	187,973	P	115,228,727

		Share Capital <i>(Note 2,15)</i>		Retained Earnings <i>(Note 2)</i>		Revaluation Reserve <i>(Note 2)</i>		Accumulated Remeasurement Gain (Losses) <i>(Note 17)</i>		Total Equity
Balances as at January 1, 2015, <i>as previously reported</i>	P	32,519,900	P	(3,430,393)	P	21,033,526	P	-	P	50,123,033
Effect of adoption of PFRS <i>(Note 4)</i>		-		(5,600,124)		-		(120,877)		(5,721,001)
Balances as at January 1, 2015, <i>as restated</i>		32,519,900		(9,030,517)		21,033,526		(120,877)		44,402,032
Issuance of share capital		40,000,000		-		-		-		40,000,000
Collection of subscription receivables		7,480,100		-		-		-		7,480,100
Prior period adjustment		-		(881,472)		(21,033,526)		-		(21,914,998)
Net income for the year		-		32,938,372		-		-		32,938,372
Remeasurement gain		-		-		-		308,850		308,850
Balances as at December 31, 2015	P	80,000,000	P	23,026,383	P	-	P	187,973	P	103,214,356

See Accompanying Notes to Financial Statements.

MAY 11 2017

STARLITE FERRIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Starlite Ferries, Inc. (the "Company") was established on August 25, 1994 per Certificate of Registration issued by the Securities and Exchange Commission (SEC) on the same date. Its primary purpose is to engage in general business of domestic shipping, to own and operate vessels of any class, type or description for domestic trade, to charter in and out any such vessel.

The Company's registered office address is located at Old PPA Admin Building, Sta. Clara, Batangas City.

The Company has four vessels which are registered with Board of Investments (BOI). Details are as follows:

Registered Vessel	Date of Tax Relief/Exemption	
	From	To
MV - Starlite Pioneer	December 23, 2015	December 22, 2019
MV - Starlite Reliance	April 21, 2016	April 20, 2020
MV - Starlite Eagle	May 06, 2016	May 05, 2020
MV - Starlite Saturn	August 27, 2016	August 26, 2020

These financial statements have been approved and authorized for issuance by the Company's Board of Directors on May 8, 2017.

2. Basis of Preparation and Statement of Compliance

Basis of Financial Statements Preparation

The financial statements of the Company have been prepared under historical cost convention.

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Functional and Presentation Currency

Items included in the Company financial statements are measured using the currency of the primary economic environment in which the entity operates (the Philippine peso). The Company financial statements are presented in Philippine Peso, which is its functional and presentation currency. All amounts are rounded to nearest peso, unless otherwise indicated.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments effective beginning January 01, 2016:

- PAS 16, "Property, Plant and Equipment", and PAS 38, "Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization" (Amendments)

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are

applied prospectively and do not have any impact to the company, given that the Company is not using revenue-based method to depreciate its property and equipment.

- PAS 27, “Separate Financial Statements - Equity Method in Separate Financial Statements” (Amendments)

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. The amendments do not have any impact on the Company’s financial statements.

- PFRS 11, “Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations” (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined in PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact to the Company as there has been no interest acquired in a joint operation during the period.

- FRS 14, “Regulatory Deferral Accounts”

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items in the consolidated statement of comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements.

This standard does not apply since the Company is not a first-time adopter of PFRS.

- PAS 1, “Presentation of Financial Statements – Disclosure Initiative” (Amendments)

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the profit or loss and OCI and the financial position may be disaggregated. That entity has flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any impact on the Company.

- PFRS 10, “Consolidated Financial Statements”, PFRS 12, “Disclosure of Interests in Other Entities”, and PAS 28, “Investments in Associates and Joint Ventures” – “Investment Entities: Applying the Consolidation Exception” (Amendments)

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to an entity that is a subsidiary of an investment entity, when it measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

These amendments are not applicable to the Company’s financial statements.

Annual Improvements to PFRSs (2012-2014 cycle)

- PFRS 5, “Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal”

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, “Financial Instruments: Disclosures - Servicing Contracts”

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments. This amendment is not applicable to the Company.

- PFRS 7, “Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements” (Amendments)

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial statements unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, “Employee Benefits - Regional Market Issue Regarding Discount Rate”

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country, where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, “Interim Financial Reporting - Disclosure of Information ‘Elsewhere in the Interim Financial Report’”

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).

The above improvements do not have any impact on the Company.

