Chelsea Logistics Holdings Corp.
(incorporated in the Republic of the Philippines)

Primary Offer of 546,593,000 Common Shares to be listed and traded on the Main Board of

The Philippine Stock Exchange, Inc.

Offer Price: ₱10.68 per share

Issue Manager, Lead Underwriter and Sole Bookrunner

BDO Capital & Investment Corporation

Participating Underwriter

BA Investments and Holdings, Inc.

Selling Agents

Abacus Capital & Investment Corporation
Asian Alliance Investment Corporation
PNB Capital and Investment Corporation
RCBC Capital Corporation
United Coconut Planters Bank
The Trading Participants of the Philippine Stock Exchange

The date of this Prospectus is

July 21, 2017

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.

Chelsea Logistics Holdings Corp.
Stella Hizon Reyes Road, Bo. Pampanga
Davao City 8000, Philippines
Telephone Number: +63 82 224 5373
Corporate Website: http://www.chelsealogistics.ph/

This Prospectus relates to the offer and sale of five hundred forty-six million five hundred ninety-three thousand (546,593,000) common shares (the "**Firm Offer**", and such shares, the "**Offer Shares**"), with a par value of ₱1.00 per share (the "**Shares**"), of Chelsea Logistics Holdings Corp., a corporation organized under Philippine laws ("**we**", "**us**", "**our**", "**CLC**" or the "**Company**") with an authorized capital stock of Two Billion Pesos (₱2,000,000,000.00) divided into Two Billion (2,000,000,000) shares. A total of one billion two hundred seventy-five million three hundred eighty-four thousand six hundred fifteen (1,275,384,615) common shares have been subscribed and fully paid-up. The Offer Shares will comprise 546,593,000 new Shares to be issued and offered by us by way of a primary offer ("**Primary Shares**"). No secondary shares shall form part of the offer. CLC, being a holding company using the operating track record of its subsidiaries, is prohibited from offering secondary shares for the Firm Offer. A total of one billion eight hundred twenty-one million nine hundred seventy-seven thousand six hundred fifteen (1,821,977,615) common shares will be outstanding after the Firm Offer. The Offer Shares represent approximately 30% of the outstanding common shares after the Firm Offer.

The Offer Shares shall be offered at a price of ₱10.68 per share (the "**Offer Price**"). The determination of the Offer Price is described on page 37 of this Prospectus. The Offer Price was based on a book-building process by BDO Capital & Investment Corporation ("**BDO Capital**" or the "**Issue Manager, Lead Underwriter and Sole Bookrunner**").

The Offer Shares (as defined below) will be listed and traded on the Main Board of The Philippine Stock Exchange, Inc. ("**PSE**") under the trading symbol "**CLC**".

We expect to raise gross proceeds amounting to ₱5,837,613,240.00 from the Firm Offer. Our estimated net proceeds from the sale of Offer Shares (after deducting fees and expenses payable by us) will be approximately ₱5,503,321,444.00. We intend to use our net proceeds from the Firm Offer for the acquisition of new vessels and vessel equipment, port facilities, containers and terminal equipment, the acquisition of other shipping and logistics companies and for general corporate purposes. For more detailed discussion on our Offer Shares, see "*Use of Proceeds*" beginning on page 32 of this Prospectus.

The Issue Manager, Lead Underwriter and Sole Bookrunner will receive a transaction fee from us based on a percentage of the gross proceeds from the sale of the Offer Shares. This is exclusive of the amounts to be paid to the other participating underwriter and selling agents, where applicable. For more detailed discussion on the fees to be received by the Issue Manager, Lead Underwriter and Sole Bookrunner, see "*Plan of Distribution*" beginning on page 148 of this Prospectus.

Each holder of Shares will be entitled to such dividends as may be declared by CLC's Board, provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of CLC's total outstanding capital stock. The Corporation Code of the Philippines, Batas Pambansa Blg. 68 (the "**Philippine Corporation Code**"), has defined "outstanding capital stock" as the total shares of stock issued, whether paid in full or not, except treasury shares. Holders of common shares are entitled to receive annual cash dividends of at least twenty percent (20%) of the prior year's recurring net income based on the recommendation of the Board of Directors. The ability to pay dividends, however, is subject to the Company's unrestricted retained earnings, the Company's financial condition, as well as requirements of applicable laws, regulations, the terms and conditions of our existing loan facilities and the absence of circumstances that may restrict the payment of such dividends. See "*Dividends and Dividend Policy*" beginning on page 35 of this Prospectus.

163,978,400 Offer Shares will (subject to re-allocation as described below) be offered to all of the trading participants of the PSE (the "**PSE Trading Participants**") and to local small investors ("**LSIs**") under the Local Small Investors Program being implemented by the PSE. Any Shares allocated to the PSE Trading Participants and the LSIs but not taken up by them will be distributed by the Lead Underwriter and by BA Investments and Holdings, Inc., as the Participating Underwriter (the "**Underwriters**") to their clients, retail investors or the general public. Offer Shares not taken up by the PSE Trading Participants, LSIs, the Underwriters' clients or the general public shall be purchased by the Underwriters, pursuant to the terms and conditions of the Underwriting Agreement.

All of the Shares issued and to be issued or sold pursuant to the Offer have identical rights and privileges. The Shares may be owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits under Philippine law. The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities. In relation thereto, Section 11 of Article XII of the Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. CLC, through its subsidiaries, is engaged in passenger transport, which is a public utility subject to the nationality restriction discussed above. See "*Philippine Foreign Ownership and Foreign Exchange Controls*" on page 146 of this Prospectus.

The information contained in this Prospectus relating to us and our operations has been supplied by us, unless otherwise stated herein. To the best of our knowledge and belief, we, having taken reasonable care to ensure that such is the case, confirm that the information contained in this Prospectus relating to us and our operations is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that we hereby accept full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. The Issue Manager, Lead Underwriter and Sole Bookrunner assume no liability for any information supplied herein by the Company. Accordingly, we accept responsibility.

We, together with the Issue Manager, Lead Underwriter and Sole Bookrunner have exercised due diligence in ascertaining that all material representations contained in this Prospectus are true and correct as of the date of this Prospectus and that no material information was omitted, which was necessary in order to make the statements contained herein not misleading.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale of Shares made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in our affairs since such date.

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

Risks Relating to Our Business

1. CLC may experience difficulty in implementing its growth strategy.
2. Maritime vessels are CLC's primary assets and, in the course of operation, are susceptible to maritime accidents.
3. CLC's operations are susceptible to acts of piracy and terrorism.
4. CLC's level of indebtedness may have a material adverse effect on its financial condition.
5. CLC operates in a regulated industry and its business is affected by the development and application of regulations in the Philippines.
6. CLC's vessels are mechanical and are susceptible to breakdowns.
7. The shipping industry is highly competitive.
8. Volatility of fuel prices impacts the operations of CLC.
9. Scarcity of technically skilled officers and crew.
10. Difficulty of sourcing of vessels appropriate for our operations.
11. Possible inadequacy of Insurance and Indemnity Coverage.

12. Changes in legal and regulatory environment.

Risks Relating to the Philippines

1. The Philippine economy and business environment may be disrupted by political or social instability.

2. The Philippine Presidential elections were held on May 9, 2016, and any political instability resulting from such elections in the Philippines may adversely affect our business, results of operations and financial condition.

3. Acts of terrorism in the Philippines could destabilize the country and could have a material adverse effect on our business, prospects, financial condition and results of operations.

4. Risks related to maritime terrorism and piracy.

5. Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

6. The occurrence of natural disasters or other catastrophes, severe weather conditions, or outbreaks of contagious diseases may adversely affect the Philippine economy and disrupt the Company's operations.

7. As our operations are concentrated in the Philippines, any downturn in general economic conditions in the Philippines could have a material adverse impact on our business operations.

8. Shareholders may be subject to limitations on minority shareholders' rights.

9. The credit ratings of the Philippines may restrict the access to capital of Philippine companies.

10. Investors may face difficulties enforcing judgments against the Company.

Risks Related to the Offer and the Offer Shares

1. There has been no prior market for the Shares, so there may be no liquidity in the market for the Offer Shares and the price of the Offer Shares may fall.

2. The market price of the Shares may be volatile, which could cause the value of investors' investments in the Shares to decline.

3. There can be no guarantee that the Offer Shares will be listed on the PSE.

4. Investors may incur immediate and substantial dilution as a result of purchasing Shares in the Offer.

5. Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.

6. The Offer Shares may not be a suitable investment for all investors.

7. Future changes in the value of the Philippine peso against the U.S. dollar or other currencies will affect the foreign currency equivalent of the value of our common shares and any dividends.

8. The Company may be unable to pay dividends on its common shares.

9. The sale or possible sale of a substantial number of common shares in any private or public sales following the Offer could adversely affect the price of the common shares.

10. Repatriation of dividends denominated in currencies other than Pesos may be subject to certain restrictions.

11. Certain information contained herein is derived from unofficial publications.

For a more detailed discussion on the risks in investing, see section on "*Risk Factors*" beginning on page 22 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares.

On April 21, 2017, CLC filed a Registration Statement covering the Offer Shares and CLC's outstanding Common Shares with the Securities and Exchange Commission ("**Philippine SEC**"), in accordance with the provisions of the Securities Regulation Code.

The listing of the Offer Shares is subject to the approval of the PSE. An application to list the Offer Shares as well as the rest of the Shares was filed with the PSE on April 24, 2017. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE or the SEC. Prior to the Offer, there has been no public market for the Shares. Accordingly, there has been no market price for the Shares derived from day to day trading. An application has been made with the Philippine SEC to register the Offer Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "**SRC**").

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.

The Offer Shares are offered subject to receipt and acceptance of any order by us and subject to our right to reject any order in whole or in part. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the Philippine Depository and Trust Corporation (the "**PDTC**") on or about August 8, 2017.

By:

(SGD.)	(SGD.)
DENNIS A. UY Chairman of the Board	**CHRYSS ALFONSUS V. DAMUY** President and CEO

SUBSCRIBED AND SWORN to before me this 21st day of July 2017 in Taguig City, Philippines, affiant Dennis A. Uy exhibiting to me his Philippine Passport No. EC 1641601 issued on 15 July 2014 and affiant Chryss Alfonsus V. Damuy exhibiting to me his Tax Identification Number 913-898-959.

Doc. No. ______;
Page No. ______;
Book No. ______;
Series of 2017.

No representation or warranty, express or implied, is made by us or the Issue Manager, Lead Underwriter and Sole Bookrunner regarding the legality of an investment in the Offer Shares under any legal, investment or similar laws or regulations. No representation or warranty, express or implied, is made by the Issue Manager, Lead Underwriter and Sole Bookrunner as to the accuracy or completeness of the information herein and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Issue Manager, Lead Underwriter and Sole Bookrunner. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own examination of us and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited. Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

THE OFFER SHARES ARE BEING OFFERED ON THE BASIS OF THIS PROSPECTUS ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the Issue Manager, Lead Underwriter and Sole Bookrunner. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Offer Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

Market data used throughout this Prospectus has been obtained from market research, reports and studies, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts, market research and the underlying economic assumptions relied upon therein, while believed to be reliable, have not been independently verified, and none of us nor the Issue Manager, Lead Underwriter and Sole Bookrunner makes any representation as to the accuracy of that information. The information related to the Philippine tanker, RoPax and cargo industries in this Prospectus reflects estimates of market conditions based on publicly available sources and trade opinion surveys. Forecasts were made on the assumption that the Philippine economy is expected to maintain a steady growth and that the social, economic, and political environment is expected to remain stable.

The operating information used throughout this Prospectus has been calculated by us on the basis of certain assumptions. As a result, this operating information may not be comparable to similar operating information reported by other companies.

CLC reserves the right to withdraw the offer and sale of Offer Shares at any time, and the Issue Manager, Lead Underwriter and Sole Bookrunner reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, we shall subsequently notify the Philippine SEC and the PSE. The Issue Manager, Lead Underwriter and Sole Bookrunner and certain related entities may acquire for their own account a portion of the Offer Shares.

Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

Conventions Used in this Prospectus

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to "we", the "Company", "CLC", "our" or "us" are to Chelsea Logistics Holdings Corp., or to Chelsea Logistics Holdings Corp. and its consolidated subsidiaries, as the context requires. All references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" pertain to the national government of the Philippines. All references to the "BSP" are references to *Bangko Sentral ng Pilipinas*, the central bank of the

Philippines. All references to "Philippine Peso," "Pesos" and "₱" are to the lawful currency of the Philippines, and all references to "U.S. dollars" and "US$" are to the lawful currency of the United States. We publish our financial statements in Pesos.

This Prospectus contains translations of certain Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the prospective investor. These translations should not be construed as representations that the Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Pesos to U.S. dollars have been made at a rate of ₱50 = US$1.00. On December 31, 2016, the closing spot rate quoted on the BSP was ₱49.813= US$1.00.

Basis for Certain Market Data

Certain statistical information and forecasts in this Prospectus relating to the Philippines and other data used in this Prospectus were obtained or derived from internal surveys, industry forecasts, market research, governmental data, and publicly available information and/or industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate or complete. Similarly, internal surveys, industry forecasts, market research, governmental data, publicly available information and/or industry publications have not been independently verified by the Company or the Issue Manager, Lead Underwriter and Sole Bookrunner and may not be accurate, complete, up-to-date, balanced or consistent with other information compiled within or outside the Philippines.

Presentation of Financial Information

Our financial statements are reported in Philippine Pesos and are prepared based on our accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standards Council of the Philippines. PFRS include statements named PFRS and Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee.

The financial information presented herein for CLC are as of and for the years ended December 31, 2014, 2015, 2016 and the three months ended March 31, 2017 and the pro forma consolidated financial statements as of December 31, 2016. Unless otherwise stated, all financial information relating to us contained herein is stated in accordance with PFRS.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures, which are totals, may not be an arithmetic aggregate of their components.

Our fiscal year begins on January 1 and ends on December 31 of each year. Punongbayan & Araullo ("**P&A**"), a member firm of Grant Thornton International Limited, has audited our financial statements for the year ended December 31, 2016 and the three months ended March 31, 2017. P&A has also has examined and rendered an Independent Auditor's Assurance Report on the pro forma condensed consolidated financial information of CLC and its subsidiaries as of and for the year ended December 31, 2016.

Non-PFRS Financial Measures

This Prospectus includes certain non-PFRS financial measures, including EBITDA and EBITDA margin. The term "EBITDA" refers to earnings before interest, taxes, depreciation and amortization. EBITDA is a supplemental measure of our performance and liquidity that is not required by, or presented in accordance with PFRS. Further, EBITDA is not a measurement of our financial performance or liquidity under PFRS and should not be considered as an alternative to net income, revenues or any other performance measure derived in accordance with PFRS or as an alternative to cash flow from operations or as a measure of our liquidity. We believe that EBITDA facilitates operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation and amortization of tangible assets (affecting relative depreciation and amortization expenses). We present EBITDA because we believe that it is frequently used by securities analysts and investors in the evaluation of companies in our industry.

In this Prospectus, references to "Pro Forma Financial Information" refer to the pro forma condensed consolidated financial information of CLC and its subsidiaries as of and for the year ended December 31, 2016. P&A has examined and rendered an Independent Auditor's Assurance Report on the Pro Forma Condensed Consolidated Financial Information included in this Prospectus. The primary objective of the Pro Forma Financial Information is to present what the significant effects on the consolidated historical financial information would have been had the Reorganization, the Operational Restructuring, the Offer and the application of the net proceeds of the Offer as described under "Use of Proceeds" occurred on January 1, 2016. The Pro Forma Financial Information assumes that (i) the assets and liabilities of Udenna Investments B.V. ("**UIBV**") were acquired by CLC on January 1, 2016 through issuance of its own capital stock with a total value of ₱6,048 million, (ii) CLC is fully operational as it has been existing for the calendar year ended December 31, 2016, and, (iii) the transaction related to the acquisition of UIBV and the derecognition of some of its assets and liabilities were translated using the applicable exchange rate as of January 1, 2016.

Forward-Looking Statements

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

1. Known and unknown risks;

2. Uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expected future results; and,

3. Performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

1. Risks relating to our business;

2. Risks relating to the Philippines; and

3. Risks relating to the Offer and the Offer Shares.

Additional factors that could cause our actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. We and the Issue Manager, Lead Underwriter and Sole Bookrunner expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

The Issue Manager, Lead Underwriter and Sole Bookrunner does not take any responsibility for, or give any representation, warranty, or undertaking in relation to any such forward-looking statements.

This Prospectus includes statements regarding our expectations and projections for future operating performance and business prospects. The words "believe," "plan," "expect," "anticipate," "estimate," "project," "intend," "seek," "target," "aim," "may," "might," "will," "would," "could," and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to our opinions, beliefs and intentions accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although we give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from our expectations. All subsequent written and oral forward-looking statements attributable to us or persons acting on behalf of us are expressly qualified in their entirety by the above cautionary statements.

TABLE OF CONTENTS

GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

Barge	A flat-bottomed boat for carrying freight, typically on canals and rivers, either under its own power or towed by another
BDO Capital	BDO Capital & Investment Corporation
BDO Unibank	BDO Unibank, Inc.
BIR	The Philippine Bureau of Internal Revenue
CAGR	Compound annual growth rate
Cargo	Freight loaded into a vessel
Classification Society	A non-governmental organization in the shipping industry, which establishes and maintains technical standards for construction and operation of marine vessels and offshore structures.
Company	Chelsea Logistics Holdings Corp. and its Subsidiaries
Dredger	A barge or other vessel designed for cleaning out the bed of harbors or other bodies of water
Firm Offer	The offer and sale of 546,593,000 Shares
Government	The Government of the Republic of the Philippines
GRT	.Gross Registered Tonnage
IACS	International Association of Classification Societies, a technically based organization consisting of twelve marine classification societies which provides a forum where member societies can discuss research and adopt technical criteria that enhance maritime safety.
Listing Date	August 8, 2017
LSI	A share subscriber or purchaser who is willing to subscribe or purchase a minimum of 1,000 Offer Shares or whose subscription or purchase does not exceed ₱99,324 or a maximum of 9,300 Offer Shares (which maximum amount having been fixed pursuant to the approval by the PSE of the request made by the Company to allow the Company to increase the maximum subscription of each Local Small Investor from ₱25,000 to ₱100,000).
Man hours	24 hours of work per individual
MARINA	Maritime Industry Authority
MTkr	Motorized Tanker
MTug	Motorized Tugs
MV	Motorized Vessel

Offer Price .... ₱10.68 per Offer Share

Offer Shares .... 546,593,000 new Shares to be issued and offered

PDTC .... Philippine Depository and Trust Corporation

PFRS .... Philippine Financial Reporting Standards

Philippine Corporation Code .... Batas Pambansa Blg. 68 otherwise known as the Corporation Code of the Philippines

Philippine National .... As defined under the Foreign Investment Act, means a citizen of the Philippines, or a domestic partnership or association wholly-owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of Philippine nationals; provided, that where a corporation and its non-Filipino stockholders own stocks in a Securities and Exchange Commission registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines, in order that the corporation shall be considered a Philippine national.

Philippine SEC .... The Philippine Securities and Exchange Commission

PSE .... The Philippine Stock Exchange, Inc.

PSE Trading Participants .... Duly licensed securities brokers who are trading participants of the PSE

Receiving Agent .... BDO Unibank, Inc. – Trust and Investments Group, Securities Services and Corporate Agencies Department

RoRo .... Roll-on, Roll-off with cargo

RoPax .... Roll-on, Roll-off with passengers and cargo

Shares .... The common shares of par value ₱1.00 of CLC

Sqm .... Square meter

SRC … .... The Philippine Securities Regulation Code, Republic Act No. 8799, as amended from time to time, and including the rules and regulations issued there under

Tanker .... A merchant vessel designed to transport liquids or gases in bulk

Tugboat/Tugs .... A powerful boat used for towing larger vessels, especially in harbor.

VAT .... Value-Added Tax

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Prospectus, including our audited financial statements and the notes thereto, included elsewhere in this Prospectus. Because it is a summary, it does not contain all the information that a prospective investor should consider before investing. Prospective investors of the Offer Shares must read the entire Prospectus carefully, including the section on "Risk Factors," and the financial statements and the related notes to those statements annexed to this Prospectus. Capitalized terms not defined in this summary are defined in the "Glossary of Terms" or elsewhere in this Prospectus.

Overview

CLC is a corporation organized and registered with the Philippine SEC on August 26, 2016 as Chelsea Shipping Group Corp. primarily to act as a holding company. On December 21, 2016, the Philippine SEC approved its change in corporate name to Chelsea Logistics Corp. Subsequently, on June 27, 2017, the Philippine SEC again approved the Company's change in corporate name to Chelsea Logistics Holdings Corp. CLC, through its wholly-owned subsidiaries, is engaged in the shipping transport business, and described in detail as follows:

1. Chelsea Shipping Corp. ("**CSC**"), incorporated on July 17, 2006, and which began commercial operations on January 1, 2007, is engaged in the maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines.

2. Trans-Asia Shipping Lines, Inc. ("**Trans-Asia Shipping**"), incorporated on March 25, 1974, is engaged in transporting passengers and cargo within Philippine territorial waters and/or in the high seas. The acquisition by the Company of Trans-Asia Shipping and its subsidiaries was completed in the last quarter of 2016.

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

1. PNX-Chelsea Shipping Corp. ("**PNX-Chelsea**"), incorporated on February 2, 2011, and which began commercial operations on July 7, 2014, is engaged in operating vessels for domestic trade for the purpose of maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.