New Accounting Standards, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2016

The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2016 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on its financial position or performance.

Deferred

- PFRS 10, “Consolidated Financial Statements” and PAS 28, “Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the International Accounting Standards Board (IASB) deferred indefinitely the effective date of these amendments pending the final outcome of the IASB’s research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the financial statements.

Effective in 2017

- PAS 7, “Statement of Cash Flows – Disclosure Initiative” (Amendments)

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 Company financial statements.

- PAS 12, “Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses” (Amendments)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. These amendments are not expected to have any impact on the Company.

- PFRS 12, “Disclosure of Interests in Other Entities – Clarification of the Scope of the Disclosure Requirements in PFRS 12” (Part of Annual Improvements on PFRS 2014 – 2016 Cycle)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments will not have any impact on the Company’s financial statements.

Effective in 2018

- PAS 40, “Investment Property – Transfers of Investment Property” (Amendments)

The amendments clarify when an entity should transfer property, including property under construction or development, into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if that is possible without the use of hindsight. The amendments are expected have any impact on the Company.

- Philippine IFRIC Interpretation 22, “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the interpretation on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Company plans to adopt the new standard on the required effective date.

- PFRS 2, “Share-based Payments – Classification and Measurement of Share-based Payment Transactions” (Amendments)

The amendments address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application of the amendment is permitted. The Company does expect the adoption of this interpretation to have any significant impact on the financial statements.

- Amendments to PFRS 4, “Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4”

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the forthcoming insurance contracts standard. They

allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 01, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Company since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

▪ PFRS 9, “Financial Instruments”

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, “Financial Instruments: Recognition and Measurement”, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 01, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. Based on the following preliminary assessment, the Company expects no significant impact to its financial position.

(a) Classification and Measurement

The Company does not expect a significant impact on its Company financial statement or equity upon application of the classification and measurement requirements of PFRS 9 as its current financial assets carried at fair value are not significant.

Advances from officers and employees as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortized cost under PFRS 9. However, the Company will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under PFRS 9.

(b) Impairment

PFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or a lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all receivables. The Company does not expect a significant impact on its equity due to the unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

c) Hedge accounting

The Company does not expect any impact as a result of applying this phase of PFRS 9 as it does not apply hedge accounting on any existing hedge relationships.

▪ PFRS 15, “Revenue from Contracts with Customers”

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a

customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 01, 2018.

The Company plans to adopt the new standard on the required effective date.

Cash

Cash is carried at face value in the statements of financial position. Cash includes cash on hand and deposits with banks which is unrestricted as to withdrawal.

Financial Assets and Financial Liabilities

Date of recognition

The Company recognizes a financial asset or financial liability in the statement of financial position when it becomes a party to the contractual provision of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction cost. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available for sale (AFS) financial assets, and loans and receivables. The Parent Company classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Fair Value Measurement

The fair value for financial instruments traded in active markets at the financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has been a significant change in economic circumstances since the time of the transaction.

Investment in quoted shares are initially recognized at transaction price and subsequently issued at fair value with changes in fair value being recognized in statement of comprehensive income. Fair value is determined using quoted bid price at the reporting date.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Financial assets or financial liabilities at FVPL

The Company has designated financial assets and liabilities at FVPL when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gain or loss on them on a different basis; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at December 31, 2016 and 2015, the Company has no financial assets or financial liabilities at FVPL.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the investment income in the statement of comprehensive income. Gains and losses are amortized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

As at December 31, 2016 and 2015, the Company has no HTM investments.

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 are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. Loans and receivables are included in current assets if maturity is within 12 months from financial position date. Otherwise, these are classified as noncurrent assets.

Loans and receivables are subsequently measured at amortized cost using effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in the 'Interest income on loans and receivables' in the statements of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statements of comprehensive income.

When the estimated cash flows from financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR or, when applicable, the revised EIR. Any difference shall be recognized in statement of comprehensive income as gain or loss in restructuring.

As at December 31, 2016 and 2015, the Company's 'cash' and 'trade and other receivables' are included in this category.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investment or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirement or changes in market conditions. These include government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of comprehensive income as "Dividend income" when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Reserve for fluctuation on AFS assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Provision on impairment losses" in the statement of comprehensive income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as "Net realized gain on sale of AFS financial assets" in the statement of comprehensive income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

As at December 31, 2016 and 2015, the Company has no AFS financial assets.

Other financial liabilities

Issued financial instruments or their components, which are designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Included in this category are the Company's liabilities arising from its trade or borrowings such as 'Accounts payable and other liabilities', 'Advances from shareholders', 'Advances from related parties' and 'Loans payable'.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset is derecognized when:

- the rights to receive cash flows from the assets have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- the Company has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Impairment of Financial Assets

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event' and that loss event or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or

collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

AFS financial assets

In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income – is removed from the equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Investment income" in the statement of comprehensive income. If in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories and Supplies

Inventories and supplies are initially measured at cost. Subsequently, stated at the lower of cost and net realizable value (NRV). NRV for raw materials is the current replacement cost. In determining the NRV, the Company considers any adjustments necessary for obsolescence. Cost is determined using the first-in, first out (FIFO) method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced.

When inventories and supplies are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Prepayments

Prepayments, included under "Other current assets" account in the statement of financial position, are expenses paid in advance and recorded as asset before they are utilized.

This account comprises of advance payment for taxes, rentals and other prepaid items and creditable withholding taxes. Prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred.

Creditable withholding taxes are deducted from income tax payable. Prepayments that are expected to be realized for no more than 12 months after the balance sheet date are classified as current assets; otherwise, these are classified as other noncurrent assets.

Value Added Tax

Input VAT is recognized when the Company purchases goods or services from a VAT registered supplier or vendor. This account is offset against any output VAT previously recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as "Deferred input VAT."

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses.

The initial cost of an item of property and equipment includes its purchase price and any cost attributable to bringing the property and equipment to its intended location and working condition. Cost also includes interest and other financing charges on borrowed funds specifically used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Assets under construction (AUC) are carried at cost and transferred to the related property and equipment account when the construction and the related activities necessary to prepare the property, plant and equipment for their intended use are complete, and the property and equipment are ready for service.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment.

Vessels	25 years
Vessel improvements	2-5 years
Tools and equipment	3-5 years
Service vehicles	5 years
Furniture and fixtures	3 years

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of the property and equipment are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit and loss in the period the asset is derecognized.

Impairment of Non-financial Assets

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Trademarks and licenses with indefinite useful lives are tested annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash generating units are written down to estimated recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Taxes

Current tax

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the financial position date.

Deferred tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that it is expected to apply to the period when the asset is realized or settled, based on tax rate (and tax laws) that has been enacted or substantively enacted at the balance sheet date.

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

Provisions

Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in the statement of comprehensive income. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Equity

Share capital is determined using the nominal value of shares that have been issued.

Retained includes all current and prior period results as reported in the statement of comprehensive income.

Other comprehensive income (OCI) are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

Dividend Distributions

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Revenues

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from passenger ticket and freight services is recognized as income when carriage is provided.

Revenue from services incidental to the transportation of passengers and cargo are recognized when transactions are carried out.

Rental income is recognized in the statement of comprehensive income when earned in accordance with the term of the lease agreement and on a straight-line basis over the term of the lease.

Interest income is recognized when it is determined that such income will accrue to the Company taking into account the effective yield on the asset and is presented gross of applicable tax withheld by the banks.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements.

Costs and Expenses

Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Expenses that arise in the course of ordinary regular activities of the Company include, among others, the operating expenses on the Company's operation.

General and administrative expenses constitute cost of administering the business. These are recognized as expenses when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts.

The capitalization of borrowing costs commences when the activities to prepare the asset are in-progress and expenditures and borrowing cost are being incurred. The capitalization of these borrowings costs ceases when substantially all activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires 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. A reassessment is made after inception of the lease only if one of the following applies;

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment of scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the leased contract.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Non-monetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are recognized in profit or loss.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year, excluding capital stock purchased by the Company and treated as treasury shares after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares outstanding that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Related Party Relationships and Transactions

Parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Date of Financial Position

Post year-end events that provide additional information about the Company's position at the financial position date (adjusting events) are reflected in the parent financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the parent financial statements, when material.

4. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Classification of financial instruments

The Company exercises judgment in classifying financial instruments in accordance with PAS 39. The Company classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statements of financial position.

Determination of type of lease - operating lease

The Company has lease agreements in respect of its warehouse facility. The Company evaluates whether significant risks and rewards of ownership of the leased properties retained by the lessor (operating lease). The Company has determined, based on an evaluation of the terms and conditions of

the arrangements, that all significant risk and rewards of ownership over the leased properties are retained by the lessor. The leases are, therefore, accounted for as operating leases.