2. Fortis Tugs Corporation ("**FTC**"), incorporated on April 8, 2013, and which began commercial operations on November 13, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. Davao Gulf Marine Services, Inc., ("**DGMSI**") a wholly-owned subsidiary of Fortis Tugs, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock at the District Port of Davao and all other ports in the Philippines.

3. Michael, Inc. ("**MI**"), incorporated on December 26, 1957, is engaged in the business of acquiring and operating floating equipment for charter or hire, and for conveyance and carriage of goods, wares and merchandise of every description in the Philippine coastwise traffic.

4. Bunkers Manila, Incorporated ("**BMI**"), incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

5. Chelsea Ship Management & Marine Services Corp. ("**CSMMSC**"), incorporated on March 30, 2012, and which began commercial operations on August 15, 2012, is engaged in ship management and authorized to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

6. Chelsea Marine Manpower Resources Inc. ("**CMMRI**"), incorporated on June 9, 2016, and which began commercial operations on August 1, 2016, is engaged in providing full and partial crewing for domestic and

foreign vessels, and is authorized to act as representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

CSC, and its subsidiaries BMI, MI and PNX-Chelsea, provide four (4) types of charter services, namely, voyage charter, time charter, bareboat charter and continuing voyage charter, described as follows:

1. Voyage Charter

   The hiring of a vessel and crew for a voyage between a loading port and a discharging port. The charterer pays the vessel owner on a per-tenor lump-sum basis. The owner pays the port costs (excluding stevedoring), fuel costs and crew costs. The payment for the use of the vessel is known as freight. A voyage charter specifies a period, known as laytime, for unloading the cargo. If laytime is exceeded, the charterer must pay demurrage. If laytime is saved, the charter party may require the shipowner to pay dispatch to the charterer, if applicable.

2. Time Charter

   The hiring of a vessel for a specific period of time where the owner still manages the vessel but the charterer selects the ports and directs where the vessel goes. The charterer pays for all fuel the vessel consumes, port charges, and a daily hire to the owner of the vessel.

3. Bareboat Charter

   An agreement where there is no maintenance liability or any kind of claim on the vessel by the owner for the period of lease of the vessel. It is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The charterer obtains possession and full control of the vessel along with the legal and financial responsibility for it. The charterer pays for all operating expenses, including fuel, crew, port expenses and protection and indemnity and hull insurance.

4. Continuing Voyage Charter

   The same as Voyage Charter except that this is exclusive for chartered vessels.

On the other hand, Trans-Asia Shipping's wholly owned subsidiaries are engaged in the following businesses:

1. Oceanstar Shipping Corporation ("**Oceanstar**"), incorporated on July 6, 2016, is engaged in the business of domestic shipping for the transportation of passengers and cargoes within Philippine territorial seas and/or in high seas.

2. Starsy Shoppe, Inc. ("**SSI**"), incorporated on March 31, 2005, is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

3. Dynamic Cuisine, Inc. ("**DCI**"), incorporated on March 31, 2005, is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in making, cooking, arranging, serving and catering goods, drinks, refreshments and other food or commodities commonly served in such establishments.

4. Quality Metal & Shipworks, Inc. ("**QMSI**"), incorporated on November 28, 2007, is engaged in providing machining and mechanical works on ship machineries and industrial plants.

The Company generated total revenues of ₱1.848 billion, ₱2.485 billion, and ₱2.900 billion for the years ended December 31, 2014, 2015 and 2016 and net income of ₱139 million, ₱98 million, and ₱132 million, for the same periods. For the three months ended March 31, 2016 and 2017, the Company generated total revenues ₱594 million and ₱617 million, respectively, and net income of ₱19 million and ₱27 million for the same periods. Shown below is the breakdown of contribution of each revenue stream.

	For the 12 months ended December 31			For the 3 months ended March 31	
	(Audited)			(Audited)	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Charter fees..	**45%**	**56%**	**52%**	**52%**	**43%**
Freight...	**28%**	**20%**	**23%**	**16%**	**20%**
Passage...	**20%**	**15%**	**16%**	**21%**	**26%**
Tugboats...	**7%**	**8%**	**8%**	**8%**	**10%**
Others..	**1%**	**1%**	**1%**	**1%**	**1%**

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna Corporation wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna Corporation. UIBV was incorporated on August 25, 1994. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM Holdings, Inc. ("**KGLI-NM**"), a domestic corporation which was incorporated on August 8, 2008. KGLI-NM holds 39.85% economic interest in and owns 60% of the voting stock in Negros Navigation Co., Inc. ("**Nenaco**"). KGLI-NM acquired such interests in Nenaco on May 13, 2008. Nenaco, in turn owns 88.31% of 2Go Group, Inc. ("**2Go**"). Hence, CLC has a 28.15% indirect economic interest in 2Go,

Nenaco acquired its interests in 2Go on December 28, 2010. UIBV is a private limited liability company organized under the Dutch Law. KGLI-NM was incorporated and registered with the Philippine SEC primarily as an investment holding company. Nenaco and 2Go are the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

CLC's consolidated audited financial statements as of December 31, 2016 will not be affected by the restatement of 2Go's 2015 and 2016 financial statements as disclosed on the PSE's Electronic Disclosure Generation Technology ("**PSE EDGE**") system on July 7, 2017. Furthermore, the consolidated audited financial statements of CLC as of March 31, 2017, and this Prospectus will not be affected as the 2Go investment is only reflected at the acquisition cost, given that such acquisition only occurred on March 27, 2017. Further, the 2015 and 2016 restated consolidated financial statements of 2Go Group, Inc. do not impact CLC's acquisition of the indirect ownership in 2Go as the valuation was based on the forward-looking EBITDA of 2Go. As the restatements are non-cash and non-recurring in nature, these do not affect 2Go's EBITDA. However, the pro forma balance of the investment in associate account in the Company's pro forma consolidated financial statements will decrease by approximately ₱384 million or about 2% of pro forma total assets as a result of the restatement in 2Go and Nenaco's consolidated financial statements. The Pro Forma Financial Statements of the Company for December 31, 2016 does not yet consider the restatement of 2Go's financial statement as the Company is still waiting for Nenaco's audited financial statements in order to proceed with its own review and consolidation.

The Issuer is not required to consolidate its investments in 2Go as the Issuer did not exercise control over 2Go as of March 31, 2017. PFRS 10, Consolidated Financial Statements, provides that *"an investor controls an investee if and only if the investor has all the following: (a) power over the investee; (b) exposure, or rights to, variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of investor's return"*.

While Mr. Dennis A. Uy, the Issuer's Founder and Chairman of the Board, was appointed as member of 2Go's Board of Directors on February 6, 2017, it was only upon the appointment of Mr. Uy as President and Chief Executive Officer of 2Go at the April 7, 2017 Board Meeting that the Issuer commenced to have control over 2Go's operations. Mr. Uy's appointment as a member of the Board of Directors only allows the Issuer to participate in the financial and operating policy decisions of 2Go and not exercise control. Accordingly, the Issuer's investment in 2Go is accounted for as an investment in an associate in accordance with PAS 28, *Investment in an Associate*.

In addition, the Issuer is not the single majority stockholder of 2Go as of March 31, 2017 as China-ASEAN Marine B.V. has 52.81% indirect ownership as against the effective ownership of the Issuer of only 28.15%. As such, the Issuer does not have "the ability to use its power over the investee to affect the amount of investor's returns".

Strengths

The Company believes that it has the following competitive strengths:

1. The Company has a classed fleet and an established preventive maintenance system and dry-docking program, which ensure optimal machinery performance and hull quality of its vessels.

2. CSC has the largest tanker fleet by tonnage with a total GRT of 39,271.64 (Source: MARINA).

3. The Company is led by an experienced management team with over 470 man years of experience in the shipping industry.

4. Aside from its affiliate P-H-O-E-N-I-X Petroleum Philippines, Inc., a publicly-listed company, CSC has an established customer base, which includes Cebu Pacific Air, Inc., Petron Corporation, Seaoil Philippines, Inc., Seagull Marine Pte. Ltd., and SMC Shipping & Lighterage Corporation.

5. The Company is the affiliate of Calaca Industrial Seaport Corp. (formerly "Phoenix Petroterminals and Industrial Park Corp."), which is the owner/ operator of a private port. This allows the Company to have exclusive tug operations and priority berthing at said port.

6. CSC has linkages with regional petroleum traders, such as Winson Oil Trading, which gives the Company opportunities to charter out its vessels.

7. CLC holds significant beneficial interest in 2Go.

Strategies

1. Establish regional presence by acquiring medium-range (MR) tanker for regional routes.

2. Re-fleeting and upgrade of vessels.

3. Expand into new routes currently not serviced by domestic vessels or by competitors.

4. Target acquisitions of other shipping and logistics companies.

5. Develop facilities that will support the core business.

The Company believes that the successful implementation of the above strategies will support its continued growth and profitability as it will increase the Company's market share and become the clear leader in the Philippine shipping industry.

Risks of Investing

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer Shares. Certain of these risks are discussed in the section entitled "*Risk Factors*" and include risks relating tos our business, risks relating to the Philippines, and risks relating to the Offer and the Offer Shares and in this Prospectus.

Company Information

CLC is a Philippine corporation with its principal address at Stella Hizon Reyes Road, Bo. Pampanga, Davao City 8000, Philippines, and office address at 26/F, Fort Legend Tower, 3rdAve. corner 31st St., Bonifacio Global City, Taguig City. CLC's telephone number is**:** +63 82 224 5373 (Davao), and +63 2 403 4015 (Taguig). Our website is: www.chelsealogistics.ph. The information on our website is not incorporated by reference into, and does not form a part of, this Prospectus.

Investor Relations Office

The Investor Relations Office will be tasked with the: (i) creation and implementation of an investor relations program that reaches out to all shareholders and informs them of corporate activities; and, (ii) formulation of a clear policy for accurately, effectively and sufficiently communicating and relating relevant information to CLC's stakeholders as well as to the broader investor community.

Daryl Eunika B. Maloles will head CLC's Investor Relations Office and will serve as the Company's designated Investor Relations Officer ("**IRO**") and her e-mail address is eunika.maloles@chelseashipping.ph.

The IRO will also be responsible for ensuring that the CLC's shareholders have timely and uniform access to official announcements, disclosures and market-sensitive information relating to the Company. As the CLC's officially designated spokesperson, the IRO will be responsible for receiving and responding to investor and shareholder queries. In addition, the IRO will oversee most aspects of the CLC's shareholder meetings, press conferences, investor briefings, management of the investor relations portion of the CLC's website and the preparation of its annual reports. The IRO will also be responsible for conveying information such as our policy on corporate governance and corporate social responsibility, as well as other qualitative aspects of our operations and performance.

Atty. Leandro Abarquez serves as our Compliance Officer with respect to disclosures and continuing requirements of the Philippine SEC and the PSE.

Our Investor Relations Office will be located at 26/F Fort Legend Tower, 3rd Ave. corner 31st St., Bonifacio Global City, Taguig City, and can be reached at +63 2 403 4015. Our investor relations website is: http://www.chelsealogistics.ph/investorrelations.

SUMMARY OF THE OFFER

The following does not purport to be a complete listing of all the rights, obligations, and privileges attaching to or arising from the Offer Shares. Some rights, obligations, or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of CLC and the Offer Shares. Each prospective investor must rely on its own appraisal of CLC and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Shares and must not rely solely on any statement or the significance, adequacy, or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis.

Issuer..	Chelsea Logistics Holdings Corp.
Issue Manager, Lead Underwriter and Sole Bookrunner	BDO Capital & Investment Corporation
Participating Underwriter	BA Investments and Holdings, Inc.
Underwriters...	BDO Capital & Investment Corporation, as Lead Underwriter, and the Participating Underwriter
Selling Agents..	Abacus Capital & Investment Corporation Asian Alliance Investment Corporation PNB Capital and Investment Corporation RCBC Capital Corporation United Coconut Planters Bank PSE Trading Participants
The Offer..	Offer of 546,593,000 Offer Shares (30% of CLC ownership) consisting of new common shares, to be issued and offered by CLC. 109,319,000 Offer Shares (or approximately 20% of the Offer Shares) are being allocated to all of the PSE Trading Participants at the Offer Price. Each PSE Trading Participant shall initially be allocated approximately 828,100 Offer Shares and subject to reallocation as may be determined by the PSE. 54,659,400 Offer Shares are being allocated to LSIs (or approximately 10% of the Offer Shares). The minimum subscription of LSIs shall be 1,000 shares or ₱10,680.00, while the maximum subscription shall be 9,300 or ₱ 99,324. There will be no discount on the Offer Price. The PSE approved the foregoing terms on July 19, 2017. Please refer to the implementing guidelines for Local Small Investors, which may be obtained from the Issue Manager, Lead Underwriter and Sole Bookrunner. Any Offer Shares allocated to the PSE Trading Participants and LSIs but not taken up by them will be distributed by the Underwriters to their respective clients, retail investors or the general public. Offer Shares not taken up by the Selling Agents, the Underwriters' clients, retail investors or the general public shall be purchased by the Underwriters pursuant to the terms and conditions of the Underwriting

	Agreement.
Offer Shares	546,593,000 new common shares with a par value of ₱1.00 per share, from CLC's authorized and unissued capital stock.
Offer Price	₱10.68 per Offer Share
Offer Period	The Offer Period shall commence at 9:00 a.m., Manila time, on July 24, 2017 and end at 12:00 p.m., Manila time, on July 31, 2017. CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner reserve the right to extend or terminate the Offer Period with the approval of the Philippine SEC and the PSE. Applications must be received by the Receiving Agent not later than 12:00 p.m., Manila time on July 31, 2017, whether filed through a participating Selling Agent or filed directly with the Underwriters. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to a participating Selling Agent, and shall be subject to the terms and conditions of the Offer as stated in this Prospectus and in the application. The actual purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE and upon the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled on or before the Listing Date in accordance with the provisions of such agreement.
Eligible Investors	The Offer Shares may be purchased by any natural person of legal age residing in the Philippines, regardless of nationality, or any corporation, association, partnership, trust account, fund or entity residing in and organized under the laws of the Philippines and/or licensed to do business in the Philippines, regardless of nationality, subject to CLC's right to reject an application or reduce the number of Offer Shares applied for subscription or purchase if the same will cause CLC to be in breach of the Philippine ownership requirements under relevant Philippine laws. See *"Description of the Shares - Foreign Ownership Limits"* on page 130 of this Prospectus.
Use of Proceeds	We intend to use the net proceeds from the Offer for the acquisition of new vessels and vessel equipment, port facilities, containers and terminal equipment, the acquisition of other shipping and logistics companies and general corporate purposes. See "*Use of Proceeds*" beginning on page 32 of this Prospectus for details on how the total new proceeds are expected to be applied.
Minimum Subscription	Each application must be for a minimum of 1,000 Offer Shares, and thereafter, in multiples of 100 Offer Shares. Applications for multiples of any other number of common shares may be rejected or adjusted to conform to the required multiple, at CLC's discretion.
No Offering of Secondary Shares	No secondary shares will be offered pursuant to Article III, Part D, Section 3(b) of the Consolidated Listing and

	Disclosure Rules of the PSE.
No Divestment of Shares in Operating Subsidiaries………………………………….	CLC is prohibited from divesting its shareholdings in its operating subsidiaries within a period of three (3) years from listing of the Shares, except when said divestment plan is duly approved by majority of CLC's stockholders.
Lock-up...	Under the PSE Consolidated Listing and Disclosure Rules, existing shareholders who own an equivalent of at least 10% of the issued and outstanding Shares as of the Listing Date cannot sell, assign or in any manner dispose of their Shares for a minimum period of 180 days after the Listing Date or 365 days after the Listing Date in case CLC is exempt from the track record and operating history requirements. In addition, all Shares issued or transferred and fully-paid within 180 days prior to the commencement of the Offer at an issue or transfer price less than the price per Offer Share shall be subject to a lock-up period of at least 365 days from the date that full payment is made on such Shares. A total of 1,275,384,606 Shares held by Udenna Corporation, and seven shares held by the CLC directors, will be subject to such 365-day lock-up period. To implement this lock-up requirement, the PSE requires the applicant company to lodge the shares with the PDTC through a Philippine Central Depository ("**PCD**") participant for the electronic lock-up of the shares or to enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution. See "*Principal Shareholders*" and "*Plan of Distribution— Lock-Up*" on pages 125 and 149, respectively of this Prospectus. CLC has agreed with the Issue Manager, Lead Underwriter and Sole Bookrunner that it will not issue, offer, pledge, sell, contract to sell, or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any common shares or securities convertible or exchangeable into or exercisable for any common shares or warrants or other rights to purchase common shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 days after the listing of the Offer Shares.
Listing and Trading..	CLC has filed an application with the Philippine SEC for the registration and an application with the PSE for the listing of all its issued and outstanding stock (including the Offer Shares). The Philippine SEC issued an Order of Effectivity and Permit to Sell on July 21, 2017 and the PSE approved the listing application on July 19, 2017, subject to compliance with certain listing conditions. All of the Offer Shares issued or to be issued are expected to be listed on the PSE under the symbol "CLC" See "*Description of the Shares*." All of the Offer Shares are expected to be listed on the PSE on or about August 8, 2017. Trading of the Offer Shares that are not subject to lock up is expected to commence on August 8, 2017.

Dividends	Each holder of Common Shares will be entitled to such dividends as may be declared by CLC's Board of Directors (the "**Board**" or "**Board of Directors**"), provided that any stock dividends declaration requires the approval of shareholders holding at least two-thirds of its total "outstanding capital stock." The Philippine Corporation Code has defined "outstanding capital stock" as the total shares of stock issued to subscribers or stockholders, whether paid in full or not, except for treasury shares. Dividends may be declared only from CLC's unrestricted retained earnings. Our current dividend policy provides for an annual dividend payment of at least 20% of the prior year's recurring Net Income based on the recommendations of the Board of Directors, subject to the requirements of applicable laws and regulations, the terms and conditions of our existing loan facilities, and the absence of circumstances that may restrict the payment of such dividends. See "*Dividends and Dividend Policy*" on page 35 of this Prospectus.
Registration and Lodgment of Shares with PDTC	The Offer Shares are required to be lodged with the PDTC. The applicant must provide the information required for the PDTC lodgment of the Offer Shares. The Offer Shares will be lodged with the PDTC at least two trading days prior to the Listing Date. The applicant may request to receive share certificates evidencing such applicant's investment in the Offer Shares through his/her broker after the Listing Date. Any expense to be incurred by such issuance of certificates shall be borne by the applicant.
Registration of Foreign Investments	The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP only if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "*Philippine Foreign Ownership and Foreign Exchange Controls*" on page 146 of this Prospectus.
Restriction on Issuance and Disposal of Shares	See "*Lock-up*" above.
Tax Considerations	See "*Philippine Taxation*" for further information on the Philippine tax consequences of the purchase, ownership and disposal of the Offer Shares on page 141 of this Prospectus.
Procedure for Application for the Offer	Application forms to purchase Offer Shares may be obtained from the Underwriters or from any participating PSE Trading Participant. Application forms will also be made available for download on our website. Applicants shall complete the application form, indicating all pertinent information such as the applicant's name, address, contact number, taxpayer's identification number, citizenship and all other information required in the application form. Applicant shall undertake to sign all documents and to do all necessary acts to enable them to be registered as holders of the Offer Shares. Failure to complete the application form

	may result in the rejection of the application. All Applications shall be evidenced by the application to purchase form, in quadruplicate, duly executed in each case by an authorized signatory of the applicant and accompanied by one completed signature card, which for applicants who are corporations, partnerships or trust accounts, should be authenticated by the corporate secretary (or managing partner in the case of a partnership), and the corresponding payment for the Offer Shares covered by the Application and all other required documents. The duly executed Application and required documents should be submitted during the Offer Period to the same office where it was obtained. If the applicant is a corporation, partnership or trust account, the Application must be accompanied by the following documents: 1. A certified true copy of the applicant's latest articles of incorporation and by-laws (or articles of partnership in the case of a partnership) and other constitutive documents (each as amended to date) duly certified by its corporate secretary (or managing partner in the case of a partnership); 2. A certified true copy of the applicant's Philippine SEC certificate of registration duly certified by its corporate secretary (or managing partner in the case of a partnership); and, 3. A duly notarized corporate secretary's certificate (or certificate of the managing partner in case of partnership) setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares indicated in the Application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying to the percentage of the applicant's capital or capital stock held by Philippine Nationals. Foreign corporate and institutional applicants who qualify as Eligible Investors, in addition to the documents listed above, are required to submit in quadruplicate, a representation and warranty stating that their purchase of the Offer Shares to which their Application relates will not violate the laws of their jurisdictions of incorporation or organization, and that they are allowed, under such laws, to acquire, purchase and hold the Offer Shares.
Payment Terms for the Offer	The purchase price must be paid in full in Pesos upon the submission of the duly completed and signed application form and signature card together with the requisite attachments. Payment for the Offer Shares shall be made either by: (i) a personal or corporate check drawn against an account with a BSP authorized bank at any of its branches located in Metro Manila; or, (ii) a manager's or cashier's check issued by an authorized bank; or, (iii) a debit-credit instruction via Real Time Gross Settlement ("**RTGS**") or direct bank fund transfer

	in favor of the relevant underwriter accepting the application. For PSE Trading Participants and LSI applicants, only Cashier's/Manager's, personal or corporate checks will be acceptable as valid mode of payment. Checks subject to clearing periods of over three banking days shall not be accepted. All checks should be made payable to "Chelsea Logistics Holdings Corp.," crossed "Payee's Account Only," and dated the same date as the application. The applications and the related payments will be received at any at any of the designated locations as specified in the PSE Trading Participant Guidelines and the LSI Guidelines, to be published by the PSE prior to the start of the Domestic Offer.
Acceptance or Rejection of Applications for the Offer	"Application to Subscribe" forms are subject to confirmation by the Issue Manager, Lead Underwriter and Sole Bookrunner and the final approval of CLC. CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner reserve the right to accept, reject or scale down the number and amount of Offer Shares covered by any application. CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner have the right to reallocate available Offer Shares in the event that the Offer Shares are insufficient to satisfy the total applications received. The Offer Shares will be allotted in such a manner as CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner may, in their sole discretion, deem appropriate, subject to distribution guidelines of the PSE. Applications with checks dishonored upon first presentation and "Application to Subscribe" forms, which do not comply with terms of the Offer will be automatically rejected. Notwithstanding the acceptance of any "Application to Subscribe" forms, the actual subscription of the Offer Shares by the applicant will be effective only upon the listing of the Offer Shares at the PSE.
Refunds for the Offer	In the event that the number of Offer Shares to be received by an applicant, as confirmed by the Issue Manager, Lead Underwriter and Sole Bookrunner, is less than the number covered by its application, or if an application is rejected by CLC, then the applicant is entitled to a refund, without interest, within five banking days from the end of the offer period or on July 31, 2017, of all or a portion of the applicant's payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be made through the Receiving Agent with whom the applicant has filed the application, at the applicant's risk.
Expected Timetable	The timetable of the Offer is expected to be as follows: Pricing and allocation of the Offer Shares .... July 20, 2017 Notice of final Offer Price to the Philippine SEC and PSE .... July 20, 2017 Start of the Offer Period .... July 24, 2017

PSE Trading Participants' Commitment Period	July 24 – 26, 2017
Submission of Firm Order and Commitments by PSE Trading Participants	July 26, 2017
LSI Offer Period	July 24 – 28, 2017
Deadline for LSI's Submission of Application	July 28, 2017
End of Offer Period for Trading Participants and Public	July 31, 2017
Settlement Date	August 8, 2017
Listing Date and Commencement of Trading on the PSE	August 8, 2017

The dates included above are subject to the approval of the PSE and the Philippine SEC, market and other conditions, and may be changed.

Risks of Investing ..... Prospective investors should carefully consider the risks associated with an investment in the Offer Shares before making an investment decision. Certain of these risks are discussed in the section of this Prospectus entitled "*Risk Factors*."

SUMMARY PRO FORMA FINANCIAL AND OPERATING INFORMATION

The following tables set forth the summary pro forma consolidated financial information for the Company and should be read in conjunction with the auditors' reports and the Company's pro forma consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus and the section entitled ―Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operation. Our Pro Forma Financial Information as of and for the year ended December 31, 2016 was derived from the Audited Consolidated Historical Financial Statements, adjusted to give effect to the Reorganization, the Operational Restructuring and the Offer as described under "Use of Proceeds" as if they had occurred on January 1, 2016.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The Pro Forma Financial Information does not purport to represent what our results of operations and those of our subsidiaries would actually have been had the Reorganization, the Operational Restructuring and the Offer in fact occurred on January 1, 2016, nor does it purport to project our results of operations and those of our subsidiaries for any future period or date. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information" on page vi of this Prospectus.

Pro Forma Income Statement

	December 31, 2016
NET SALES	1,638
COST OF SALES	1,261
GROSS PROFIT	377
GENERAL AND ADMINISTRATIVE EXPENSES	155
OTHER INCOME - Net	3,575
INCOME BEFORE TAX	3,797
TAX EXPENSE (INCOME)	4
NET INCOME	3,793

Pro Forma Balance Sheet

ASSETS	2016
CURRENT ASSETS	
Cash and cash equivalents	534
Trade and other receivables - net	945
Subscription receivable	350
Financial assets at fair value through profit or loss	11
Available-for-sale financial assets	3
Inventories	79
Advances to related parties	194
Other current assets	543
Total Current Assets	2,659
NON-CURRENT ASSETS	
Property and equipment - net	7,819
Investment in an associate and a joint venture	2,530
Goodwill	7,274
Post-employment benefit asset	5
Deferred tax assets	7
Other non-current assets - net	175
Total Non-current Assets	17,810
TOTAL ASSETS	20,469

LIABILITIES AND EQUITY	2016
CURRENT LIABILITIES	
Trade and other payables	1,359
Interest-bearing loans	5,029
Advances from related parties	86
Advances from customers	14
Deposits for future stock subscription	50
Income tax payable	76
Total Current Liabilities	6,614
NON-CURRENT LIABILITIES	
Interest-bearing loans	2,343
Post-employment benefit obligation	4
Deferred tax liabilities - net	224
Other non-current liabilities	14
Total Non-Current Liabilities	2,585
TOTAL LIABILITIES	9,199
TOTAL EQUITY	11,270
TOTAL LIABILITIES AND EQUITY	20,469

Pro Forma Statement of Cash Flows

	December 31, 2016
Net cash provided by operating activities......................................	(572)
Net cash used in investing activities......................................	(2,986)
Net cash provided by financing activities......................................	3,865
Effect of exchange rate changes on cash and cash equivalents...........	6
Net increase (decrease) in cash and cash equivalents...........	313
Cash and cash equivalents from acquired subsidiaries..................	166
Cash and cash equivalents at beginning of year.........................	55
Cash and cash equivalents at end of year..................................	534

SUMMARY HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables present the summary audited combined historical financial information for the Company for the years December 31, 2014, 2015 and 2016 and the three months ended March 31, 2016 and 2017 and should be read in conjunction with the independent auditors' reports and the Company's audited historical financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary audited combined historical financial information as of and for the years ended December 31, 2014, 2015 and 2016 and the three months ended March 31, 2016 and 2017 were derived from the Company's audited combined financial statements and audited historical financial statements, respectively, which were prepared in accordance with PFRS and were audited by Punongbayan & Araullo in accordance with the Philippine Standards on Auditing. The selected financial information below is not necessarily indicative of the results of future operations.

Summary Income Statement

	For the 12 months ended December 31 (Audited)			For the 3 months ended March 31 (Audited)	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
NET SALES	1,848	2,485	2,900	594	617
COST OF SALES					
Depreciation and amortization	323	445	599	125	163
Bunkering	579	672	494	106	70
Charter hire fees	70	348	227	70	27
Crew costs and benefits	124	164	318	54	65
Others	332	351	516	111	124
	1,428	1,980	2,154	467	449
GROSS PROFIT	420	505	746	128	168
GENERAL AND ADMINISTRATIVE EXPENSES	152	171	265	47	70
OTHER CHARGES - Net	(153)	(222)	(273)	(45)	(60)
INCOME BEFORE TAX	115	112	208	36	38
TAX EXPENSE (INCOME)	(24)	14	76	17	11
NET INCOME	139	98	132	19	27

Summary Statement of Financial Position

	(Audited)			
	December 31,			March 31
	2014	2015	2016	2017
		(millions)		
Current Assets	938	1,190	2,634	2,055
Non-Current Assets	5,459	6,054	8,126	14,348
TOTAL ASSETS	6,397	7,244	10,760	16,403
Current Liabilities	2,313	3,001	6,614	6,323
Non-Current Liabilities	1,836	1,704	2,585	2,446
Total Liabilities	4,149	4,705	9,199	8,769
Total Equity	2,248	2,539	1,561	7,634
TOTAL LIABILITIES AND EQUITY	6,397	7,244	10,760	16,403

Summary Statement of Cash Flows

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Net cash provided by operating activities	450	848	(195)	432	306
Net cash used in investing activities	(1,342)	(859)	(1,797)	(374)	(121)
Net cash provided by financing activities	822	190	2,136	(346)	(267)
Effect of exchange rate changes on cash and cash equivalents	-	-	5	(17)	(4)
Net increase (decrease) in cash and cash equivalents	(70)	179	149	(306)	(85)
Cash and cash equivalents at beginning of year	251	181	360	509	360
Cash and cash equivalents at end of year	181	360	509	203	275

	As of December 31			As of March 31
	2014	2015	2016	2017*
No. of Vessels				
Tankers.......................................	**8**	**8**	**11**	**11**
Barges.......................................	**4**	**4**	**4**	**4**
Tugboats....................................	**7**	**7**	**6**	**8**
Roll-on/Roll-off (RoPax)...............	**8**	**6**	**7**	**7**
Roll-on/Roll-off (Cargo)................	**1**	**2**	**3**	**3**
Total...	**28**	**27**	**31**	**33**

** Excluding 2Go fleet of 18 RoPax and 8 cargo vessels*

Key Performance Indicators

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
Gross Profit Ratio............................	**23%**	**20%**	**26%**	**21%**	**27%**
Debt to Equity Ratio........................	**1.85**	**1.85**	**5.89**	**5.89**	**1.15**
EBITDA..	**580**	**735**	**1,018**	**207**	**290**
EBITDA Margin.............................	**31%**	**30%**	**35%**	**35%**	**47%**
ROE (%)..	**6%**	**4%**	**8%**	**1%**	**0%**

Notes:

(1) Gross profit ratio is derived by dividing gross profit over revenues.

(2) Debt to equity ratio is computed by dividing total liabilities by total equity.

(3) EBITDA is computed as net income, excluding interest income, before interest expenses, provision for income taxes, depreciation and amortization. The table below sets forth further information with respect to the computation of EBITDA for the years ended December 31, 2014, 2015 and 2016 and for the three months ended March 31, 2016 and 2017:

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
	(millions)				
Net income......................................	**139**	**99**	**132**	**19**	**27**
Add:					
Tax expense (income)................	**(24)**	**14**	**76**	**17**	**11**
Interest expense.........................	**135**	**170**	**203**	**46**	**87**
Depreciation and amortization....	**331**	**454**	**609**	**127**	**166**
Less:					
Interest income..........................	**(1)**	**(2)**	**(2)**	**(1)**	**(1)**
EBITDA	**580**	**735**	**1,018**	**208**	**290**

(4) EBITDA margin is computed as EBITDA divided by Revenue.

(5) ROE is computed as Net Income divided by Total Equity (actual, not annualized).

RISK FACTORS

An investment in the Offer Shares involves a number of risks. You should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Our past performance is not a guide to our future performance. There may be a large difference between the buying price and the selling price of the Offer Shares and there is an additional risk of loss of investment when securities are purchased from smaller companies. For investors that deal in a range of investments, each investment carries a different level of risk.

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have an adverse effect on our business prospects, financial condition, results of operation, the market price of the Offer Shares and our ability to make dividend distributions to our shareholders. All or part of an investment in the Offer Shares could be lost.

The means by which we intend to address the risk factors discussed herein are principally presented under "Business" beginning on page 75, "Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 43, and "Board of Directors and Senior Management - Corporate Governance" on page 116 of this Prospectus. We believe that our efforts to manage the risks relating to our business will help to alleviate the risks relating to the Philippines that we have not specifically addressed.

This risk factors discussion does not purport to disclose all of the risks and other significant aspects of investing in the Offer Shares. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information about us from the Philippine SEC. An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of this Offer or the nature of risks involved in purchasing, holding and trading the Shares. Each investor should consult his or her own counsel, accountant and other advisors as to the legal, tax, business, financial and related aspects of an investment in the Shares.

The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only.

Risks Relating to Our Business

The Company may experience difficulty in implementing its growth strategy.

The Company may experience difficulty in implementing its growth strategy brought about by unsuccessful expansion through acquisition and failure of existing vessels to benefit from the current favourable economic environment. In addition, new vessels may place a greater burden on its existing resources and adversely affect its business as it faces the risk of market saturation brought about by increased competition from other shipping companies in the Philippines. The Company has conducted its due diligence of other shipping and logistics companies targeted for acquisition and thus, it is certain that the planned acquisition will be completed within the year. These acquisitions are subject to certain governmental approval such as the, Philippine Competition Commission, as may be necessary. The Company's vessels are newer, classed and better-maintained under its preventive maintenance program and thus, the Company is confident that customers will prefer to charter its vessels over that of the competitors.

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

Due to the nature of the shipping industry, the risk of collision is real. Collisions may result in extensive damage to a vessel's hull, increasing its susceptibility to taking on water, which may result in the integrity of the vessel being compromised or even result in a complete loss of the vessel, environmental pollution, loss of life and damage to properties. Furthermore, when vessels are docked, they are secured to the harbor by use of the anchor, and a rope tied between the ship's stern and the berth. In times of strong winds and constant rain, these harnesses may break, thereby risking the safety of the ship.

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

The Company's operations are susceptible to acts of piracy and terrorism.

The Company owns a variety of ships, including tankers, tug boats and RoPax. These ships are potential targets of maritime pirates and terrorists. The Company works closely with the Philippine Coast Guard, Philippine National Police and other government agencies, to obtain timely information relating to security risks to its vessels. The Company also maintains insurance policies with top insurance providers for its vessel fleet to shield the Company from losses arising from vessel damage, including war-risk coverage for vessels deployed at high-risk areas.

The Company has also organized its internal security department, which regularly assesses the security situation in the areas of operation, and recommends measures to enhance the safety and security of the Company's vessels.

The Company's level of indebtedness may have a material adverse effect on its financial condition.

Due to the financing of vessels and working capital, the Company's borrowing remains elevated. Although CLC's strong operating cash flows are expected to be sufficient to service these obligations, risks arise if there is a general economic slowdown that may impact the Company's financial performance. This might affect the Company's ability to service its interest and debt obligations. The leverage also opens the Company to interest rate risks and potential restrictions from bank covenants that might limit the group's ability to pursue favourable business and investment opportunities. To mitigate this risk, the Company practices sound and prudent financial management to ensure a strong balance sheet and prompt settlement of obligations as they become due. Furthermore, the parent company may infuse additional capital in CLC to improve its gearing ratio.

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

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

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

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

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

The shipping industry is highly competitive.

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

Volatility of fuel prices impacts the operations of the Company.

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

Scarcity of technically skilled officers and crew.

Based on the 2015 Overseas Employment Statistics of the Philippine Overseas Employment Administration, the Philippines deployed 2.34 million nationals for employment overseas, of which 22.19% are in the maritime industry. Of this number, 21.87% were employed by companies in the maritime industry. The Company’s boat captains, engineers, and crewmen are prime candidates for overseas employment. Given the technical expertise and experience necessary in operating vessels, foreign companies seek to recruit personnel from the Philippine shipping industry.

Sourcing of officers and crew for its vessels is a challenge for the Company, as it has to compete with foreign shipping companies that offer superior compensation packages against which the Company's offer pales. To ensure the continuous supply of officers and crew, the Company offers a cadetship program for officers and ratings, and has partnered with an established maritime training school. The Company also periodically evaluates its employees’ compensation packages and overall job satisfaction.

Difficulty of sourcing of vessels appropriate for our operations.

The Company currently sources most of its vessels, whether brand new or used, from suppliers in China, Japan and Korea. Delay in construction and delivery of these vessels may affect the Company’s operational capacity. Sourcing of second-hand vessels is also becoming competitive. The Company has engaged the services of top shipbrokers in the region to assist in sourcing required vessels. The Company also maintains a pool of third party vessels readily available for hire to augment its fleet.

Possible inadequacy of insurance and indemnity coverage.

The current insurance and indemnity coverage of the Company may not be sufficient to adequately cover its potential losses or indemnity claims. In such an event, the Company is exposed to additional expenses and cash outlays to fully settle such losses and claims. At present, the Company conducts a careful evaluation of its vessels to ensure that vessels are adequately covered by insurance. The key criteria that the Company employs in determining insurance coverage are age, area of operations of vessel, and results of conditional evaluation on vessels over 20 years.

Changes in legal and regulatory environment.

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

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

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

Risks Relating to the Philippines

The Philippine economy and business environment may be disrupted by political or social instability.

The Philippines has experienced severe political and social instability, including acts of political violence. In 2001, allegations of corruption against former President Joseph Estrada resulted in protracted impeachment proceedings against him, and his eventual resignation. On July 27, 2003, over 270 military officers and soldiers conducted an unsuccessful coup d'état against Estrada's successor, President Gloria Macapagal-Arroyo, due to allegations of corruption. On February 24, 2006, another attempted *coup d'état* led President Arroyo to issue Proclamation 1017, portions of which were however declared unconstitutional by the Supreme Court of the Philippines. On November 29, 2007, Antonio Trillanes IV, a leader of the 2003 coup d'état who was elected to the Senate while in jail, led an armed occupation by military officers and soldiers of a luxury hotel in the Makati financial district and publicly called for President Arroyo's ouster. Senator Trillanes and his troops later surrendered.

On November 23, 2009, in the southern island of Mindanao's Maguindanao Province, approximately 100 armed men allegedly affiliated with the Ampatuan political family murdered 58 persons, including members of the Mangudadatu family (the Ampatuans' political rivals in the province), lawyers, journalists and aides accompanying them. President Arroyo sent hundreds of troops to and declared martial law over Maguindanao after the incident, the declaration of which has subsequently been lifted. On December 12, 2011, the Philippine House of Representatives initiated impeachment proceedings against Renato Corona, Chief Justice of the Supreme Court of the Philippines on charges of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials. The trial of Chief Justice Corona began in January 2012 and on May 29, 2012, the impeachment court found Corona guilty of failing to disclose to the public his statement of assets, liabilities and net worth and removed Corona from his position as Chief Justice of the Supreme Court of the Philippines. More recently, on September 2, 2016, a night market in Davao City was bombed killing at least 14 people and injuring more than 60 people. Also more than 1,000 alleged drug dealers and users have been in killed in police operations, and more than 1,300 drug dealers and drug users have been killed by supposed vigilantes. There is no guarantee that future events will not cause political instability in the Philippines. Such instability may disrupt the economy of the country and could materially and adversely affect our business, prospects, financial condition and results of operations.

The Philippine Presidential election was held on 9 May 2016, and any political instability resulting from such election in the Philippines may adversely affect our business, results of operations and financial condition.

Rodrigo R. Duterte was elected President of the Philippines after the presidential election held on May 9, 2016. The change in the administration of the Philippine government is a period of transition, which may bring about political or social uncertainty and instability, albeit temporarily. Further, there can be no assurance that the new administration will continue to implement the economic policies of the previous administration. While we believe the outcome of the elections has generally been positively received by the business community and business activity has returned to pre-election levels, any of the foregoing could have an adverse effect on the Philippine economy or our business, prospects, financial condition and results of operations.

Acts of terrorism in the Philippines could destabilize the country and could have a material adverse effect on our business, prospects, financial condition and results of operations.

The Philippines has been subject to a number of terrorist attacks since 2000. The Philippine army has been in conflict with the Abu Sayyaf organization, which has been identified as being responsible for kidnapping and terrorist activities in the Philippines and is said to have links to Al-Qaeda and ISIS. Moreover, isolated bombings have taken place in the Philippines, mainly in cities in the southern part of the country, such as the Province of Maguindanao. On January 25, 2011, a bomb was detonated on a bus in the northern city of Makati, Metro Manila, killing five persons. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

The Government and the Armed Forces of the Philippines (**"AFP"**) have clashed with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front (**"MILF"**), the Moro National Liberation Front (**"MNLF"**) and the New People's Army (**"NPA"**). On October 19, 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. On December 16, 2011, five AFP soldiers were killed in a clash with NPA members. In September 2013, MNLF members seized hostages in Zamboanga City, leading to a standoff and clashes with AFP troops. More than 50 people have been killed since these clashes began. On January 25, 2015, 44 members of the Special Action Force of the Philippine National Police were killed in an operation intended to capture or kill wanted Malaysian terrorist and bomb-maker Zulkifli Abdhir and other Malaysian terrorists and/or high-ranking members of the Bangsamoro Islamic Freedom Fighters and the MILF. On May 23, 2017, a firefight between the government troops and the Maute group took place in Barangay Malutlut, Marawi City after a joint operation of the Armed Forces of the Philippines and Philippine National Police was launched in Marawi City to capture terrorist leader Isnilon Hapilon. Hapilon is believed to be the Islamic State's (**"ISIS"**) leader in Southeast Asia. By the end of the day, President Rodrigo Duterte declared martial law in the entire Mindanao. These continued conflicts between the Government and separatist groups could lead to further injuries or deaths of civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

Risks Related to Maritime Terrorism and Piracy

The vast and largely unguarded seas in the southern part of the country are an area that terrorists and pirates actively seek to pursue their moneymaking activities. The Philippines has been identified as among countries increasingly under threat from maritime terrorist attacks. International Maritime Bureau (**"IMB"**) has also identified Manila as among 26 city ports and anchorages vulnerable to such attacks.

The latest terrorist incident in the Philippines happened on October 3, 2012 in Surigao del Norte Province. The communist NPA, attacked three (3) mining companies and burned equipment, vehicles, and facilities of Taganito Mining Corporation, Taganito HPAL Nickel Corporation and Platinum Group Metals Corporation in the town of Claver. These NPA rebels, disguised as Philippine military men, also bombed M/V Con Carrier 7, which is a cargo ship of Aleson Shipping docked at Taganito Mining Port, after ordering 19 crew members to disembark the ship before it was bombed.

On March 23, 2017, two officers of Super Shuttle 9 were seized aboard a tugboat. Joint forces of the Philippine military, police and local government of Basilan rescued both victims four days after. The bandit group reportedly released the officers due to intense military pressure against them. One Abu Sayyaf member was reportedly killed during the search and rescue operations conducted.

To date, the Abu Sayyaf Group is responsible for the most destructive maritime terrorist act in modern history; the bombing attack on Super Ferry 14 in Manila Bay in February 2004, which killed 116 people. In order to formulate and implement effective countermeasures, policymakers must be able to distinguish maritime terrorism from piracy. The Coast Guard is responsible for the maritime security in the country.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea (**"UNCLOS"**). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes. Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused one another of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal during the late spring and summer of 2012. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. Despite the Chinese Government's decision not to participate in the proceedings, a five-member arbitral tribunal was constituted (the "Tribunal"). Last July 2016, the Tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that China's "nine-dash line" claim is invalid. Despite the decision, the Chinese Government has maintained its position that the Tribunal has no jurisdiction over the dispute, and thus, the decision is not binding on the Chinese Government. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. China may also seek to suspend visits by Chinese citizens to the Philippines, or Chinese citizens may choose not to the visit the Philippines as a result of these disputes.