Total rental expense arising from operating leases amounted to P4,227,531 and P3,387,398 in 2016 and 2015, respectively (see Note 23).

Contingencies

The Company is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Company's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 24).

Estimates and Assumptions

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

Measurement of NRV of inventories

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The Company's inventories carried at cost as at December 31, 2016 and 2015 amounted to P7,752,760 and P8,422,444, respectively (see Note 7).

Impairment of loans and receivables

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the receivable account.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

There is no provision for impairment losses on trade receivables. As at December 31, 2016 and 2015, the gross carrying amounts of receivables amounted to P371,002,731 and P431,014,405, respectively (Note 6).

Estimation of useful lives of property, plant and equipment

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use 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 property and equipment. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The related balances follow (see Note 9):

	2016	2015
Cost	P 2,118,637,098	P 883,121,794
Accumulated depreciation and amortization	394,950,556	394,992,601
Depreciation and amortization	94,933,799	67,608,327

5. Cash

This account consists of:

	2016		2015	
Cash on hand and revolving funds	P	1,121,900	P	1,121,900
Cash in banks		26,750,762		4,824,006
	P	27,872,662	P	5,945,906

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to P762,729 and P371,722 in 2016 and 2015, respectively.

6. Receivables

This account consists of:

	2016		2015	
Trade	P	1,398,569	P	1,207,064
Advances to related parties (Note 16)		31,613,955		31,970,185
Advances to suppliers		319,431,566		385,400,432
Advances to officers and employees		4,861,551		2,173,393
Non-trade receivables		13,697,090		10,263,331
	P	371,002,731	P	431,014,405

Trade receivables are non-interest bearing and are generally collectible in the short-term. The receivables are carried at cost.

Advances to suppliers consist mainly of installment payments to shipbuilders for new vessels. It also includes advances made for the purchase of various vessel parts, service maintenance for regular maintenance and restoration costs of the vessels. Advances for regular maintenance are recouped from progress billings which occurs within one year from the date the advances arose, whereas, advance payment for restoration costs is recouped when the expenses for restoration of vessels have been incurred. The advances are unsecured and noninterest-bearing.

Advances to officers and employees represent personal cash advances made by employees and unliquidated cash advance for materials and supplies withdrawals which will be deducted from their salaries.

Non-trade receivables pertain to the amounts due from various third parties for transactions not directly related to Company's normal course of business.

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivables and on an evaluation of the current status of the account. However, as at December 31, 2016 and 2015, no allowance for impairment losses was provided for as the management believes that the receivables accounts are deemed fully collectible.

7. Inventories

The account consists of materials, fuels, lubes and oil. As at December 31, 2016 and 2015, inventories amounted to P7,752,760 and P8,422,444, respectively.

8. Other Current Assets

This account consists of:

	2016		2015	
Prepaid expenses	P	5,668,070	P	2,483,510
Input VAT		10,929,984		6,665,258
	P	16,598,054	P	9,148,768

Prepaid expenses consist of taxes, rentals and supplies.

Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

9. Property, Plant and Equipment

The roll-forward analysis of this account as at December 31, 2016:

	Vessel		Machineries and Service Vehicle	Leasehold Improvements	Software and Furniture and Fixtures		Office and Communication Equipment		Total					
	Vessel	Improvements and Equipment												
Cost														
At January 1, 2016	P	560,600,905	P	242,903,382	P	17,174,467	P	43,555,664	P	14,880,696	P	4,006,680	P	883,121,794
Additions		1,294,484,643		30,210,776		918,025		12,135,062		4,324,507		3,105,671		1,345,178,684
Disposal		(43,136,650)		(46,739,065)		(75,103)		(17,582,780)		(1,921,855)		(207,926)		(109,663,379)
At December 31, 2016		1,811,948,898		226,375,093		18,017,389		38,107,946		17,283,348		6,904,425		2,118,637,099
Accumulated depreciation and amortization														
At January 1, 2016		94,403,086		228,757,960		13,989,140		41,587,284		13,318,960		2,936,171		394,992,601
Depreciation and amortization		61,749,326		20,934,558		1,120,354		8,904,683		1,333,175		891,702		94,933,798
Write-off		10,680,040		2,950,053		43		766,962		134,565		155,872		14,687,535
Disposal		(43,136,650)		(46,739,065)		(75,103)		(17,582,780)		(1,921,855)		(207,926)		(109,663,379)
At December 31, 2016		123,695,802		205,903,506		15,034,434		33,676,149		12,864,845		3,775,819		394,950,555
Carrying Amounts														
At December 31	P	1,688,253,096	P	20,471,587	P	2,982,955	P	4,431,797	P	4,418,503	P	3,128,606	P	1,723,686,544