In early March 2013, several hundred armed Filipino-Muslim followers of Sultan Jamalul Kiram III, the self-proclaimed Sultan of Sulu from the south of the Philippines, illegally entered Lahad Datu, Sabah, Malaysia in a bid to enforce the Sultan of Sulu's historical claim on the territory. As a result of the illegal entry, these followers engaged in a three-week standoff with the Malaysian armed forces, resulting in casualties on both sides. Since then, the Malaysian Government has mounted a military operation to secure Lahad Datu, and Malaysian authorities continue to search for members of the Sultan of Sulu's army, which are suspected to be hiding in certain villages. Clashes that began on March 1, 2013 killed 98 Filipino-Muslims, and 10 Malaysian policemen. About 4,000 Filipino-Muslims working in Sabah have returned to the southern Philippines. Recent reports in the press quoted the Malaysian Defence Minister stating that at least 35 armed men were shot dead by the AFP while trying to enter Sabah, which has not been confirmed by the AFP. Any such impact from these disputes could materially and adversely affect our business, financial condition and results of operations.

The occurrence of natural disasters or other catastrophes, severe weather conditions, or outbreaks of contagious diseases may adversely affect the Philippine economy and disrupt the Company's operations.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, floods, volcanic eruptions and earthquakes. In the past, these events have affected our operating results. There can be no assurance that the occurrence of such catastrophes will not materially disrupt our operations in the future. We could experience property loss as a result of any such catastrophes and might not be able to rebuild or restore operations immediately. We maintain third-party insurance covering hull and machinery breakdown and natural disasters such as fires, floods, typhoons and earthquakes, but we do not maintain business interruption insurance. Therefore, the occurrence of natural or other catastrophes or severe weather conditions could have an adverse effect on our business, financial condition and results of operations.

In 2003, Taiwan, the People's Republic of China, Singapore and other countries experienced an outbreak of Severe Acute Respiratory Syndrome (**"SARS"**), which adversely affected the economies of many countries in Asia, including the Philippines. In addition, since late 2003, a number of countries in Asia, including the Philippines, as well as countries in other parts of the world, had confirmed cases of the highly pathogenic H5N1 strain of the avian influenza virus in birds. These cases severely affected the poultry and related industries and resulted in the death or culling of large stocks of poultry. In addition, certain countries in Southeast Asia have reported cases of bird to human transmission of avian influenza resulting in numerous human deaths. In 2009, a new strain of the H5N1 influenza virus, known as swine flu, was found to have been transmitted to humans. Following an initial outbreak in Mexico, swine flu has been contracted by humans around the world, including Southeast Asia, causing death in some instances. The contagious nature and global reach of this disease led the World Health Organization to describe the outbreak as a pandemic.

Avian influenza, swine flu and SARS outbreaks have adversely affected, and any future outbreaks of these diseases or other contagious diseases could adversely affect, the Philippine economy and economic activity in the region and could have an adverse effect on our business, prospects, financial condition and results of operations.

As our operations are concentrated in the Philippines, any downturn in general economic conditions in the Philippines could have a material adverse impact on our business operations.

A substantial portion of our revenue is sourced from the Philippines and for this reason our operations, financial condition and business prospects are subject to a significant degree to the general state of the Philippine economy. In the past, the Philippines experienced periods of slow or negative growth, high inflation, significant devaluation of the Peso and the imposition of exchange controls. In addition, the global financial, credit and currency markets have, since the second half of 2007, experienced and may continue to experience, significant dislocations and liquidity disruptions. Slowdown in the economies of the United States, the European Union and certain Asian countries have affected, and may adversely affect in the future, economic growth in the Philippines.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally. This, in turn, could materially and adversely affect our financial condition and results of operations, and our ability to implement our business strategy and expansion plans.

Shareholders may be subject to limitations on minority shareholders' rights.

The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those that are available in certain other countries, such as the United States or United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries. The Philippine Corporation Code provides for minimum minority shareholders protection in certain instances wherein a vote by the shareholders representing at least two-thirds of our outstanding capital stock is required. The Philippine Corporation Code also grants shareholders an appraisal right allowing a dissenting shareholder to require the corporation to purchase his shares in certain instances. Derivative actions, while permitted under the Philippine Corporation Code and governed by the Interim Rules of Procedure Governing Intra-Corporate Controversies (A.M. No. 01-2-04-SC), are rarely brought on behalf of Philippine companies. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies.

Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. The Philippines' long-term foreign currency-denominated debt was upgraded by Fitch to the investment-grade rating of BBB- in March 2013 (who revised its outlook from stable to positive in September 2015), by Standard & Poor's to the investment-grade rating of BBB Stable in May 2014 and by Moody's to the investment-grade rating of Baa2 Stable in December 2014. However, no assurance can be given that Fitch, Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies, including us. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including us, to raise additional financing, and on the interest rates and other commercial terms at which such additional financing is available.

Investors may face difficulties enforcing judgments against CLC.

It may be difficult for investors to enforce judgments against CLC obtained outside of the Philippines. In addition, all of the directors and officers of CLC are residents of the Philippines, and all or substantial portions of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction; (ii) the judgment is contrary to the laws, public policy, customs or public order of the Philippines; (iii) the party against whom enforcement is sought did not receive notice; or, (iv) the rendering of the judgment entailed collusion, fraud, or a clear mistake of law or fact.

Risks Related to the Offer and the Offer Shares

There has been no prior market for the Shares, so there may be no liquidity in the market for the Offer Shares and the price of the Offer Shares may fall.

As there has been no prior trading in the Shares, there can be no assurance that an active market for the Offer Shares will develop following the Offer or, if developed, that such market will be sustained.

The Offer Price has been determined after taking into consideration a number of factors including, but not limited to, our prospects, the market prices for shares of companies engaged in related businesses similar to that of our business and prevailing market conditions. The price at which the Shares will trade on the PSE at any point in time after the Offer may vary significantly from the Offer Price.

The market price of the Shares may be volatile, which could cause the value of investors' investments in the Shares to decline.

The market price of Shares could be affected by several factors, including:

1. General market, political and economic conditions;

2. Changes in earnings estimates and recommendations by financial analysts;

3. Changes in market valuations of listed stocks in general and other retail stocks in particular;

4. The market value of our assets;

5. Changes to Government policy, legislation or regulations; and

6. General operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Shares.

In part as a result of the global economic downturn, the global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Shares.

There can be no guarantee that the Offer Shares will be listed on the PSE.

Purchasers of Offer Shares will be required to pay for such Offer Shares on the Settlement Date, which is expected to be on or about August 8, 2017. There can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares onto the PSE, the market for the Offer Shares will be illiquid and shareholders may not be able to trade the Offer Shares. This may materially and adversely affect the value of the Offer Shares.

Investors may incur immediate and substantial dilution as a result of purchasing Shares in the Offer.

The issue price of the Shares in the Offer may be substantially higher than the net tangible book value of net assets per share of the outstanding Shares. Therefore, purchasers of Shares in the Offer may experience immediate and substantial dilution and our existing shareholders may experience a material increase in the net tangible book value of net assets per share of the Shares they own. See "*Dilution*" beginning on page 39 of this Prospectus.

Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.

Our corporate affairs are governed by our Articles of Incorporation and By-laws and the Philippine Corporation Code. The laws of the Philippines relating to the protection of interests of minority shareholders differ in some respects from those established under the laws of more developed countries. The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries.

The Philippine Corporation Code, however, provides for minimum minority shareholders protection in certain instances wherein a vote by the shareholders representing at least two-thirds of CLC's outstanding capital stock is required. See "*Description of the Shares—Fundamental Matters*" on page 135 of this Prospectus. The Philippine Corporation Code also grants shareholders an appraisal right allowing a dissenting shareholder to require the corporation to purchase his shares in certain instances. See "*Description of the Shares—Rights Relating to Shares—Appraisal Rights*" on page 131 of this Prospectus. Derivative actions are rarely brought on behalf of companies in the Philippines. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

The Offer Shares may not be a suitable investment for all investors.

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should have:

1. Ample knowledge and experience to make a meaningful evaluation of the Company and its business, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus;

2. Access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;

3. Sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency;

4. An understanding and familiarity with the behavior of any relevant financial markets; and,

5. Capability to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Future changes in the value of the Philippine peso against the U.S. dollar or other currencies will affect the foreign currency equivalent of the value of our common shares and any dividends.

The price of our common shares is denominated in Philippine peso. Fluctuations in the exchange rate between the peso and other currencies will affect the foreign currency equivalent of the peso price of our common shares on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in pesos by us on, and the peso proceeds received from any sales of, the Offer Shares.

CLC may be unable to pay dividends on its common shares.

There is no assurance that CLC can or will declare dividends on its common shares in the future. Future dividends, if any, will be at the discretion of our board of directors and will depend upon our future results of operations and general financial condition, capital requirements, ability to receive dividends and other distributions and payments from our subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations, and other factors our board of directors may deem relevant.

The sale or possible sale of a substantial number of common shares in any private or public sales following the Offer could adversely affect the price of the common shares.

Any future issue or sale of CLC's common shares, the disposal of its common shares by any of its major stockholders or the perception that such issuances, sales or disposals may occur may have a downward pressure on its common shares' price and there can be no assurance that such issuances, sales or disposals will not take place. To the extent further new common shares are issued, there may be dilution to existing holders of our common shares.

Repatriation of dividends denominated in currencies other than Pesos may be subject to certain restrictions.

Under BSP regulations, Philippine residents may, in general, freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange within the Philippine banking system. In particular, a foreign investment must be registered with the BSP if foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon shall be sourced from the Philippine banking system.

Certain information contained herein is derived from unofficial publications.

Certain information in this Prospectus relating to the Philippines, the industry in which we compete and the markets in which we operate, including statistics relating to market size, is derived from various government and private publications. Similarly, we, and the Issue Manager, Lead Underwriter and Sole Bookrunner have not independently verified industry forecasts and other market research data, which may not be accurate, complete, up to date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

USE OF PROCEEDS

The total proceeds from the sale of Offer Shares will be approximately Five Billion Eight Hundred Thirty Seven Million Six Hundred Thirteen Thousand Two Hundred Forty Pesos (₱5,837,613,240). CLC estimates that the net proceeds from the sale of Offer Shares will be approximately ₱5,503,321,444.00 after deducting the applicable underwriting fees, costs and expenses for the Offer payable by us as shown below.

Particulars	Estimated Amounts (₱ million)
Estimated Total Proceeds from the Offer	**5,837,613,240**
Estimated Expenses:	
Underwriting and selling fees for the offer of the Primary Shares (including fees to be paid to the Issue Manager, Lead Underwriter and Sole Bookrunner)	168,983,541
Fees to be paid to the PSE Trading Participants	13,076,302
Taxes to be paid	119,485,230
Philippine SEC Registration, Filing and Legal Research Fees	2,911,840
PSE Listing and Processing Fees	19,296,884
Professional Fees (including legal, accounting and financial advisory fees)	9,538,000
Other Expenses	1,000,000
Total Estimated Expenses	**334,291,796**
Estimated Net Proceeds from the Offer	**5,503,321,444**

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts indicated above. The estimated amounts used to determine the estimated net proceeds are presented in this Prospectus for convenience only.

Details on the proposed use of the net proceeds, based on the Offer Price of ₱10.68 per Offer Share, are as follows:

Use of Proceeds	Estimated Amounts (₱ million)	%to Net Proceeds	Estimated Timing of Disbursement
Acquisition of new vessels and vessel equipment	1,783	32.40%	September 2017
Acquisition of port facilities, containers and terminal equipment	245	4.45%	September 2017
Acquisition of other shipping and logistics companies	3,200	58.15%	August 2017
General corporate purposes	275	5.00%	Throughout 2017
Estimated Net Proceeds	**5,503**	100.00%	

Approximately 32.40% of the net proceeds or ₱1,783,000,000 from the sale of Offer Shares will be used to fund capital expenditures for fleet expansion. This includes the acquisition of a medium-range (MR) tanker with a total estimated cost of $35 to $50 million. An MR tanker, which is a 44,000 to 55,000 DWT vessel and can carry up to 45 to 55 million liters of bunker fuel, is expected to be acquired by CSC in September 2017. The acquisition of the MR tanker will establish CSC's regional presence in shipping and will service the requirements of Phoenix Petroleum Philippines, Inc. in importing its fuel inventories from Taiwan, Indonesia or Singapore to the Philippines.

Trans-Asia Shipping also plans to acquire two (2) cargo vessels configured to the preference of cargo owners. Each vessel has an estimated GRT of 6,000 to 6,500, length of up to 110 meters and depth of about 10 to 15 meters. These vessels will provide additional capacity of up to 1,000 TEUs in Trans-Asia Shipping's fleet. The acquisitions of these vessels, with a total estimated cost of ₱550,000,000 are expected to be completed in September 2017.

A part of the proceeds or approximately ₱245,000,000 will be used to develop facilities to support the core business of the Company. These include the acquisition and/or upgrade of ports, port facilities, containers, machineries and equipment and a shipyard as these activities are projected to reduce operational costs and improve efficiencies for the Company.

Throughout the years, the Company has grown not only internally, but through business acquisitions as well. As such, CLC continues to look into the prospects of acquiring other shipping and logistics companies to expand its market reach, in addition to the Company's planned fleet expansion. About ₱3,200,000,000 of the net proceeds from the Offer will be utilized to acquire and expand CLC's interests in other shipping and logistics companies, subject to compliance with regulatory approvals and requirements. CLC is currently in the process of performing due diligence procedures related to the acquisition of two shipping companies, which are involved in the same core business as that of Trans-Asia Shipping. CLC will use a portion of the estimated ₱3,200,000,000 equivalent to US$20,000,000 or approximately ₱1,000,000,000 for the prepayment of any outstanding balance of amounts drawn from the US$220,000,000[1] credit line from Bank of China Ltd. ("Bank of China"). CLC has earmarked proceeds from the Bank of China loan for its acquisition and expansion of interests in other shipping and logistics companies. Bank of China will not act as underwriter, bookrunner, or issue manager for the Offer. Approximately, ₱2,200,000,000 is allocated to partially finance the acquisition of the remaining 20% stake of NHMC in KGLI-NM and for the tender offer of NNC and 2Go shareholders while the remaining balance represents the equity component of the acquisition of a shipping company currently undergoing due diligence. In sum, the Company intends to use the ₱3,200,000,000 as follows: (i) ₱2,200,000,000 to partially finance the acquisition of the remaining 20% stake of NHMC in KGLI-NM and, (ii) ₱1,000,000,000 for the prepayment of any outstanding balance of amounts drawn from the US$220,000,000 credit line from Bank of China.

Should the acquisition of the remaining 20% stake in KGLI-NM not push through due to failure to obtain regulatory approval or any negative findings on our financial and tax due diligence, we shall look for other companies available in the market or reallocate the proceeds for the acquisition of vessels as part of the refleeting program.

Finally, the balance of the net proceeds of the Offer in the amount of approximately ₱275,000,000 will be used for general corporate purposes, including but not limited to, payment of drydocking expenses, payment of trade payables (fuel, lubes, spare parts, etc.) and other use for the Company's working capital requirements.

The proposed use of proceeds described above represents best estimates of the use of net proceeds of the Firm Offer based on our current plans and expenditures. Other than as described above, no part of the net proceeds from the Firm Offer shall be used to acquire assets outside of the ordinary course of business, or to reimburse any officer, director, employee or shareholder of the Company for services rendered, assets previously transferred, money loaned or advanced, or otherwise. The actual amount and timing of disbursement of the net proceeds from the Firm Offer for the uses stated above will depend on various factors which include, among others, changing market conditions or new information regarding the cost or feasibility of our expansion projects. Our cost estimates may change as we develop our plans, and actual costs may be different from our

[1] CLC signed a US$220-million bridge loan agreement with Bank of China Ltd. in May 2017, of which US$120 million has been availed. The loan bears interest at LIBOR plus 320bps per annum and is payable in one year. The loan is secured by Nenaco shares held by KGLI-NM, a corporate guaranty by Udenna Corp. and individual surety of spouses Dennis A. Uy and Cherylyn C. Uy.

budgeted costs. To the extent that the net proceeds from the Firm Offer are not immediately applied to the above purposes, we will invest the net proceeds in interest-bearing short-term demand deposits and/or money market instruments, and/or repay existing debt. None of the proceeds will be used to pay for any debt owed to the Issue Manager, Lead Underwriter and Sole Bookrunner.

In the event that the actual proceeds from the Offer be less than the expected proceeds, the planned acquisitions will be financed through the Company's existing bank lines.

In the event of any deviation, adjustment or reallocation in the planned use of proceeds, we shall inform the PSE in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by our Board of Directors and disclosed to the PSE. In addition, we shall submit via the PSE EDGE the following disclosure to ensure transparency in the use of proceeds:

1. Any disbursements made in connection with the planned use of proceeds from the Firm Offer;

2. Quarterly progress report on the application of the proceeds from the Firm Offer on or before the first 15 days of the following quarter; the quarterly progress reports should be certified by the CLC's Chief Financial Officer or Treasurer and external auditor;

3. Annual summary of the application of the proceeds on or before January 31 of the following year, which will be certified by our Chief Financial Officer or Treasurer and external auditor; and,

4. Approval by our Board of Directors of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by CLC at least 30 days prior to the said actual disbursement or implementation.

The quarterly and annual reports required in items 2 and 3 above must include a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any. The detailed explanation must state the approval of our Board of Directors as required in item 4 above. We will submit an external auditor's certification of the accuracy of the information reported by us to the PSE in our quarterly and annual reports.

DIVIDENDS AND DIVIDEND POLICY

Limitations and Requirements

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation that have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC. The approval of our Board of Directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends, which requires the approval of stockholders representing not less than two-thirds of the outstanding capital stock at a regular or special meeting duly called for the purpose. From time to time, CLC may re-allocate capital among its subsidiaries depending on its business requirements.

The Philippine Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or, (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

CLC is allowed under Philippine laws to declare cash, property and stock dividends, subject to certain requirements. See "*Description of the Shares—Rights Relating to Shares—Dividend Rights.*" on page 131 of this Prospectus.

Pursuant to existing Philippine SEC rules, cash dividends declared by corporations whose securities are registered or whose shares are listed in the stock exchange must have a record date not less than 10 days nor more than 30 days from the date of declaration. For stock dividends, the record date should not be less than 10 days nor more than 30 days from the date of the shareholders' approval, provided however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC. In case no record date is specified for the cash and stock dividend declaration, then the same shall be deemed fixed at 15 days from such declaration.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP. See "*Philippine Foreign Ownership and Foreign Exchange Controls*" on page 146 of this Prospectus.

Pursuant to the "Amended Rules Governing Pre-emptive and other Subscription Rights and Declaration of Stock and Cash Dividends" of the Philippine SEC, all cash dividends and stock dividends declared by a company shall be remitted to PDTC for immediate distribution to participants not later than 18 trading days after the record date (the **"Payment Date"**); provided that in the case of stock dividends, the credit of the stock dividend shall be on the Payment Date which in no case shall be later than the stock dividends' listing date. If the stock dividend shall come from an increase in capital stock, all stock shall be credited to PDTC for immediate distribution to its participants not later than 20 trading days from the record date set by the Philippine SEC, which in no case shall be later than the stock dividends' listing date.

Dividend History

CLC was only incorporated in 2016 and since its incorporation, no dividend has been declared. Its subsidiaries, however, have made the following dividend declarations:

	2016	2015
CSMMSC	7,500,000	-
Oceanstar	4,000,000	-
SSI	900,000	-
DCI	600,000	-
MI	-	16,000,000

Dividend Policy

In accordance with the Corporation Code of the Philippines, a corporation, through its board of directors, has the authority to declare cash, property, and stock dividends or a combination thereof. For cash and property dividend declarations, only the approval of the board is required. For stock dividend declarations, an approval of the board as well as shareholders representing at least two-thirds (2/3) of the corporation's outstanding capital stock is required. Holders of outstanding shares on a dividend record date for such shares have the right to the full dividend declared without regard to any subsequent transfer of shares. In adherence with the Corporation Code, the corporation is only allowed to declare dividends out of its unrestricted retained earnings.

CLC has adopted a dividend policy of at least 20% of the prior year's recurring net income, based on the recommendations of the Board of Directors, subject to the existence of unrestricted retained earnings, CLC's financial condition, as well as requirements of applicable laws and regulations, the terms and conditions of our existing loan facilities, and the absence of circumstances that may restrict the payment of such dividends.

Each holder of a common share is entitled to such dividends as may be declared by the Board of Directors.

CLC's subsidiaries have not adopted a specific dividend policy.

Recent Sales of Unregistered or Exempt Securities

On March 27, 2017, Udenna Corporation entered into a Share Swap Agreement with CLC wherein Udenna transferred to CLC 18,200 shares, comprising one hundred percent (100%) of the issued and outstanding capital stock of UIBV to the Company. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna.

The foregoing additional issuance of the Shares is an exempt transaction under Section10.1(e) of the SRC -sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock.

DETERMINATION OF THE OFFER PRICE

The Offer Price has been set at ₱10.68 per Offer Share. The Offer Price was determined through a book-building process involving the qualified institutional buyers ("**QIBs**") and discussions among CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner. Since the Shares have not been listed on any stock exchange, there has been no market price for Shares derived from day-to-day trading.

The factors considered in determining the Offer Price were, among others, our ability to generate earnings and cash flow, our short and long term prospects, the level of demand from institutional investors, overall market conditions at the time of launch of the Offer and the market price of comparable listed companies. The Offer Price does not have any correlation to the actual book value of the Offer Shares.

CAPITALIZATION

The following table sets out our debt, shareholders' equity and capitalization as of December 31, 2016 and after the increase in the issued and outstanding capital stock last March 31, 2017, and as adjusted to reflect the sale of Offer Shares at the Offer Price of ₱10.68 per Offer Share. The table should be read in conjunction with our audited financial statements and the notes thereto, included in this Prospectus beginning on page F-1.

	As Adjusted After Giving Effect to the Offer (in ₱ million)	
	Pre-Offer March 2017 (Audited)	**Post-Offer (Unaudited)**
Long-Term Debt	**6,809**	**6,809**
Equity:		
Capital Stock	1,275	1,822
Additional paid-in capital	5,272	10,228
Reserves	305	305
Retained Earnings	782	782
Total Equity	**7,634**	**13,137**
Total Capitalization	**14,443**	**19,946**

DILUTION

If you invest in the Offer Shares, your interest will be diluted for each Offer Share you purchase to the extent of the difference between the offer price per Offer Share and our net tangible book value per Share after the Offer. Dilution results from the fact that the offer price per Offer Share is substantially in excess of the book value per Share attributable to the existing shareholders for our presently outstanding Shares.

After the increase in the issued and outstanding capital stock last March 31, 2017, our net tangible book value per Share was ₱5.99 (total equity divided by the total number of outstanding shares) and our net tangible book value per Share based on our pro forma financial statements after giving pro forma effect was ₱5.99 ("pro forma net tangible book value"). Net tangible book value per Share and pro forma net tangible book value prior to the Offer represents total assets (less intangible assets and goodwill) minus total liabilities, divided by the total number of Shares outstanding.

Without taking into account any changes in pro forma net tangible book value after the increase in the issued and outstanding capital stock last March 31, 2017 other than to give effect to the sale of the Offer Shares by us at an offer price of ₱10.68 per Offer Share and after deducting estimated discounts, commissions, estimated fees and expenses of the Offer, the pro forma net tangible book value per share after the Offer is ₱7.21. This represents an immediate increase in pro forma net tangible book value of ₱1.22 per Share to existing shareholders, and an immediate dilution of ₱3.47 per Share to new investors purchasing Offer Shares in this Offer.

The following table illustrates dilution on a per Share basis based on an Offer Price of ₱10.68 per Offer Share:

Offer Price per Offer Share	**₱ 10.68**
Book Value per Common Share as at immediately before the Offer	₱5.99
Increase in Book Value per Common Share as at immediately before the Offer	₱1.22
Pro-forma Book Value per Common Share as at immediately after completion of the Offer	₱7.21
Dilution to Investors of the Offer Shares (based on pro-form Book Value per Common Share	₱3.47

The following table sets forth the shareholdings and percentage of Shares outstanding, of existing and new shareholders of CLC immediately after completion of the Offer:

	Number of Shares	**%**
	1,275,384,615	70.00%
New Investors	546,593,000	30.00%
Total	**1,821,977,615**	**100%**

See also "*Risk Factors—Risks Relating to the Offer and the Offer Shares—The sale or possible sale of a substantial number of common shares in any private or public sales following the Offer could adversely affect the price of the common shares*" on page 30 and "*Investors may incur immediate and substantial dilution as a result of purchasing Shares in the Offer*" on page 29 of this Prospectus.

SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables present summary audited combined historical financial information for the Company for the years ended December 31, 2014, 2015, 2016 and the three months ended March 31, 2016 and 2017 and should be read in conjunction with the independent auditors' reports and the Company's audited combined historical financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information below as of and for the years ended December 31, 2014, 2015, 2016 and the three months ended March 31, 2016 and 2017 were derived from the Company's audited consolidated and combined historical financial statements, which were prepared in accordance with PFRS and were audited by Punongbayan & Araullo in accordance with the Philippines Standards on Auditing. The selected combined historical financial information below is not necessarily indicative of the results of future operations.

Income Statements Information

	For the 12 months ended December 31			For the 3 months ended March 31	
	(Audited)			(Audited)	
	2014	2015	2016	2016	2017
	(millions)			(millions)	
NET SALES	**1,848**	**2,485**	**2,900**	**594**	**617**
COST OF SALES					
Depreciation and amortization	323	445	599	125	163
Bunkering	579	672	494	106	70
Charter hire fees	70	348	227	70	27
Crew costs and benefits	124	164	318	54	65
Others	332	351	516	111	124
	1,428	1,980	2,154	467	449
GROSS PROFIT	420	505	746	128	168
GENERAL AND ADMINISTRATIVE EXPENSES	152	171	265	47	70
OTHER CHARGES - Net	(153)	(222)	(273)	(45)	(60)
INCOME BEFORE TAX	115	112	208	36	38
TAX EXPENSE (INCOME)	(24)	14	76	17	11
NET INCOME	139	98	132	19	27

Statements of Financial Position Information

	(Audited)			
	December 31,			March 31
	2014	2015	2016	2017
		(millions)		
Current Assets	938	1,190	2,634	2,055
Non-Current Assets	5,459	6,054	8,126	14,348
TOTAL ASSETS	6,397	7,244	10,760	16,403
Current Liabilities	2,313	3,001	6,614	6,323
Non-Current Liabilities	1,836	1,704	2,585	2,446
Total Liabilities	4,149	4,705	9,199	8,769
Total Equity	2,248	2,539	1,561	7,634
TOTAL LIABILITIES AND EQUITY	6,397	7,244	10,760	16,403

Statements of Cash Flows Information

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Net cash provided by operating activities	450	848	(195)	432	306
Net cash used in investing activities	(1,342)	(859)	(1,797)	(374)	(121)
Net cash provided by financing activities	822	190	2,136	(346)	(267)
Effect of exchange rate changes on cash and cash equivalents	-	-	5	(17)	(4)
Net increase (decrease) in cash and cash equivalents	(70)	179	149	(306)	(85)
Cash and cash equivalents at beginning of year	251	181	360	509	360
Cash and cash equivalents at end of year	181	360	509	203	275

	As of December 31			As of March 31
	2014	2015	2016	2017*
No. of Vessels				
Tankers.......................................	**8**	**8**	**11**	**11**
Barges..	**4**	**4**	**4**	**4**
Tugboats.....................................	**7**	**7**	**6**	**8**
Roll-on/Roll-off (RoPax)...............	**8**	**6**	**7**	**7**
Roll-on/Roll-off (Cargo)................	**1**	**2**	**3**	**3**
Total...	**28**	**27**	**31**	**33**

** Excluding 2Go fleet of 18 RoPax and 8 cargo vessels*

Key Performance Indicators

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
Gross Profit Ratio............................	**23%**	**20%**	**26%**	**21%**	**27%**
Debt to Equity Ratio........................	**1.85**	**1.85**	**5.89**	**5.89**	**1.15**
EBITDA..	**580**	**735**	**1,018**	**207**	**290**
EBITDA Margin.............................	**31%**	**30%**	**35%**	**35%**	**47%**
ROE (%)..	**6%**	**4%**	**8%**	**1%**	**0%**

Notes:

(1) *Gross profit ratio is derived by dividing gross profit over revenues.*

(2) *Debt to equity ratio is computed by dividing total liabilities by total equity.*

(3) *EBITDA is computed as net income, excluding interest income, before interest expenses, provision for income taxes, depreciation and amortization. The table below sets forth further information with respect to the computation of EBITDA for the years ended December 31, 2014, 2015, 2016and for the three months ended March 31, 2016 and 2017:*

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
	(millions)				
Net income.....................................	**139**	**99**	**132**	**19**	**27**
Add:					
Tax expense (income).................	**(24)**	**14**	**76**	**17**	**11**
Interest expense.........................	**135**	**170**	**203**	**46**	**87**
Depreciation and amortization....	**331**	**454**	**609**	**127**	**166**
Less:					
Interest income...........................	**(1)**	**(2)**	**(2)**	**(1)**	**(1)**
EBITDA	**580**	**735**	**1,018**	**208**	**290**

(4) *EBITDA margin is computed as EBITDA divided by Revenue.*

(5) *ROE is computed as Net Income divided by Total Equity (actual, not annualized).*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated financial condition and results of the operations as of and for the periods ended March 31, 2017 and December 31, 2016, the combined financial condition and results of operations of the Company as of and for the years ended December 31, 2014 and 2015, the combined results of operations for the period ended March 31, 2017 and certain trends, risks and uncertainties that may affect the Company's business.

Prospective investors should read this discussion and analysis of our financial condition and results of operations in conjunction with the audited financial statements and audited combined historical financial statements and the notes thereto set forth elsewhere in this Prospectus.

Our audited financial statements as of and for the periods ended December 31, 2014, 2015, 2016 and March 31, 2017, included in this Prospectus were prepared in compliance with PFRS.

This discussion contains forward-looking statements and reflects our current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus. *See "Forward-Looking Statements" on page vii of this Prospectus.*

Overview

Chelsea Logistics Holdings Corp. is a corporation organized and registered with the Philippine SEC on August 26, 2016 as Chelsea Shipping Group Corp. primarily to act as corporation holding company. On December 21, 2016, the Philippine SEC approved its change in corporate name to Chelsea Logistics Corp. Subsequently, on June 27, 2017, the Philippine SEC again approved the Company's change in corporate name to Chelsea Logistics Holdings Corp. CLC, through its wholly-owned subsidiaries, is engaged in the shipping transport business, and described in detail as follows:

1. Chelsea Shipping Corp., incorporated on July 17, 2006, is engaged in the maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines.

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

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

1. PNX-Chelsea Shipping Corp., incorporated on February 2, 2011, is engaged in operating vessels for domestic trade for the purpose of maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.

2. Fortis Tugs Corporation, incorporated on April 8, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. Davao Gulf Marine Services, Inc., a wholly-owned subsidiary of Fortis Tugs, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock at the District Port of Davao and all other ports in the Philippines.

3. Michael, Inc., incorporated on December 26, 1957, is engaged in the business of acquiring and operating floating equipment for charter or hire, and for conveyance and carriage of goods, wares and merchandise of every description in the Philippine coastwise traffic.

4. Bunkers Manila, Incorporated, incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

5. Chelsea Ship Management & Marine Services Corp., incorporated on March 30, 2012, is engaged in ship management and authorized to act as agent, broker, ship chandler or representative of foreign/ domestic shipping

corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

6. Chelsea Marine Manpower Resources Inc., incorporated on June 9, 2016, is engaged in providing full and partial crewing for domestic and foreign vessels, and is authorized to act as representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

CSC and its subsidiaries, BMI, MI and PNX-Chelsea, provides four (4) types of charter services, namely, voyage charter, time charter, bareboat charter and continuing voyage charter, described as follows:

1. Voyage Charter

   The hiring of a vessel and crew for a voyage between a loading port and a discharging port. The charterer pays the vessel owner on a per-ton or lump-sum basis. The owner pays the port costs (excluding stevedoring), fuel costs and crew costs. The payment for the use of the vessel is known as freight. A voyage charter specifies a period, known as laytime, for unloading the cargo. If laytime is exceeded, the charterer must pay demurrage. If laytime is saved, the charter party may require the ship owner to pay dispatch to the charterer if applicable.

2. Time Charter

   The hiring of a vessel for a specific period of time where the owner still manages the vessel but the charterer selects the ports and directs where the vessel goes. The charterer pays for all fuel the vessel consumes, port charges, and a daily hire to the owner of the vessel.

3. Bareboat Charter

   An agreement where there is no maintenance liability or any kind of claim on the vessel by the owner for the period of lease of the vessel. It is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The charterer obtains possession and full control of the vessel along with the legal and financial responsibility for it. The charterer pays for all operating expenses, including fuel, crew, port expenses and protection and indemnity and hull insurance.

4. Continuing Voyage Charter

   The same as Voyage Charter except that this is exclusive for chartered vessels.

On the other hand, Trans-Asia Shipping's wholly-owned subsidiaries are engaged in the following businesses:

1. Oceanstar Shipping Corporation is engaged in the business of domestic shipping for the transportation of passengers and cargoes within Philippine territorial seas and/or in high seas.

2. Starsy Shoppe, Inc. is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

3. Dynamic Cuisine Inc. is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in making, cooking, arranging, serving and catering goods, drinks, refreshments and other food or commodities commonly served in such establishments.

4. Quality Metal & Shipworks, Inc. is engaged in providing machining and mechanical works on ship machineries and industrial plants.

The Company generated total revenues of ₱1.848 billion, ₱2.485 billion and ₱2.900 billion for the years ended December 31, 2014, 2015 and 2016, respectively, and net income of ₱139 million, ₱98 million and ₱132 million for the same periods. For the three months ended March 31, 2016 and 2017, the Company generated total revenues of ₱594 million and ₱617 million, respectively, and net income of ₱19 million and ₱27 million for the same periods. Of the total revenues, CSC accounts for ₱962 million, ₱1,593 million and ₱1,749 million for the years December 31, 2014, 2015 and 2016, respectively, and Trans-Asia accounts for ₱886 million, ₱892 million, and ₱1,151 million for the same periods. CSC's net income amounts to ₱99 million, ₱106 million and ₱45 million for the years ended December 31, 2014, 2015 and 2016, respectively, while Trans-Asia Shipping reported net income of ₱40 million, net loss of ₱8 million and net income of ₱99 million for the same periods. Shown below is the breakdown of contribution of each revenue stream.

	For the 12 months ended December 31 (Audited)			For the 3 months ended March 31 (Audited)	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Charter fees	**45%**	**56%**	**52%**	**52%**	**43%**
Freight	**28%**	**20%**	**23%**	**16%**	**20%**
Passage	**20%**	**15%**	**16%**	**21%**	**26%**
Tugboats	**7%**	**8%**	**8%**	**8%**	**10%**
Others	**1%**	**1%**	**1%**	**1%**	**1%**

Meanwhile, on March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna Corporation, wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna Corporation. UIBV was incorporated on August 25, 1994 and is a private limited liability company organized under the Dutch Law. UIBV owns 80% economic interest in KGLI-NM, a domestic corporation which was incorporated on August 8, 2008. KGLI-NM was incorporated and registered with the Philippine SEC primarily as an investment holding company and holds 39.85% economic interest in Nenaco. KGLI-NM acquired such interests in Nenaco on May 13, 2008. Nenaco, in turn owns 88.31% of 2Go, having acquired its interests in 2Go on December 28, 2010. Hence, CLC has a 28.15% indirect economic interest in 2Go. Nenaco and 2Go are the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

Factors Affecting our Results of Operations

The results of the Company's operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected our results in the past, and that we expect to affect our results in the foreseeable future. Factors other than those discussed below could also have a significant impact on our results of operation and financial condition in the future.

Our Fleet

The Company generates substantially all of its revenues from the operations of its vessels. Revenues are determined by the type of charter arrangement entered into by CSC. Passage revenues are based on the published tariff rates per passenger and route of the vessel. Freight revenues are generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.

	As of December 31			March 31,
No. of Vessels	**2014**	**2015**	**2016**	**2017***
Tankers	8	8	11	11
Barges	4	4	4	4
Tugboats	7	7	6	8
RoPax	8	6	7	7
Cargo vessels	1	2	3	3
Total	**28**	**27**	**31**	**33**

**Excluding 2Go fleet of 16 RoPax and 8 cargo vessels.*

The Company believes that fleet expansion is expected to be a key driver of its growth strategy.

CLC Charter Rates/ Direct Costs

CSC's charter rates are affected by the type of chartering agreements entered into. Below is the matrix of direct costs shouldered by the vessel owner for each type of charter arrangement.

Direct Costs	Bareboat Charter	Time Charter	Continuing Voyage Charter	Spot Charter
Depreciation and amortization	✓	✓	✓	✓
Bunkering			✓	✓
Port expenses			✓	✓
Insurance		✓	✓	✓
Repairs and maintenance		✓	✓	✓
Crew costs and benefits		✓	✓	✓
Vessel supplies		✓	✓	✓
Outside services		✓	✓	✓
Permits and licenses		✓	✓	✓
Miscellaneous		✓	✓	✓

Philippine macroeconomic conditions and trends

All of the Company’s vessels, except M/Tkr Chelsea Thelma and M/Tkr Chelsea Donatela, are currently located in the Philippines and, as a result, its operations are significantly affected, and will continue to be significantly affected, by macroeconomic conditions in the Philippines. Any deterioration in the Philippine economy may adversely affect demand for the Company's services by lesser movements of passage and cargo including charter arrangements.

Competition

A. Tankers

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

The latest records of the Maritime Industry Authority (“**MARINA**”) show that there are about 203 oil tanker vessels of different sizes in the country. Majority of these vessels are 500 GRT or below, and the rest are from about 501 GRT to 5052 GRT. The aggregate tonnage of these tankers is about 190,876 GRT.

There are seven (7) major tanker owners in the Philippines, each owning four (4) or more vessels. These tanker owners account for a total of about 65 vessels and an aggregate tonnage of about 105,764 GRT.

There has also been a significant improvement in the quality of the tanker vessels plying Philippine waters. From old, single hull vessels, there has been a shift to double-hulled vessels designed for environmental protection/ pollution prevention.

Competitors include:

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

B. Tugboats

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

According to the latest records from the MARINA, there are 653 registered tugboats in the Philippines. More than half of these tugboats are less than 100 GRT. Majority of smaller GRT tugboats hold a Bay & River trading license from MARINA while bigger vessels hold a Coastwise license. The top two industry players in the tugboat industry account for more than 24% of the total tugboats over 100 GRT.

A growing economy is a positive outlook for the tugboat industry. Industry sales are directly correlated to the amount of trade a country undergoes, as servicing cargo vessels account for a big portion of the industry.

CSC's competitors in providing tugboat services include:

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

C. RoPax

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

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

Trans-Asia Shipping's main competitors include:

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

Seasonality

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or in the high seas. Due to the seasonal nature of this segment, higher passage revenues and operating profits are usually experienced in the summer months of the year (March, April and May), school holidays (October and November) and Christmas holidays (December and January) rather than in the other months of the year. Freight revenues, on the other hand, are higher at the last quarter of the year rather than in the early months.

The seasons of the year have no or little effect on the operations of the tanker and tugboat segments.

Critical Accounting Policies

Critical accounting policies are those that are both (i) relevant to the presentation of our financial condition and results of operations and, (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how our management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, we have identified the significant accounting judgments, estimates and assumptions below and those discussed in Note 3 to our audited consolidated financial statements included elsewhere in this Prospectus. While we believe that all aspects of our financial statements should be studied and understood in assessing our current and expected financial condition and results of operations, we believe that the following critical accounting policies, as well as the significant accounting judgments, estimates, and assumptions discussed in Notes 2 and 3 to our audited consolidated financial statements warrant particular attention.

Depreciation of Property and Equipment

Tankers, RoPax vessels and tugboats are stated at their fair values less accumulated depreciation and amortization. All other items of property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Depreciation and amortization are computed using the straight-line basis over the estimated useful lives of the property and equipment.

The useful lives of property and equipment are estimated based on the economic lives of the property and equipment and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of the property and equipment are reviewed at reporting date 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, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Consistent with the practice of the Company's peers in the industry, the useful lives of property and equipment for the year ended December 31, 2016 are as follows:

	For the year December 31, 2016 Number of Years
Tankers	30
RoPax	20
Tugboats	15
Capitalized drydocking costs	2
Others	3 to 5

The Company assesses at each reporting date whether there is an indication that its property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher between an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs to sell, an appropriate valuation model is used. 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 assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in net income in the statement of comprehensive income in the expense category 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 net income in the statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is recognized in other comprehensive income in the statement of comprehensive income and in the statement of changes in equity. After such a reversal, the depreciation and amortization charges are 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.

Drydocking costs are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are amortized on the straight-line basis over two years or until the next drydocking occurs, whichever comes earlier. When significant drydocking expenditures occur prior to the expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking. Amortization of drydocking costs starts only when the process has been completed and the related tanker is ready for use.

Description of Key Line Items

Revenue

The Company generates its revenues from charter hire rates for its tankers; passage and freight revenues for RoPax and tug assistance fees for tugboats.

Cost of sales and services

Cost of sales and services consists of those expenses incurred directly attributable to the operation of Company's vessels. This includes depreciation of vessels and related vessel equipment, amortization of dry docking costs, salaries, wages and benefits of crew on board, bunker cost, port expenses, vessel insurance, repairs and maintenance, and various permits and licenses necessary for the trading of vessels.

General and administrative expenses

General and administrative expenses are those expenses incurred in the direction and general administration of day-to-day operations of our business at our head office. These include salaries, wages and benefits of employees at our head office, administrative staff, outside services (for example, audit, legal other professional fees for services rendered by professionals), and taxes and licenses.

Results of Operations

Quarter ended March 31, 2017 compared with quarter ended March 31, 2016

The Company's operating results for the quarter ended March 31, 2017 and March 31, 2016 in absolute terms and expressed as a percentage of total revenue are compared below:

	For the three months ended March 31			
	2016	% of Revenue	2017	% of Revenue
NET SALES	594	100%	617	100%
COST OF SALES	467	79%	449	73%
GROSS PROFIT	128	21%	168	27%
GENERAL AND ADMINISTRATIVE EXPENSES	47	8%	70	11%
OTHER INCOME - Net	(45)	-8%	(60)	-10%
INCOME BEFORE TAX	36	6%	38	6%
TAX EXPENSE (INCOME)	17	3%	11	2%
NET INCOME	19	3%	27	4%

Revenue

In the first quarter of 2017, revenues increased by ₱22 million or 4% from the same period in 2016's level of ₱594 million principally from higher passage revenues by ₱29 million, freight revenues by ₱23 million and tugboat fees by ₱15 million. These were partially offset by the decline in charter fees by ₱48 million due to the drydocking of MTkr Chelsea Cherylyn and the preparation for bareboat of MTkr Chelsea Donatela.