The roll-forward analysis of this account as at December 31, 2015:

	Vessel		Machineries and Service Vehicle	Leasehold Improvements	Software and Furniture and Fixtures		Office and Communication Equipment		Total					
	Vessel	Improvements and Equipment												
Cost														
At January 1, 2015	P	206,683,778	P	257,817,723	P	16,973,352	P	39,578,898	P	14,473,395	P	3,320,460	P	538,847,606
Additions		372,290,684		6,905,730		291,996		3,976,766		838,449		808,866		385,112,491
Disposal		(18,373,557)		(21,820,071)		(90,881)		-		(431,148)		(122,646)		(40,838,303)
At December 31, 2015		560,600,905		242,903,382		17,174,467		43,555,664		14,880,696		4,006,680		883,121,794
Accumulated depreciation and amortization														
At January 1, 2015		102,087,745		209,161,674		12,907,654		27,826,498		12,771,319		2,691,055		367,445,945
Depreciation and amortization		10,131,680		41,233,213		1,172,367		13,760,786		942,683		367,598		67,608,327
Disposal		(17,816,339)		(21,636,927)		(90,881)		-		(395,042)		(122,482)		(40,061,671)
At December 31, 2015		94,403,086		228,757,960		13,989,140		41,587,284		13,318,960		2,936,171		394,992,601
Carrying Amounts														
At December 31, 2015	P	466,197,819	P	14,145,422	P	3,185,327	P	1,968,380	P	1,561,736	P	1,070,509	P	488,129,193

Depreciation expense is charged to:

		2016		2015
Cost of services (see Note 19)	P	93,967,202	P	66,905,248
Operating expenses (see Note 20)		966,596		703,079
	P	94,933,798	P	67,608,327

On December 26, 2016, one of the Company's vessels was devastated by the typhoon "Nina". The Company recognized loss from the said typhoon amounting to P14,687,535, which represents the net book value of the vessel destroyed by the typhoon as of that date.

10. Investment Properties

This account consists of land held for capital appreciation. Details of this account are as follows:

		2016		2015
Land	P	10,540,471	P	10,540,471
Land improvements		2,077,679		2,077,679
	P	12,618,150	P	12,618,150

Measurement of Fair Value

The fair value of investment property was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement for investment property of P66,734,000 has been categorized at a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><i>Market Data Approach</i> Fair value is determined based on the sales and listings and other market data of comparable property registered within the vicinity. The value of land was determined using this approach.</p>	<p>Asking price per square meter (P135,000 - P138,000)</p>	<p>The higher the price per square meter, the higher the fair value.</p>

11. Other Noncurrent Assets

This account consists of:

	2016	2015
Other investment	P 8,206,211	P 8,074,158
Security and other deposits	1,227,955	706,562
Prepaid development cost	-	19,220,393
	P 9,434,166	P 28,001,113

Other investment pertains to investment in insurance security fund.

Security and other deposits include security deposits provided to lessors and maintenance providers and other refundable deposits.

Prepaid development cost represents the cost of improving the vessel and other related cost which are to be amortized for the next financial position date.

12. Accounts Payable and Other Liabilities

This account consists of:

	2016	2015
Accounts payable	P 70,716,034	P 77,633,964
Others	78,852,185	30,961,788
	P 149,568,219	P 108,595,752

Accounts payable consist mostly of payables related to the purchase of inventories, are noninterest-bearing and are normally settled on a 60-day term. These inventories are necessary for the daily operations and maintenance of the vessels, which include fuel, expendables parts, equipment and supplies. It also includes other nontrade payables.

Other payables are noninterest-bearing and have an average term of one year. This account includes commission's payable, refunds payable and other tax liabilities such as withholding taxes and output VAT.

13. Loans Payable

Loans payable pertain to the loans obtained by the Company from local banks payable in three (3) to fifteen (15) years on principal amortization and interest rates are based on T-bills plus spread. The proceeds of the loans were used to finance brand new, made to order RoRo type passenger ferry ship and for capital expenditures.