Cost of sales and services
Cost of sales for the quarter ended March 31, 2017 amounted to ₱449 million or a slight decrease of 4% from ₱467 million for the quarter ended March 31, 2016.

General and administrative expense
General and administrative expenses amounted to ₱70 million for the quarter ended March 31, 2017, from ₱47 million for the same period in 2016. The increase of 48% was primarily due to increased number of administrative and support personnel resulting in higher salaries and employee benefits for the current period.

Other Income (Charges)
Other charges significantly increased by ₱16 million which was primarily due to higher interest expenses incurred as a result of new loans outstanding as of the end of the quarter ended March 31, 2017. This included availment of term loans related to vessel acquisitions from April 2016 to December 2016 and certain bank loans obtained for the acquisition of CSC and Trans-Asia Shipping. The increased interest expense was partially offset by the increase in miscellaneous income arising from rebates from arrastre and trucking services.

Provision for income tax
Provision for income tax significantly declined from ₱17 million for the quarter ended March 31, 2016 to ₱11 million for the same period in 2017, which was principally due to claiming of optional standard deductions (OSD) instead of itemized deductions specifically for the RoPax and Tugboat segments.

Net income
Net income for the quarter ended March 31, 2017 amounted to ₱27 million, which increased from ₱19 million for the same period in 2016 as a result of the factors mentioned above

Financial Position – March 31, 2017 vs. December 31, 2016

The Company maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Company's statement of financial position reflects stable financial growth. Total resources as at March 31, 2017 amounted to ₱16.4 billion, posting an increase of 52% compared to ₱10.8 billion as at December 31, 2016.

A S S E T S	December 31 2016	March 31, 2017	% Increase (Decrease)
CURRENT ASSETS..............................			
Cash and cash equivalents..............	509	203	-60%
Trade and other receivables - net..	945	956	1%
Subscription receivable...................	350	-	100%
Financial assets at fair value through profit or loss.................	11	11	0%
Available-for-sale financial assets...	3	3	0%
Inventories......................................	79	197	149%
Advances to related parties............	194	-	-100%
Other current assets.......................	543	685	26%
Total Current Assets................	2,634	2,055	-22%
NON-CURRENT ASSETS....................			
Property and equipment - net.........	7,819	8,038	3%
Investment in an associate and a joint venture...........................	46	2,155	46%
Goodwill..	74	3,992	5295%
Post-employment benefit asset......	5	1	80%
Deferred tax assets........................	7	12	71%
Other non-current assets - net......	175	150	-14%
Total Non-current Assets........	8,126	14,348	77%
TOTAL ASSETS..................................	10,760	16,403	52%

LIABILITIES AND EQUITY	December 31 2016	March 31, 2017	% Increase (Decrease)
CURRENT LIABILITIES....................			
Trade and other payables................	1,359	1,542	13%
Interest-bearing loans.....................	5,029	4,582	-9%
Advances from related parties........	86	41	-52%
Advances from customers.............	14	14	0%
Deposits for future stock subscription..............................	50	50	0%
Income tax payable........................	76	94	24%
Total Current Liabilities...........	6,614	6,323	-4%
NON-CURRENT LIABILITIES..........			
Interest-bearing loans....................	2,343	2,227	-5%
Post-employment benefit obligation.................................	4	4	0%
Deferred tax liabilities - net...........	224	200	-11%
Other non-current liabilities..........	14	15	7%
Total Non-Current Liabilities..	2,585	2,446	-5%
TOTAL LIABILITIES.........................	9,199	8,769	-5%
TOTAL EQUITY.................................	1,561	7,634	389%

Cash and Cash Equivalents
The decrease in cash and cash equivalents by ₱306 million was primarily due to repayments of certain bank loans and amortization of term loans.

Subscription Receivables
Decrease in subscription receivables was due to collection of receivables from the parent company.

Inventories
Increase in inventories of approximately ₱93 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels. Spare parts inventories rose from ₱36 million as of December 31, 2016 to ₱146 million as of March 31, 2017.

Advances to Related Parties
Decrease in advances to related parties, which were initially granted for working capital requirements, was brought about by collection of such advances.

Other current assets
A substantial portion of the increase in other current assets represents increase in advances to suppliers arising from down payments made for the acquisition of brand new container vans to be used in the Group's RoPax business.

Property and equipment
The increase in property and equipment was due to accumulated costs paid for the acquisition of new tugboats and drydocking of vessels which are lodged under the caption Construction in progress.

Investments in an associate and a joint venture
The increase was due to the acquisition of the all outstanding shares of UIBV, which holds 79.99% economic interest in KGLI-NM, which in turn owns 39.85% economic interest in Nenaco, the parent company of 2Go. The acquisition was made through issuance of CLC's shares.

Goodwill
Increase in goodwill was the result of the acquisition of UIBV. In 2017, the Company acquired 100% ownership interest in UIBV for a total cost of ₱6,048 million. The fair value of the identifiable assets less liabilities assumed was determined to be ₱2,130 million. The excess of the acquisition cost over the fair value of the net assets of UIBV represents goodwill, which represents the value of the expected synergies arising from the acquisition.

Post-employment benefit assets
The decrease was solely due to post-employment benefit expense during quarter ended March 31, 2017.

Deferred tax assets
The increase of ₱4.8 million can be attributed to the tax effect of net operating losses incurred by certain subsidiaries within the Group.

Other non-current assets
Other current assets declined by ₱25 million as a result of amortization charges on the Group's drydocking costs.

Trade and other payables
Trade and other payables increased from ₱1,359 million as of December 31, 2016 to ₱1,542 million as of March 31, 2017 which was due to acquisition of spare parts which remained unpaid as of the end of the first quarter of 2017 and drydocking cost payable to shipyards over a period of five to six months.

Interest-bearing loans
Interest-bearing loans declined during the year by a total of ₱564 million as a result of repayments of certain bank loans and amortizations due on certain long-term loans.

Advances from Related Parties
The decrease in advances from related parties was the result of repayments of such advances during the period.

Income Tax Payable
Increase of ₱18 million was primarily due to provisions for income taxes for the quarter ended March 31, 2017.

Deferred tax liabilities
The decline in deferred tax liabilities from ₱224 million as of December 31, 2016 to ₱200 million as of March 31, 2017 was due to the tax effect of depreciation on appraisal increment.

Contingent liabilities
There are no known events that will trigger contingent financial obligation that is material to the Company including any default or acceleration of any obligation.

Equity
Increase in equity was primarily due to the issuance of shares in exchange to Udenna Corporation in exchange for the latter's ownership in UIBV. CLC's share was valued at ₱7.80 per share.

Results of Operations

Year ended December 31, 2016 compared with year ended December 31, 2015

The Company's operating results for the year ended December 31, 2016 and December 31, 2015 in absolute terms and expressed as a percentage of total revenue are compared below:

	For the 12 months ended December 31			
	2015	% of Revenue	2016	% of Revenue
NET SALES..	2,485	100%	2,900	100%
COST OF SALES...............................	1,980	80%	2,154	74%
GROSS PROFIT.................................	505	20%	746	26%
GENERAL AND ADMINISTRATIVE EXPENSES....................................	171	7%	265	9%
OTHER INCOME - Net.....................	(222)	-9%	(273)	-9%
INCOME BEFORE TAX...................	112	5%	208	7%
TAX EXPENSE (INCOME)...............	14	1%	76	3%
NET INCOME...................................	98	4%	132	5%

Revenue

In 2016, revenues of ₱2,900 million increased by ₱415 million or 17% from 2015's level of ₱2,485 million, principally from higher freight revenues by ₱181 million, charter hire fees by ₱106 million and passage revenues by ₱76 million.

Cost of sales and services

Cost of sales for the year ended December 31, 2016 amounted to ₱2,154 million or an increase of 9% from ₱1,980 million for the year ended December 31, 2015. A significant portion of the increase in cost of sales and services was due to increased depreciation and amortization expenses by approximately ₱154 million primarily as a result of three vessels acquired during the year and full year's effect of drydocking costs incurred on two of CSC's largest tankers in 2015.

General and administrative expense

General and administrative expenses amounted to ₱265 million for the year ended December 31, 2016, from ₱171 million for the year ended December 31, 2015. The increase of 55% was due to higher salaries and employee benefits due to increased number of administrative and support personnel, taxes and licenses due to availment of new loans during the year and professional fees as a result of litigation cases involving Trans-Asia Shipping.

Provision for income tax

Provision for income tax increased from ₱14 million in 2015 to ₱76 million in 2016, which was principally due to higher provisions for income tax during the year as a result of higher taxable income during the year. It is worthy to mention that a significant tax reconciling item for the year 2016 pertains to unrealized foreign exchange losses arising from the restatement of U.S. dollar denominated interest-bearing loans, which is not deductible for tax purposes until actual payment of the loan.

Net income

Net income for the year ended December 31, 2016 amounted to ₱132 million, which increased from ₱98 million for the year ended December 31, 2015 as a result of the factors mentioned above.

Financial Position – December 31, 2016 vs. December 31, 2015

The Company maintains a prudent financial policy as it engages in a more competitive and challenging environment. The Company's statement of financial position reflects stable financial growth. Total resources as at December 31, 2016 amounted to ₱10.8 billion, posting an increase of 49% compared to ₱7.2 billion as at December 31, 2015.

ASSETS	2015	2016	% Increase (Decrease)
CURRENT ASSETS.............................			
Cash and cash equivalents.............	**360**	**509**	**41%**
Trade and other receivables - net..	**540**	**945**	**75%**
Subscription receivable..................	-	**350**	**100%**
Financial assets at fair value through profit or loss................	**1**	**11**	**1000%**
Available-for-sale financial assets...	**2**	**3**	**50%**
Inventories.....................................	**104**	**79**	**-24%**
Advances to related parties...........	**27**	**194**	**619%**
Other current assets......................	**156**	**543**	**248%**
Total Current Assets...............	**1,190**	**2,634**	**121%**
NON-CURRENT ASSETS...................			
Property and equipment - net.........	**5,788**	**7,819**	**35%**
Investment in an associate and a joint venture..........................	-	**46**	**100%**
Goodwill...	**74**	**74**	**0%**
Post-employment benefit asset......	-	**5**	**100%**
Deferred tax assets.......................	-	**7**	**100%**
Other non-current assets - net......	**192**	**175**	**-9%**
Total Non-current Assets........	**6,054**	**8,126**	**34%**
TOTAL ASSETS.................................	**7,244**	**10,760**	**49%**

LIABILITIES AND EQUITY	2015	2016	% Increase (Decrease)
CURRENT LIABILITIES...................			
Trade and other payables...............	**1,005**	**1,359**	**35%**
Interest-bearing loans....................	**1,485**	**5,029**	**239%**
Advances from related parties........	**406**	**86**	**-79%**
Advances from customers.............	**5**	**14**	**180%**
Deposits for future stock subscription..............................	**99**	**50**	**-49%**
Income tax payable........................	**1**	**76**	**7500%**
Total Current Liabilities..........	**3,001**	**6,614**	**120%**
NON-CURRENT LIABILITIES..........			
Interest-bearing loans...................	**1,468**	**2,343**	**60%**
Post-employment benefit obligation.................................	**27**	**4**	**-85%**
Deferred tax liabilities - net...........	**196**	**224**	**14%**
Other non-current liabilities..........	**13**	**14**	**8%**
Total Non-Current Liabilities..	**1,704**	**2,585**	**52%**
TOTAL LIABILITIES........................	**4,705**	**9,199**	**96%**
TOTAL EQUITY................................	**2,539**	**1,561**	**-39%**
TOTAL LIABILITIES AND EQUITY	**7,244**	**10,760**	**49%**

Cash and cash equivalents
Cash and cash equivalents increased by 41%, which primarily came from proceeds from bank loans during the year.

Trade and other receivables
The increase in trade and other receivables from ₱539 million as of December 31, 2016 to ₱945 million as of December 31, 2015 was due to increased uncollected receivables from related parties and increase in due from agencies, which represent claims from Trans-Asia Shipping's authorized agencies for tickets issued to customers.

Inventories
Decrease of 24% was substantially due to decrease in fuel and lubricants inventory.

Advances to related parties
Increase was primarily due to cash advances granted to related parties for working capital requirements. These advances are generally settled within one year.

Other Current Assets
Other current assets jumped from ₱156 million as of end of 2015 to ₱543 million as of December 31, 2016 as a result of significant advances paid to suppliers relating to down payments made for the acquisition of tugboats. In addition, deferred input VAT relating to newly acquired vessels in 2016 also contributed to the jump.

Property and equipment
The increase of over ₱2 billion in this account was due to the acquisition of new vessels during the year, which include M/Tkr Chelsea Charlize, M/Tkr Chelsea Endurance, M/Tkr Chelsea Dominance, M/V Trans-Asia 1 and M/V Tug Joy 98. In addition, accumulated costs relating to drydocking of M/Tkr Excellence and M/Tug Joy 98 are lodged in this account.

Other Noncurrent Assets
The decrease in other non-current asset accounts was primarily due to amortization of drydocking costs, which was partially offset by additions due to the completed drydocking of four CSC tankers and five vessels of Trans-Asia.

Trade and other payables
The increase was primarily due to amounts due to the previous stockholders of CSC and Trans-Asia and shipyard costs, which have terms ranging from six to twelve months, related to the drydocking of certain vessels, remained unpaid as of the end of December 31, 2016. Deferred output as a result of the increase in trade receivables also contributed to the increase in the balance of this account.

Interest-bearing loans
The increase was primarily due to the acquisition of new vessels during the year and proceeds received to acquire CSC and Trans-Asia from its previous stockholders.

Advances from related parties
Advances from related parties declined during the year as a result of repayments made in 2016.

Advances from customers
Increase in advances from customers primarily relates to advances payments received from Seagull Marine relating to the bareboat charter covering M/Tkr Chelsea Thelma.

Income tax payable
Increase was primarily due to higher taxable income and the expiration of the income tax holiday of M/Tkr Chelsea Cherylyn.

Post-employment benefit obligation
The decline in the balance of this account was primarily due to significant contributions made by the Company to its post-employment benefit plans in 2016.

Deferred tax liabilities
Deferred tax liabilities increased from ₱196 million as of end of 2015 to ₱223 million as of December 31, 2016 as a result of the deferred tax on revaluation of certain vessels, which completed drydocking during the year.

Results of Operations

Year ended December 31, 2015 compared with year ended December 31, 2014

The Company's operating results for the year ended December 31, 2015 and December 31, 2014 in absolute terms and expressed as a percentage of total revenue are compared below:

	For the 12 months ended December 31			
	2014	% of Revenue	2015	% of Revenue
NET SALES	1,848	100%	2,485	100%
COST OF SALES	1,428	77%	1,980	80%
GROSS PROFIT	420	23%	505	20%
GENERAL AND ADMINISTRATIVE EXPENSES	152	8%	171	7%
OTHER INCOME - Net	(153)	-8%	(222)	-9%
INCOME BEFORE TAX	115	6%	112	5%
TAX EXPENSE (INCOME)	(24)	-1%	14	1%
NET INCOME	139	8%	98	4%

Revenue
In 2015, revenues of ₱2,485 million increased by ₱637 million or 34% from 2014's ₱1,848 million principally from higher charter hire fees by ₱551 million. Passage revenues slightly increased by ₱15 million while freight revenues declined by ₱11 million during the year.

Cost of sales and services
Cost of sales for the year ended December 31, 2015 amounted to ₱1,980 million or an increase of 39% from ₱1,428 million for the year ended December 31, 2014. A significant portion of the increase in cost of sales and services was due to increased charter hire fees as a result of significant demand in tanker services coupled with the drydocking of certain tankers, particularly M/Tkr Chelsea Thelma, M/Tkr Chelsea Resolute, M/Tkr Chelsea Denise, M/Tkr Chelsea Enterprise and M/Tkr Chelsea Intrepid.

General and administrative expenses
General and administrative expenses slightly increased to ₱171 million in 2015 from ₱152 million in 2014. The increase of about 13% was due to higher salaries and employee benefits due to increased number of administrative and support personnel.

Provision for income tax
Provision for income tax increased amounted to ₱14 million in 2015 from tax benefit of ₱24 million in 2014, which is principally due to significant net operating loss carry over (**"NOLCO"**) incurred by CSC as two of its largest tanker vessels were still subject to income tax holiday in 2014. In 2015, M/Tkr Chelsea Cherylyn's income tax holiday expired while M/Tkr Chelsea Thelma was on drydocking in 2015 and as such, was able to generate less revenues compared to 2014.

Net income
Net income for the year ended December 31, 2015 amounted to ₱98 million, which decreased from ₱139 million for the year ended December 31, 2014 as a result of the factors mentioned above.

Financial Position – December 31, 2015 vs. December 31, 2014

ASSETS	2014	2015	% Increase (Decrease)
CURRENT ASSETS.............................			
Cash and cash equivalents.............	181	360	99%
Trade and other receivables - net..	282	540	91%
Financial assets at fair value through profit or loss................	-	1	100%
Available-for-sale financial assets...	-	2	100%
Inventories......................................	206	104	-50%
Advances to related parties............	29	27	-7%
Other current assets.......................	240	156	-35%
Total Current Assets................	938	1,190	27%
NON-CURRENT ASSETS....................			
Property and equipment - net.........	5,278	5,788	10%
Investment in an associate and a joint venture...........................	2	-	100%
Goodwill...	74	74	0%
Other non-current assets - net......	105	192	83%
Total Non-current Assets........	5,459	6,054	11%
TOTAL ASSETS.................................	6,397	7,244	13%

LIABILITIES AND EQUITY	2014	2015	% Increase (Decrease)
CURRENT LIABILITIES....................			
Trade and other payables................	773	1,005	30%
Interest-bearing loans.....................	869	1,485	71%
Advances from related parties........	551	406	-26%
Advances from customers.............	19	5	-74%
Deposits for future stock subscription..............................	99	99	0%
Income tax payable.........................	2	1	-50%
Total Current Liabilities..........	2,313	3,001	30%
NON-CURRENT LIABILITIES..........			
Interest-bearing loans....................	1,584	1,468	-7%
Post-employment benefit obligation.................................	53	27	-49%
Deferred tax liabilities - net...........	187	196	5%
Other non-current liabilities..........	12	13	8%
Total Non-Current Liabilities..	1,836	1,704	-7%
TOTAL LIABILITIES.........................	4,149	4,705	13%
TOTAL EQUITY.................................	2,248	2,539	13%
TOTAL LIABILITIES AND EQUITY	6,397	7,244	13%

Cash and cash equivalents
Cash and cash equivalents increased by ₱179 million, which was generated from the Company's primary operations.

Trade and other receivables
The increase in trade and other receivables from ₱282 million as of December 31, 2014 to ₱540 million as of December 31, 2015 was due to increased uncollected trade accounts at the end of the year as a result of the significant surge in charter hire fees during the year.

Inventories
Decrease of 50% was substantially due to decrease in fuel and lubricants inventory as a result of consumption by the Company's vessels.

Advances to related parties
Decrease was primarily due to repayments of cash advances by related parties.

Other Current Assets
Other current assets declined from ₱240 million as of December 31, 2014 to ₱156 million as of end of 2015 as a result of reclassification of the down payment made for the acquisition of MTkr Chelsea Denise II, which were previously recognized as Advances to suppliers as of December 31, 2014.

Property and equipment
The increase of over ₱500 million in this account was due to the acquisition of MTkr Chelsea Denise II, which commenced commercial operations in September 2015.

Other Noncurrent Assets
The increase in other non-current asset accounts was primarily due to due to the completed drydocking of two of the CSC's biggest tankers i.e., MTkr Chelsea Thelma and MTkr Chelsea Cherylyn, which were partially offset by the amortization of drydocking costs.

Trade and other payables
The increase was primarily due to amounts due to unpaid shipyard costs, which have terms ranging from six to twelve months, related to the drydocking of certain vessels, which remained unpaid as of the end of December 31, 2015. Deferred output as a result of the increase in trade receivables also contributed to the increase in the balance of this account.

Interest-bearing loans
The increase was primarily due to bank loans obtained in 2015 to finance the drydocking of MTkr Chelsea Thelma and MTkr Chelsea Cherylyn and for working capital requirements.

Advances from related parties
Advances from related parties declined during the year as a result of repayments made in 2015.

Advances from customers
Decrease in advances from customers primarily relates to the application of such advances against billings to the charterers.

Income tax payable
Decrease was primarily due to lower taxable income in 2015.

Post-employment benefit obligation
The decline in the balance of this account was primarily due to significant contributions made by the Company to its post-employment benefit plans in 2015.

Deferred tax liabilities
Deferred tax liabilities increased from ₱187 million as of end of 2014 to ₱196 million as of December 31, 2015 as a result of the deferred tax on revaluation of certain vessels, which completed drydocking during the year.

Liquidity and Capital Resources

The Company has historically met its liquidity requirements principally through cash flow from operating activities. The principal uses of cash have been, and are expected to continue to be, operating costs, including salaries and wages and capital expenditures for property and equipment. In the future, the Company expects to fund its capital expenditure requirements primarily from operations of its vessels.

The following table sets out information from the Company's statements of cash flows for the periods indicated.