Long term loans mature until 2030 and bear interest rates ranging from 6.60%-7.50%. As at December 31, 2016 and 2015, loans payable amounted to P1,674,218,510 and P558,945,680, respectively.

These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Total interest expense recognized in the statement of comprehensive income amounted to P53,176,782 and P11,261,986 in 2016 and 2015, respectively.

14. Other Noncurrent Liabilities

This account consists of nontrade payables and other accrual of expenses in the ordinary course of business which are payable after the reporting date. These payables are non-interest bearing.

15. Share Capital

As at December 31, 2016 and 2015, the Company has an authorized capital stock of 800,000 common shares with a par value of P100 per share, of which 800,000 shares were issued and outstanding in 2016 and 2015.

16. Related Party Transactions

The Company's related parties include:

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members; and
- Affiliates and other related parties.

The amounts and balances arising from the foregoing significant related party transactions of the Company are as follows:

	Amount/ Volume	2016		Terms	Conditions
		Outstanding Balances Receivable	Payable		
Entities under common control					
Advances	P 1,450,084	P 31,613,955	P 10,743,478	Non-interest bearing; settled on a net basis; to be settled in cash	Unsecured; unimpaired
Key management personnel					
Advances	21,081,481	177,897,702	-	Non-interest bearing; settled on a net basis; to be settled in cash	Unsecured; unimpaired
	P 22,531,565	P 209,511,657	P 10,743,478		

	Amount/ Volume	2015		Terms	Conditions
		Outstanding Balances Receivable	Payable		
Entities under common control					
Advances	P (6,966,979)	P 31,970,185	P 8,937,164	Non-interest bearing; settled on a net basis; to be settled in cash	Unsecured; no impairment
Key management personnel					
Advances	26,500,000	156,816,221	-	Non-interest bearing; settled on a net basis; to be settled in cash	Unsecured; no impairment
	P 19,533,021	P 188,786,406	P 8,937,164		

Compensation of Key Management Personnel

The Company's executive officers receive a fixed basic salary on a monthly basis. The compensation of the Company's key management personnel included under "salaries and other benefits" in operating expenses amounted to P1,259,236 and P2,327,396 in 2016 and 2015, respectively.

17. Retirement Liability

The Company has an unfunded, non-contributory defined benefit retirement plan which covers substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment. Under the Plan, the normal retirement age is 60 or after completion of at least 25 years of continuous service but a participant may opt to retire after completion of ten (10) years of continuous service to the Company. Retirement benefit for both normal and early retirement is equivalent to one-month average basic salary for each year of service rendered. The latest actuarial valuation was made on December 31, 2015.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of retirement expense included under salaries and other benefits in operating expenses are as follows:

		2016		2015
Current service cost	P	929,993	P	936,904
Net interest cost		405,724		353,418
	P	1,335,717	P	1,290,322

Liability recognized in the statement of financial position:

		2016		2015
Present value of benefit obligation	P	9,683,945	P	8,348,228
Fair value of plan assets		-		-
Retirement benefit obligation	P	9,683,945	P	8,348,228

The changes in the present value of defined benefit obligation are as follow:

		2016		2015
Balance at beginning of year	P	8,348,228	P	7,959,863
Current service cost		929,993		936,904
Net interest cost		405,724		353,418
Benefits paid		-		(460,743)
Actuarial loss/(gain) due to:				
Experience adjustments		-		(96,108)
Change in demographic assumptions		-		-
Changes in financial assumptions		-		(345,106)
Balance at end of year	P	9,683,945	P	8,348,228

The movement in the net liability recognized in the statement of financial position is as follow:

		2016		2015
Balance at beginning of year	P	8,348,228	P	7,959,863
Total retirement expense		1,335,717		1,290,322
Total amount recognized in OCI		-		(441,214)
Benefits paid		-		(460,743)
Balance at end of year	P	9,683,945	P	8,348,228

Shown below is the maturity profile of the undiscounted benefit payments:

Plan Year		Benefit payments
Less than 1 year	P	2,315,627
More than 1 year to 5 years		5,242,401
More than 5 years to 10 years		10,484,802
More than 10 year to 15 years		18,872,644
More than 15 year to 20 years		20,541,859
More than 20 years		41,447,207

The assumptions used to determine retirement benefits of the Company are as follows:

	2016	2015
Discount rate	4.86%	4.86%
Salary increase rate	10.00%	10.00%

The assumptions regarding future mortality rates are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2016 and 2015, Company applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation, assuming if all other assumptions were held constant:

Description	Increase/decrease in basis points	Increase/decrease Defined Benefit Obligation
Discount rates	+1.00%	(P718,859)
	-1.00%	910,926
Salary increase rate	+1.00%	837,629
	-1.00%	(677,681)
Turnover rate	+1.00%	573,756
	-1.00%	(573,756)

The average duration of the defined benefit obligation at the end of the reporting period is 12.4 years.