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Net cash provided by operating activities	450	848	(195)	432	306
Net cash used in investing activities	(1,342)	(859)	(1,797)	(374)	(121)
Net cash provided by financing activities	822	190	2,136	(346)	(267)
Effect of exchange rate changes on cash and cash equivalents	-	-	5	(17)	(4)
Net increase (decrease) in cash and cash equivalents	(70)	179	149	(306)	(85)
Cash and cash equivalents at beginning of year	251	181	360	509	360
Cash and cash equivalents at end of year	181	360	509	203	275

Net cash flows provided by operating activities

For the quarter ended March 31, 2017, net cash flows from operating activities amounted to ₱432 million, a significant portion of which was provided by operating income and was partially offset by payment of taxes. Similarly, cash flows from operating activities for the quarter ended March 31, 2016 amounted to ₱306 million, which was mainly coming from operating profit for the period.

In 2016, net cash flow used in operating activities amounted to ₱195 million, which was significantly lower compared to 2015 as a result of significant uncollected receivables at year end and significant increase in other assets during the year. Also, the Company made significant payments of trade and other payables during the year that also contributed to the decrease.

In 2015, net cash flow from operating activities amounted to ₱848 million, which was primarily due to operating income of about ₱753 million during the year.

In 2014, net cash flow from operating activities amounted to ₱450 million, which was primarily due to operating income of about ₱613 million during the year reduced by significant increase in other assets at year-end by approximately ₱162 million.

Net cash flows from (used in) investing activities

For 2016, 2015 and 2014, a substantial portion of net cash flows used in investing activities amounting to ₱1,797 million, ₱859 million and ₱1,342 million, respectively, pertained to the acquisition of property and equipment as well as additions to drydocking costs. These activities substantially comprised the Company's investing activities for the years ended December 31, 2016, 2015 and 2014, respectively. Similarly, a substantial portion of the Company's net cash flows used in investing activities for the quarters ended March 31, 2017 and 2016 represents acquisitions of property and equipment.

Net cash flows from (used in) financing activities

For the quarters ended March 31, 2017 and 2016, net cash flows used in financing activities amounted to ₱346 million and ₱267 million, respectively, which were primarily used to repay interest-bearing loans and advances obtained from related parties.

Net cash flows from financing activities amounted to ₱2,136 million, ₱190 million and ₱822 million in 2016, 2015 and 2014, respectively. A significant portion of these amounts is a result of the Company's obtaining of interest-bearing loans, repayments of such loans and payment of the corresponding interests.

Loans Payable

As of December 31, 2016 and March 31, 2017, the details of the Company's interest-bearing loans are as follows:

Term Loans

	Security	Terms (Years)	Interests Rates	December 31, 2016 (₱ million)	March 31, 2017 (₱ million)
BDO Unibank, Inc. (BDO)	MTkr Chelsea Donatela	5	5.54%	442	420
China Banking Corporation (CBC)	MTkr Chelsea Charlize	7	3.25%	398	402
Philippine Business Bank (PBB)	MTkr Chelsea Endurance	7	4.32%	323	326
PBB	MTkr Chelsea Dominance	7	4.50%	376	379
BDO	Trans Asia 1, Trans-Asia 10	10	4.25%	243	297
BDO	MTkr Chelsea Denise II	5	6.46%	241	231
BDO	MTkr Chelsea Thelma, MTkr Chelsea Excellence	7	One year LIBOR + 3.50%	239	216
CBC	Trans Asia 12	8	4.25%	71	-
BDO	Trans Asia 10	10	4.25%	65	
CBC	Trans Asia 5	10	5.00%	62	-
Asian United Bank (AUB)	MTug Fortis I and MTug Fortis II	5	7.00%	44	39
Development Bank of the Philippines (DBP)	MTkr Chelsea Cherylyn	2	5.00%	28	14
BDO	Trans Asia 8 and 9	3.5	4.25%	19	13
Philippine Bank of Communications (PBComm)	MTug Samal	5	6.50%	18	16
PBComm	MTug Pindasan	5	6.50%	15	13
United Coconut Planters Bank (UCPB)	MTug Sigaboy	5	6.00%	13	12
				2,597	**2,378**

(a) Omnibus Loan and Security Agreement (OLSA) with BDO – MTkr Chelsea Donatela and MTkr Chelsea Denise II

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

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

The loans are secured by a chattel mortgage on MT Chelsea Donatela and MT Chelsea Denise II, respectively.

(b) OLSA with BDO – MTkr Chelsea Thelma

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

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

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of ₱958.8 million and ₱989.6 million as of March 31, 2017 and December 31, 2016, respectively, and by a collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group.

(c) Term Loan Agreement ("TLA") with CBC – MTkr Chelsea Charlize

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

The loan is secured by a chattel mortgage on MTkr Chelsea Charlize with net carrying amount of ₱456.9 million and ₱460.8 million as of March 31, 2017 and December 31, 2016, respectively.

(d) TLA with PBB – MTkr Chelsea Endurance and MTkr Chelsea Dominance

On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into loan agreements with PBB amounting to US$6.5 million and US$7.6 million, respectively, to finance the acquisition of MTkr Chelsea Endurance and MTkr Chelsea Dominance, respectively. The loans are subject to annual effective interest rate of 4.32% for MT Chelsea Endurance and 4.5% for MTkr Chelsea Dominance and are payable in 24 equal monthly installments with one-year grace period from date of each release.

The loans are secured by a chattel mortgage on MTkr Chelsea Endurance and MTTkr Chelsea Dominance with net carrying amounts totaling ₱750.3 million and ₱763.8 million, respectively, as of March 31, 2017 and December 31, 2016.

(e) TLA with AUB – MTug Fortis I and MTug Fortis II

In 2013, FTC obtained interest-bearing loans from a bank to partially finance the acquisition of tugboats amounting to ₱100 million. The loan bears fixed interest rate at 7.0% for the first three years from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the **"Repricing Date"**). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.0% subject to a floor of 7.0%. The loan is payable in 18 quarterly installments over a period of five years. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

Certain trade receivables amounting to ₱22.2 million and ₱25.2 million as of March 31, 2017 and December 31, 2016, respectively, were assigned to secure the payment of these interest-bearing loans. Moreover, certain tugboats of FTC with net carrying amounts of ₱152.2 million and ₱155.6 million as of March 31, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of these loans.

(f) TLA with DBP

On October 30, 2014, CSC entered into a loan agreement with DBP amounting to ₱140 million to finance the drydocking and repairs and maintenance expenses of MTkr Chelsea Resolute, MTkr Chelsea Cherylyn and MTkr Chelsea Denise. The loan is subject to annual interest rate of 5.00% and is payable in eight equal quarterly installments commencing on the first quarter from the initial drawdown.

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

The loans are secured by a chattel mortgage on MkrT Chelsea Cherylyn with net carrying amount of ₱1,163.8 million and ₱1,177.8 million as of March 31, 2017 and December 31, 2016, respectively. The loans are also secured by a collateral on certain receivables of the Group and guaranteed by certain stockholders of the Group.

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

In 2014, Trans-Asia Shipping availed loans from BDO for the acquisition of Trans-Asia 10 totaling to ₱120 million at an interest rate of 4.5% per annum. Another loan amounting to ₱79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly.

Trans-Asia made additional loans from BDO totaling to ₱263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

(h) TLA with CBC

Trans-Asia secured borrowings from CBC in 2010 in the amount of ₱135 million. This loan is payable for a term of ten years inclusive of two years grace period at 5.00% per annum. Interest is to be paid quarterly in arrears based on diminishing balance.

In addition, a loan from CBC amounting to ₱71.1 million was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two years and interest is payable monthly in arrears based on diminishing balance. This loan is to partially finance the purchase of Trans-Asia 12, a vessel owned by one of its subsidiaries, Oceanstar.

(i) TLA with UCPB and PBComm – DGMSI

In 2014, DGMSI obtained loans from UCPB and PBComm to fund its acquisition of secondhand tugboats imported from Japan and Korea for use in the expansion of its business activity. The same loans are collateralized with three of its tugboats acquired and a time deposit placement amounting to ₱5 million. These loans have interest rates ranging from 6.00% to 6.50% per annum, and are subject to annual resetting. These loans will mature on various dates in 2019.

Bank Loans

	Security	Terms (Years)	Interests Rates	December 31, 2016 (₱ million)	March 31, 2017 (₱ million)
CBC	Mortgage	181	4.50%	1,800	1,800
CTCB Bank (Philippines), Inc.	Continuing Suretyship	180	4.00%	700	700
Maybank (Philippines), Inc.	Unsecured	90	5.50%	592	75
DBP	MTkrChelsea Cherylyn	180	4.25%	200	200
Multinational Investment Bancorporation (MIB)	Unsecured	30 to 96	4.25% to 5.00%	174	175
PBComm	MTkr Chelsea Intrepid, MTkr Ernesto Uno	180 to 270	4.75%	158	197
Robinsons Bank Corporation (RBC)	MTkr Chelsea Denise	180	5.75%	54	65
Security Bank Corporation (SBC)	Real Estate Mortgage	120	4.00%	49	48
UCPB	MTkr Chelsea Intrepid, MTkr BMI Patricia	90	5.75%	41	39
Metropolitan Bank and Trust Company (MBTC)	Unsecured	120	4.00%	37	-
SBC	Chattel Mortgage	5	6.50%	35	29
BDO	Real Estate Mortgage	180	4.00%	20	18
UCPB	Accounts Receivable	180	6.00%	5	5
SBC	Unsecured	10	4.00%	-	124
Others – MIB-arranged Loans	Unsecured	30 to 96	4.25% to 5.00%	711	815
				4,576	**4,290**

Capital Expenditures

CLC makes capital expenditures annually to support its business goals and objectives. As part of its strategy, the Company invests capital in new vessels. The Company also invests in on-going maintenance of existing vessels.

The following table sets out the Company's capital expenditures in 2014, 2015 and 2016, and its budgeted capital expenditures for 2017.

	2014 (Actual)	**2015 (Actual)**	**2015 (Actual)**	**2017 (Budget)**
Vessels	1,235	778	1,604	2,730
Others	72	11	56	966
Total	**1,307**	**789**	**1,660**	**3,696**

The bank loans were obtained to finance the acquisition and drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of ₱1,459.8 million and ₱513.3 million as of March 31, 2017 and December 31, 2016, respectively, and by certain stockholders.

The Company has historically funded its capital expenditures primarily through project financing and from internally generated funds derived from operating income.

Although these are its current plans with respect to its capital expenditures, such plans may be modified as a result of a change in circumstances. In addition, the actual amount of expenditures may vary from the planned amount of expenditures for a variety of reasons, including changes in market conditions, competition and other factors. As the Company continues to expand, it may incur additional capital expenditures.

Contractual obligations and commitments

Set out below is a summary of the Company's undiscounted contractual commitments by maturity:

	Contractual Obligations and Commitments as of December 31, 2016		
	Payments due by Period (₱ million)		
	Total	**2017**	**2018-2022**
Loans payable - current	**5,029**	**5,029**	**-**
Loans payable - non-current	**2,343**	**-**	**2,343**
Trade and other payables	**1,359**	**1,359**	**-**
Total	**8,731**	**6,388**	**2,343**

The Company has made arrangements with the lender banks to refinance the P1.8 billion CBC loan to a six-year term loan, while the ₱700-million CTBC loan will be refinanced to a five-year term loan.

Key Performance Indicators

The Company's key performance indicators as of and for the years ended December 31, 2014, 2015 and 2016 and for the three months ended March 31, 2016 and 2017 are set forth below:

	For the years ended December 31			For the 3 months ended March 31	
	2014	**2015**	**2016**	**2016**	**2017**
Gross Profit Ratio............................	**23%**	**20%**	**26%**	**21%**	**27%**
Debt to Equity Ratio........................	**1.85**	**1.85**	**5.89**	**5.89**	**1.15**
EBITDA..	**580**	**735**	**1,018**	**207**	**290**
EBITDA Margin.............................	**31%**	**30%**	**35%**	**35%**	**47%**
ROE (%)..	**6%**	**4%**	**8%**	**1%**	**0%**

Notes:

(1) *Gross profit ratio is derived by dividing gross profit over revenues.*

(2) *Debt to equity ratio is computed by dividing total liabilities by total equity.*

(3) *EBITDA is computed as net income, excluding interest income, before interest expenses, provision for income taxes, depreciation and amortization. The table below sets forth further information with respect to the computation of EBITDA for the years ended December 31, 2014, 2015 and 2016 and for the three months ended March 31, 2016 and 2017:*

	For the years ended December 31			For the 3 months ended March 31	
	2014	2015	2016	2016	2017
	(millions)				
Net income	**139**	**99**	**132**	**19**	**27**
Add:					
Tax expense (income)	**(24)**	**14**	**76**	**17**	**11**
Interest expense	**135**	**170**	**203**	**46**	**87**
Depreciation and amortization	**331**	**454**	**609**	**127**	**166**
Less:					
Interest income	**(1)**	**(2)**	**(2)**	**(1)**	**(1)**
EBITDA	**580**	**735**	**1,018**	**208**	**290**

(4) *EBITDA margin is computed as EBITDA divided by Revenue.*

(5) *ROE is computed as Net Income divided by Total Equity (actual, not annualized).*

Off-balance sheet arrangements

As of March 31, 2017, CLC is not a financial guarantor of the obligations of any unconsolidated entity, and is not a party to any off-balance sheet obligations or arrangement.

Quantitative and qualitative disclosure of market risk

The Company's principal financial instruments consist of cash and interest-bearing loans. The main purpose of its financial instruments is to finance its operations. CLC has various other financial assets and liabilities such as trade and other receivables, accounts payable and other current liabilities arising directly from operations.

The main risks arising from the Company's financial instruments are market risks (including foreign currency sensitivity and interest rate sensitivity), credit risk and liquidity risk. See note 26 of the notes to our audited financial statements for the years ended December 31, 2014, 2015 and 2016, respectively.

Credit Risk

Credit risk is the risk where a loss will be incurred when customers or counterparties fail to comply with their contractual obligations. The Company manages and controls credit risk by transacting only with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to transact on credit terms are subject to credit verification procedures. In addition, the Company monitors receivable balances on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations.

Financial Ratios

	December 31, 2016	March 31, 2017
Current Ratio.................................	**0.40**	**0.33**
Quick Ratio....................................	**0.22**	**0.18**
Debt to Equity Ratio.......................	**5.89**	**1.15**
Return on Equity............................	**8.44%**	**3.54%**
Interest Coverage Ratio................	**0.70**	**0.51**

Current Ratio
Current ratio declined from 0.40 as of December 31, 2016 to 0.33 as of March 31, 2017 as a result of significant decrease in current assets particularly cash and cash equivalents, subscription receivables and advances to related parties amounting to ₱305 million, ₱350 million and ₱194 million, respectively. Management plans to improve the Company's current ratio through refinancing certain short-term loans totaling ₱2.5 billion into term loan facilities with maturities of five to six years.

Quick Ratio
Quick ratio declined from 0.22 as of December 31, 2016 to 0.18 as of March 31, 2017 as a result of significant decrease in cash and cash equivalents amounting to ₱305 million. Management plans to improve the Company's current ratio through refinancing certain short-term loans totaling P2.5 billion into term loan facilities with maturities of five to six years.

Debt-to-equity Ratio
The Company's debt-to-equity ratio significantly improved from 5.89 as of December 31, 2016 to 1.15 as of March 31, 2017. The improvement in the Company's debt-to-equity ratio was due to the issuance of new shares during the first quarter of 2017 in exchange for the Company's indirect ownership interest in 2Go Group, Inc.

Return on Equity
Return on equity for the first quarter ended March 31, 2017 stood at 3.54% from 8.44% for the year ended December 31, 2016. The drop in this ratio was due to the shorter period of operations for the quarter ended March 31, 2017 compared to year ended December 31, 2016, coupled with the higher amount of equity as of March 31, 2017 as a result of the share issuance during the first quarter of 2017. Management believes this ratio will significantly improve by the end of the year as peaks in the Company's operations are normally experienced during the second quarter and fourth quarter due to summer vacations and increased movement of goods and services as we approach the Christmas season. In addition, the consolidation of 2Go Group, Inc., which is expected to be completed by the third quarter, will also trigger the improvement in the Company's return on equity.

Interest Coverage Ratio
Interest coverage ratio declined from 0.70 for the year ended December 31, 2016 to 0.51 for the first quarter ended March 31, 2017. The decrease was expected given that the first quarter is considered to be a lean season of the shipping and logistics industry. Management believes this ratio will significantly improve by the end of the year as peaks in the Company's operations are normally experienced during the second quarter and fourth quarter due to summer vacations and increased movement of goods and services as we approach the Christmas season. In addition, the consolidation of 2Go Group, Inc., which is expected to be completed by the third quarter, will also trigger the improvement in the Company's return on equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF PRO FORMA FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the pro forma financial information of the Company as of and for the year ended December 31, 2016.

Prospective investors should read this discussion and analysis of our Pro Forma Financial Information in conjunction with the Pro Forma Financial Information and the notes thereto, and the Audited Combined Historical Financial Statements and the notes thereto, in each case set forth elsewhere in this Prospectus. Our Pro Forma Financial Information as of and for the year ended December 31, 2016 was derived from the Audited Combined Historical Financial Statements, adjusted to give effect to the Reorganization, the Operational Restructuring and the Offer as described under "Use of Proceeds" as if they had occurred on January 1, 2016. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The Pro Forma Financial Information does not purport to represent what our results of operations and those of our subsidiaries would actually have been had the Reorganization, the Operational Restructuring and the Offer in fact occurred on January 1, 2016, nor does it purport to project our results of operations and those of our subsidiaries for any future period or date. For additional information regarding financial information presented in this Prospectus, see "Presentation of Financial Information" on page vi of this Prospectus.

The following discussion is based on our Pro Forma Financial Information, which assumes that (i) UIBV's assets and liabilities were acquired by CLC on January 1, 2016 through issuance of its own capital stock with a total value of ₱6,048 million, (ii) CLC is fully operational as it has been existing for the calendar year ended December 31, 2016, and, (iii) the transaction related to the acquisition of UIBV and the derecognition of some of its assets and liabilities were translated using the applicable exchange rate as of January 1, 2016.

Pro Forma Income Statement

	December 31, 2016
NET SALES.......................................	1,638
COST OF SALES..............................	1,261
GROSS PROFIT................................	377
GENERAL AND ADMINISTRATIVE EXPENSES...................................	155
OTHER INCOME - Net....................	3,575
INCOME BEFORE TAX..................	3,797
TAX EXPENSE (INCOME)..............	4
NET INCOME..................................	3,793

Pro Forma Balance Sheet

ASSETS	2016
CURRENT ASSETS..............................	
Cash and cash equivalents..............	534
Trade and other receivables - net..	945
Subscription receivable...................	350
Financial assets at fair value through profit or loss.................	11
Available-for-sale financial assets...	3
Inventories......................................	79
Advances to related parties............	194
Other current assets.......................	543
Total Current Assets................	2,659
NON-CURRENT ASSETS....................	
Property and equipment - net.........	7,819
Investment in an associate and a joint venture...........................	2,530
Goodwill..	7,274
Post-employment benefit asset......	5
Deferred tax assets........................	7
Other non-current assets - net......	175
Total Non-current Assets........	17,810
TOTAL ASSETS..................................	20,469

LIABILITIES AND EQUITY	2016
CURRENT LIABILITIES....................	
Trade and other payables...............	1,359
Interest-bearing loans......................	5,029
Advances from related parties.......	86
Advances from customers..............	14
Deposits for future stock subscription................................	50
Income tax payable.........................	76
Total Current Liabilities..........	6,614
NON-CURRENT LIABILITIES..........	
Interest-bearing loans.....................	2,343
Post-employment benefit obligation................................	4
Deferred tax liabilities - net..........	224
Other non-current liabilities.........	14
Total Non-Current Liabilities..	2,585
TOTAL LIABILITIES.......................	9,199
TOTAL EQUITY................................	11,270
TOTAL LIABILITIES AND EQUITY	20,469

Pro Forma Statement of Cash Flows

	December 31, 2016
Net cash provided by operating activities.....................................	**(572)**
Net cash used in investing activities.....................................	**(2,986)**
Net cash provided by financing activities.....................................	**3,865**
Effect of exchange rate changes on cash and cash equivalents...........	**6**
Net increase (decrease) in cash and cash equivalents...........	**313**
Cash and cash equivalents from acquired subsidiaries.................	**166**
Cash and cash equivalents at beginning of year........................	**55**
Cash and cash equivalents at end of year.................................	**534**

Overview

As part of the Company's general corporate reorganization, CLC acquired on March 27, 2017 all of UIBV's outstanding capital stock through a share swap agreement with Udenna Corporation wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna Corporation. UIBV was incorporated on August 25, 1994 and is a private limited liability company organized under the Dutch Law. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, a domestic corporation which was incorporated on August 8, 2008. KGLI-NM was incorporated and registered with the Philippine SEC primarily as an investment holding company and holds 39.85% economic interest in and owns 60% of the voting stock in Nenaco. KGLI-NM acquired such interests in Nenaco on May 13, 2008. Nenaco, in turn owns 88.31% of 2Go. Nenaco acquired its interests in 2Go on December 28, 2010. Hence, CLC has 28.15% indirect economic interest in 2Go. Nenaco and 2Go is the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

Pro Forma Results of Operations

The following table summarizes our pro forma condensed consolidated results of operations for the year ended December 31, 2016. These amounts have been derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, our Pro Forma Financial Information included elsewhere in this Prospectus. Our Pro Forma Financial Information was prepared in accordance with paragraph 8 of Rule 68 of the Philippines SEC's Implementing Rules and Regulations of the Securities and Regulation Code, as amended.