18. Revenues

This account consists of:

	2016		2015	
Passage	P	221,807,879	P	161,117,586
Freight		315,936,871		229,001,918
Charter		8,697,017		-
	P	546,441,767	P	390,119,504

19. Cost of Services

This account consists of:

	2016		2015	
Fuel and oil	P	174,550,785	P	141,354,276
Depreciation and amortization (Note 9)		93,967,202		66,905,248
Other services		41,268,729		3,908,532
Salaries and other benefits		27,242,391		25,859,635
Insurance		25,244,157		4,488,377
Materials and supplies		20,172,570		18,387,983
Berthing fees		17,479,881		8,043,583
Utilities		6,399,372		3,959,477
Taxes and licenses		5,406,293		1,798,085
Charter fees (Note 16)		4,814,516		6,811,718
Repairs and maintenance		4,182,736		19,562,526
Security services		1,411,862		2,986,321
Rental (Note 24)		135,600		168,715
Others		916,671		209,751
	P	423,192,765	P	304,444,227

20. Operating Expenses

This account consists of:

	2015		2015	
Salaries and other benefits (Notes 16 and 17)	P	20,910,036	P	23,922,451
Professional fees and other services		13,458,578		7,320,568
Security services		4,561,033		3,597,863
Rentals (Note 24)		4,091,931		3,218,683
Materials and supplies		2,485,794		1,855,977
Transportation and travel		2,404,646		1,707,925
Utilities		1,538,184		1,126,506
Freight and handling		1,201,149		-
Depreciation and amortization (Note 9)		966,597		703,079
Representation		874,997		822,000
Fuel and oil		659,192		778,750
Taxes and licenses		648,017		4,077,748
Repairs and maintenance		307,837		322,506
Trainings and seminars		35,001		1,313,606
Others		2,390,765		1,435,493
	P	56,533,757	P	52,203,155

21. Income Taxes

This account consists of:

		2016		2015	
Current	P	-	P	14,206,010	
Deferred		(400,715)		(248,874)	
	P	(400,715)	P	13,957,136	

Reconciliation of statutory income tax rate to the effective income tax rate follows:

		2016		2015	
Statutory income tax	P	3,484,097	P	14,068,652	
Income subject to lower tax rates		(228,819)		(111,516)	
Income exempt from tax		(12,767,099)		-	
Tax effect of timing difference		400,715		248,874	
NOLCO		9,111,106		-	
	P	-	P	14,206,010	

The components of the Company's deferred income tax assets are as follows:

		2016		2015	
Unfunded retirement liability	P	2,905,184	P	2,504,469	
MCIT		293,379		-	
	P	3,198,563	P	2,504,469	

The movement of the deferred income tax asset on unfunded retirement liability is as follows:

	2016				
	Balance at beginning of year	Charged to income	Charged to equity	Balance at end of year	
Unfunded retirement liability	P 2,504,469	P 400,715	P -	P 2,905,184	

	2015				
	Balance at beginning of year (As restated)	Charged to income	Charged to equity	Balance at end of year	
Unfunded retirement liability	P 2,387,959	P 248,874	P (132,364)	P 2,504,469	

22. Earnings Per Share (EPS)

Computation of basic and diluted EPS is shown below:

		2016		2015	
Net income	P	12,014,372	P	32,938,372	
Divided by weighted average number of shares		800,000		800,000	
	P	15.02	P	41.17	

The Company does not have diluted potential common shares as at December 31, 2016 and 2015.

23. Financial Risk Management Objectives and Policies

The principal financial instruments of the Company comprise of cash and cash equivalents, notes payable, acceptances payable, and amounts owed to affiliates. The main purpose of these financial instruments is to raise fund for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are foreign currency market risk, liquidity risk, interest rate risk and credit risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below, together with the related risk management structure.

The Company's overall risk management program focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance.

Credit Risk

To manage credit risk, the Company trades only with recognized and credit-worthy customers. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification process with emphasis on their capacity, character and willingness to pay. Each customer, whether corporate or otherwise, has an approved maximum credit limit. These limits are reviewed regularly by the Treasury Department. Trade receivable balance is monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure of trade receivables is equal to its carrying amount.

With respect to credit risk arising from other financial assets of the Company, which consist of cash with banks and refundable deposits, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments before taking into account any collateral and other credit enhancements.

The maximum credit risk exposure of the Company's financial assets, which is equal to the carrying amounts in the statement of financial position, is shown below:

		2016		2015
Cash in banks	P	26,750,762	P	4,824,006
Receivables		371,002,731		431,014,405
Other noncurrent assets				
Security and other deposits		1,227,955		706,562
	P	398,981,448	P	436,544,973

There are no collaterals held as security or other credit enhancements attached to the Company's financial assets.

The table below shows the credit quality by class of financial assets as of December 31, 2016 and 2015.

	2016							Total
	Neither Past Due Nor Impaired				Past Due But Not Impaired			
	High Grade	Standard Grade	Substandard	Grade				
Loans and Receivable								
Cash in banks	P	26,750,762	P	-	P	-	P	26,750,762
Receivables		371,002,731		-		-		371,002,731
Other noncurrent assets								
Security and other deposits		-	1,227,955		-			1,227,955
	P	397,753,493	P	1,227,955	P	-	P	398,981,448

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
<i>Loans and receivables</i>				
Cash in banks	P 26,750,762	P 26,750,762	P 4,824,006	P 4,824,006
Receivables	371,002,731	371,002,731	431,014,405	431,014,405
Other noncurrent assets				
Security and other deposits	1,227,955	1,227,955	706,562	706,562
	P 398,981,448	P 398,981,448	P 436,544,973	P 436,544,973
Financial Liabilities:				
<i>Other financial liabilities</i>				
<i>Accounts payable and other liabilities</i>				
Accounts payable	P 70,716,034	P 70,716,034	P 77,633,964	P 77,633,964
Others	73,155,173	73,155,173	26,137,329	26,137,329
Loans payable including current portion	1,674,218,510	1,674,218,510	558,945,680	558,945,680
Other noncurrent liabilities	34,823,049	34,823,049	34,823,049	34,823,049
	P 1,852,912,766	P 1,852,912,766	P 697,540,022	P 697,540,022

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

The fair values of cash in banks, receivables, and accounts payable and other liabilities are approximately equal to their carrying amounts considering the short-term maturities of these financial instruments.

For noncurrent liabilities the fair value is based on the discounted values of future cash flows using the applicable zero coupon rates.

For variable rate financial instruments that reprice every three months (i.e. notes payable), the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

Fair Value Measurement Hierarchy

As at December 31, 2016 and 2015, the Company has no financial instruments measured at fair value.

26. Events After The Reporting Date

Increase in Authorize Capital

On February 6, 2017, the Securities and Exchange Commission (SEC) approved the increase in authorized capital of the Company from P80 million divided into 800,000 shares to P500 million divided into 5,000,000 shares.

27. Supplementary Information Required Under Revenue Regulation 15-2010 of the Bureau of Internal Revenue

In addition to the disclosures mandated under PFRS and such other standards as maybe adopted, the taxpayer is now required to include as parts of its Notes to the Audited Financial Statements, which will be attached to the Income Tax Return, certain supplementary information for the taxable year. Below is the additional information required by the BIR under RR No. 15-2010. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statement.

Output VAT

The Company's output VAT declared for the year is as follows:

	2016	
	Amount	12% VAT
Service revenues	P 535,102,723	P 64,212,327

Input VAT

Input VAT claimed in the Company's VAT returns for 2015 are as follow:

	Purchases	Input VAT
Beginning Input tax		P 729,286
Current purchases	P 332,785,943	39,934,313
Applications during the year		(37,650,298)
Ending Input tax	P 332,785,943	P 3,013,301

Withholding taxes

Details of the Company's withholding taxes paid or accrued during the year are as follows:

	Paid	Accrued	Total
Compensation	P 2,060,238	P 62,023	P 2,122,261
Expanded	5,852,287	1,738,207	7,590,494
Total	P 7,912,525	P 1,800,230	P 9,712,755

Taxes and Licenses

<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
Taxes and Licenses	P 6,054,309

Information on amounts for excise taxes is not applicable since there are no transactions that the Company would be subject to these taxes.

As at December 31, 2016, the Company had not received any final tax assessment from the Bureau of Internal Revenue and is not currently involved in any tax case.