	December 31, 2016
NET SALES.......................................	1,638
COST OF SALES..............................	1,261
GROSS PROFIT................................	377
GENERAL AND ADMINISTRATIVE EXPENSES...................................	155
OTHER INCOME - Net....................	3,575
INCOME BEFORE TAX..................	3,797
TAX EXPENSE (INCOME)..............	4
NET INCOME..................................	3,793

Basis for disclosure

The audited consolidated historical financial information has been adjusted in the Pro Forma Financial Information to give pro forma effect to events that are (1) directly attributable to the Reorganization and other steps taken or projected and highly probable to be taken before and in order to prepare for the Offer, (2) factually supportable and (3) with respect to the pro forma condensed consolidated statement of comprehensive income, expected to have a continuing impact on the consolidated results following the Reorganization or other steps taken. As a result, considering the aforementioned relevant characteristics, several transactions that occurred after December 31, 2016, or that we still expect will occur before the Offer, have been given pro forma effect as of January 1, 2016 and for the full year 2016, including the Reorganization, the Operational Restructuring and the Offer as described elsewhere in the notes to the Pro Forma Financial Information.

Consequently, the following review of the pro forma condensed consolidated results of operations for the year ended December 31, 2016, considers by reference the same operational disclosures included in the review of operations of the Audited Consolidated Historical Financial Statements for the year ended December 31, 2015, and further elaborates exclusively on the effects of the pro forma adjustments, as follows:

Net Sales

Pro forma revenues for the year ended December 31, 2016 amounts to ₱1,638 million. There were no pro forma effects on revenues.

Cost of Sales

Pro forma cost of sales for the year ended December 31, 2016 amounts to ₱1,261 million. There were no pro forma effects on cost of sales.

General and Administrative Expenses

Pro forma general and administrative expenses for the year ended December 31, 2016 amounts to ₱155 million. There were no pro forma effects on general and administrative expenses.

Other Income – Net

Pro forma other income for the year ended December 31, 2016 amounts to ₱3,575 million. This amount represents a total increase of ₱3,661 million from historical audited consolidated financial information. The increase was primarily the result of the Company's share in equity in net earnings of KGLI-NM, which holds the ownership interest in Nenaco and eventually in 2Go Group, Inc.

Tax Expense

Pro forma tax expense for the year ended December 31, 2016 amounts to ₱4 million. There were no pro forma effects on tax expense.

Net income

As a result of the above, pro forma net income for the year 2016 was ₱3,793 million, which represents, an increase of ₱3,661 million as compared to the audited consolidated historical net income for the same year.

Pro Forma Balance Sheet

ASSETS	2016
CURRENT ASSETS	
Cash and cash equivalents	534
Trade and other receivables - net	945
Subscription receivable	350
Financial assets at fair value through profit or loss	11
Available-for-sale financial assets	3
Inventories	79
Advances to related parties	194
Other current assets	543
Total Current Assets	2,659
NON-CURRENT ASSETS	
Property and equipment - net	7,819
Investment in an associate and a joint venture	2,530
Goodwill	7,274
Post-employment benefit asset	5
Deferred tax assets	7
Other non-current assets - net	175
Total Non-current Assets	17,810
TOTAL ASSETS	20,469

LIABILITIES AND EQUITY	2016
CURRENT LIABILITIES..................	
Trade and other payables..............	1,359
Interest-bearing loans....................	5,029
Advances from related parties.......	86
Advances from customers.............	14
Deposits for future stock subscription..............................	50
Income tax payable........................	76
Total Current Liabilities..........	6,614
NON-CURRENT LIABILITIES.........	
Interest-bearing loans....................	2,343
Post-employment benefit obligation...............................	4
Deferred tax liabilities - net..........	224
Other non-current liabilities..........	14
Total Non-Current Liabilities..	2,585
TOTAL LIABILITIES.......................	9,199
TOTAL EQUITY...............................	11,270
TOTAL LIABILITIES AND EQUITY	20,469

The pro forma balance of the Investment in associate account in the Company's Pro Forma Consolidated Financial Statements will decrease by ₱384 million as a result of the restatement in 2Go and Nenaco's consolidated financial statements. The Pro Forma Financial Statements of the Company for December 31, 2016 does not yet consider the restatement of 2Go's financial statement as the Company is still waiting for Nenaco's audited financial statements in order to proceed with its own review and consolidation.

Liquidity and Capital Resources

Sources and Uses of Cash

There were no pro forma effects on reported audited consolidated historical cash and cash equivalents as of December 31, 2016 as the acquisition of UIBV including the Company's share in net income of the operating subsidiary is a non-cash transaction.

Capital Expenditures

There were no pro forma effects on reported audited consolidated historical capital expenditures for the year ended 2016.

Indebtedness and Material Contractual Obligations

Likewise, there were no pro forma effects on reported audited consolidated indebtedness and material contractual obligation as of December 31, 2016 as the acquisition of UIBV was completed through a share swap agreement.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, operating results and liquidity or capital resources.

BUSINESS

Chelsea Logistics Holdings Corp. is a corporation organized and registered with the Philippine SEC on August 26, 2016 as Chelsea Shipping Group Corp primarily to act as a holding company. On December 21, 2016, the Philippine SEC approved its change in corporate name to Chelsea Logistics Corp. Subsequently, on June 27, 2017, the Philippine SEC again approved the Company's change in corporate name to Chelsea Logistics Holdings Corp. The Company, through its following wholly-owned subsidiaries, is engaged in the shipping transport business, described in detail as follows:

1. CSC, incorporated on July 17, 2006, is engaged in the maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines.

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

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

1. PNX-Chelsea, incorporated on February 2, 2011, is engaged in operating vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.

2. FTC, incorporated on April 8, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. DGMSI, a wholly-owned subsidiary of FTC, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock at the District Port of Davao and all other ports in the Philippines.

3. MI, incorporated on December 26, 1957, is engaged in the business of acquiring and operating floating equipment for charter or hire, and for conveyance and carriage of goods, wares and merchandise of every description in the Philippine coastwise traffic.

4. BMI, incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

5. CSMMSC, incorporated on March 30, 2012, is engaged in ship management and is authorized to act as agent, broker, ship chandler or representative of foreign/ domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

6. CMMRI, incorporated on June 9, 2016, is engaged in providing full and partial crewing for domestic and foreign vessels, and is authorized to act as representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

None of CLC's subsidiaries is under any bankruptcy, receivership or similar proceedings. Further, such subsidiaries have not engaged in any material reclassification, merger, consolidation or purchase or sale of a significant amount of assets that is not in the ordinary course of business.

All applicable taxes for the Company's acquisition of its subsidiaries CSC and Trans-Asia, and additional issuance of shares were timely paid. The Certificates Authorizing Registration covering the acquisitions have been issued in favor of the relevant filing Company.

Shown below is the CSC fleet specification.

11 Tankers

Unit	Vessel Name	Registered Owner	Age	Class	GRT	Capacity	
						Barrels	Liters
1	Thelma	CSC	5	BV	9,366.00	91,667	16,500,000
2	Donatela	PNX-Chelsea	4	BV	9,366.00	92,935	16,728,280
3	Cherylyn	CSC	8	BV	4,126.00	34,088	6,135,834
4	Dominance	PNX-Chelsea	1	ABS	2,993.00	23,272	4,188,953
5	Denise II	PNX-Chelsea	5	BV	2,990.00	23,196	4,175,300
6	Endurance	PNX-Chelsea	11	NKK	2,547.00	21,862	3,935,160
7	Resolute	CSC	38	ORS	1,852.00	18,490	3,328,210
8	Charlize	PNX-Chelsea	2	KRS	1,589.00	13,611	2,450,000
9	Denise	CSC	32	ORS	1,138.00	10,451	1,881,175
10	Ernesto Uno	MI	38	ORS	736.00	9,711	1,748,016
11	Enterprise	CSC	32	FVCSA	655.29	4,997	899,398

4 Barges

Unit	Vessel Name	Cargo	Age	Class		Capacity	
					GRT	Barrels	Liters
1	Excellence	CSC	19	ORS	736.00	6,989	1,258,030
2	Intrepid	CSC	23	ORS	435.00	4,550	818,972
3	Patricia	BMI	36	PRS	422.00	5,269	706,134
4	Jasaan	MI	27	ORS	410.62	5,269	948,440

CSC and its subsidiaries, BMI, MI and PNX-Chelsea, provides four (4) types of charter services, namely, voyage charter, time charter, bareboat charter and continuing voyage charter, described as follows:

1. Voyage Charter

   The hiring of a vessel and crew for a voyage between a loading port and a discharging port. The charterer pays the vessel owner on a per-ton or lump-sum basis. The owner pays the port costs (excluding stevedoring), fuel costs and crew costs. The payment for the use of the vessel is known as freight. A voyage charter specifies a period, known as laytime, for unloading the cargo. If laytime is exceeded, the charterer must pay demurrage. If laytime is saved, the charter party may require the ship owner to pay dispatch to the charterer if applicable.

2. Time Charter

   The hiring of a vessel for a specific period of time; the owner still manages the vessel but the charterer selects the ports and directs the vessel where to go. The charterer pays for all fuel the vessel consumes, port charges, and a daily hire to the owner of the vessel.

3. Bareboat Charter

   An agreement where there is no maintenance liability or any kind of claim on the vessel by the owner for the period of lease of the vessel. It is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The charterer obtains possession and full control of the vessel along with the legal and financial responsibility for it. The charterer pays for all operating expenses, including fuel, crew, port expenses and P&I and hull insurance

4. Continuing Voyage Charter

   The same as in Voyage Charter except that this is exclusive for chartered vessels.

CSC's major customers include the following:

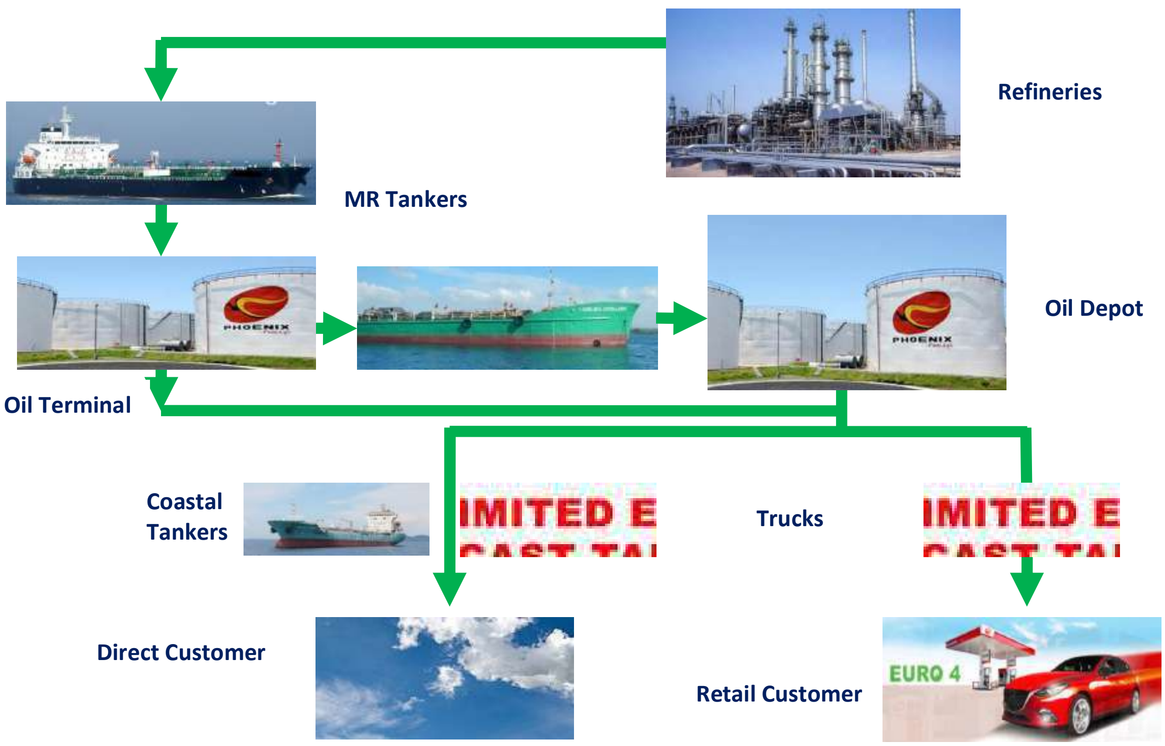
Phoenix Petroleum Philippines, Inc.– CSC has an existing time charter agreement for a period of six years commencing on January 1, 2016 covering M/Tkr Chelsea Resolute and M/Tkr Chelsea Denise for a fixed monthly rate of ₱8.5 million and M/Tkr Chelsea Denise II for a fixed daily rate. Charter rates are collected in advance at the beginning of each month.

Cebu Pacific Air, Inc. – CSC entered into a Contract of Affreightment for a period of three years commencing on January8, 2015, renewable for another two years upon mutual consent by both parties. Charter rates are dependent on a per route and per liter basis. Term of payment is 30 days.

Petron Corporation / Seaoil Philippines, Inc. / Chevron Philippines, Inc. / Pilipinas Shell Petroleum Corporation – CSC provides spot charter/voyage charter arrangements with various oil players in the Philippines.

Seagull Marine Pte. Ltd. – CSC entered into a bareboat agreement covering M/Tkr Chelsea Thelma and M/Tkr Chelsea Donatela for a period of five years commencing in November 2016 and March 2017, respectively, and renewable for another five years. Charter rates are based on a fixed monthly rate and collected in advance at the beginning of each month.

Below is the illustration of the petroleum supply chain and distribution network.



CSC caters to the need for marine transportation by chartering its vessels to other parties from the refinery to the customer's depot and/or from its depots to the customers' direct customers, retail networks and distributors.

On the other hand, Trans-Asia's wholly-owned subsidiaries are engaged in the following businesses:

1. Oceanstar is engaged in the business of domestic shipping for the transportation of passengers and cargoes within Philippine territorial seas and/or in high seas.

2. SSI is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

3. DCI is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in making, cooking, arranging, serving and catering goods, drinks, refreshments and other food or commodities commonly served in such establishments.

4. QMSI is engaged in providing machining and mechanical works on ship machineries and industrial plants.

Shown below are the Trans-Asia fleet specifications:

Unit	Vessel Name	Age	GRT	Capacity	
				TEU	Passenger
Seven Passenger / Cargo Vessels	Trans Asia 1	37	11,457	200	1,132
	Trans Asia 2	40	1,390	27	622
	Trans Asia 3	28	2,908	16	835
	Trans Asia 8	33	2,019	21	454
	Trans Asia 9	38	5,500	16	742
	Trans Asia 10	38	3,998	26	932
	Asia Philippines	42	1,053	15	531
Three Cargo Ships	Trans Asia 5	28	3,812	36	-
	Trans Asia 12	19	3,508	158	-
	Asia Pacific	37	1,378	21	-

The different routes served by the above vessels are as follows:

1. Manila
2. Cebu
3. Cagayan De Oro
4. Iloilo
5. Tagbilaran
6. Ozamis
7. Tacloban
8. Masbate

The Company generated total revenues of ₱1,848 million, ₱2,485 million and ₱2,900 million for the years ended December 31, 2014, 2015 and 2016, respectively, and net income of ₱139 million, ₱98 million and ₱132 million for the same periods. Of the total revenues, CSC accounts for ₱962 million, ₱1,593 million and ₱1,749 million for the years December 31, 2014, 2015 and 2016, respectively and Trans-Asia accounts for ₱886 million, ₱892 million, and ₱1,151 million for the same periods. CSC's net income amounts to ₱99 million, ₱106 million and ₱45 million for the years ended December 31, 2014, 2015 and 2016, respectively, while Trans-Asia Shipping reported net income of ₱40 million, net loss of ₱8 million and net income of ₱99 million for the same periods. Shown below is the breakdown of contribution of each revenue stream.

	For the 12 months ended December 31 (Audited)			For the 3 months ended March 31 (Audited)	
	2014	2015	2016	2016	2017
		(millions)		(millions)	
Charter fees.......................................	**45%**	**56%**	**52%**	**52%**	**43%**
Freight..	**28%**	**20%**	**23%**	**16%**	**20%**
Passage...	**20%**	**15%**	**16%**	**21%**	**26%**
Tugboats..	**7%**	**8%**	**8%**	**8%**	**10%**
Others...	**1%**	**1%**	**1%**	**1%**	**1%**

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna Corporation wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna Corporation. UIBV was incorporated on August 25, 1994 and is a private limited liability company organized under the Dutch Law. UIBV owns 80% economic interest in KGLI-NM, a domestic corporation which was incorporated on August 8, 2008 and was incorporated and registered with the Philippine SEC primarily as an investment holding company. KGLI-NM holds 39.85% economic interest in Nenaco. KGLI-NM acquired such interests in Nenaco on May 13, 2008. Nenaco, in turn owns 88.31% of 2Go. Nenaco acquired its interests in 2Go on December 28, 2010. Hence, CLC has a 28.15% indirect economic interest in 2Go. Nenaco and 2Go are the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

CLC's consolidated audited financial statements as of December 31, 2016 will not be affected by the restatement of 2Go's 2015 and 2016 financial statements as disclosed on the PSE EDGE system on July 7, 2017. Furthermore, the consolidated audited financial statements of CLC as of March 31, 2017, and this Prospectus will not be affected as the 2Go investment is only reflected at the acquisition cost, given that such acquisition only occurred on March 27, 2017. Further, the 2015 and 2016 restated consolidated financial statements of 2Go Group, Inc. does not impact CLC's acquisition of the indirect ownership in 2Go as the valuation was based on the forward-looking EBITDA of 2Go. As the restatements are non-cash and non-recurring in nature, these do not affect 2Go's EBITDA. However, the pro forma balance of the Investment in associate account in the Company's Pro Forma Consolidated Financial statements will decrease by approximately ₱384 million or about 2% of pro forma total assets as a result of the restatement in 2Go and Nenaco's consolidated financial statements.

The Issuer is not required to consolidate its investments in 2Go as the Issuer does not exercise control over 2Go as of March 31, 2017. PFRS 10, Consolidated Financial Statements, provides that *"an investor controls an investee if and only if the investor has all the following: (a) power over the investee; (b) exposure, or rights to, variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of investor's return"*.

While Mr. Dennis A. Uy, the Issuer's Founder and Chairman of the Board, was appointed as member of 2Go's Board of Dire tors on February 6, 2017, it was only upon the appointment of Mr. Uy as President and Chief Executive Officer of 2Go at the April 7, 2017 Board Meeting that the Issuer commenced to have control over 2Go's operations. Mr. Uy's appointment as a member of the Board of Directors only allows the Issuer *to participate in the financial and operating policy decisions* of 2Go and not exercise control. Accordingly, the Issuer's investment in 2Go is accounted for as an investment in an associate in accordance with PAS 28, *Investment in an Associate*.

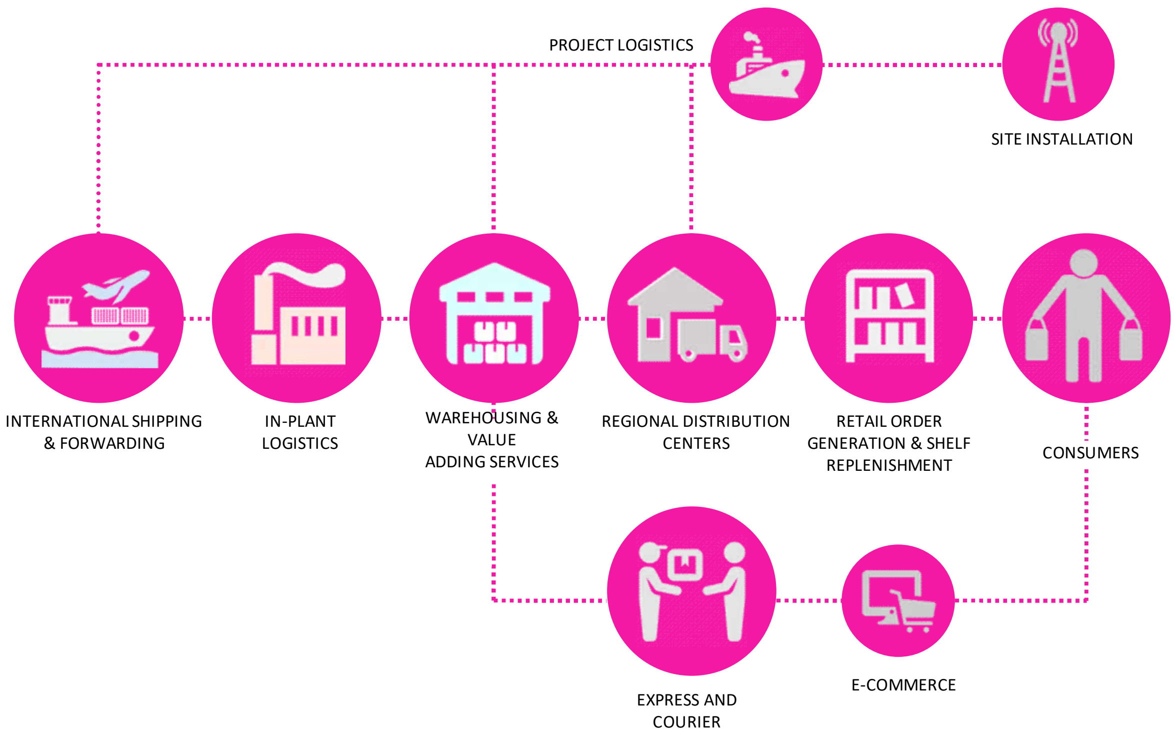
In addition, the Issuer is not the single majority stockholder of 2Go as of March 31, 2017 as China-ASEAN Marine B.V. has 52.81% indirect ownership as against the effective ownership of the Issuer of only 28.15%. As such, the Issuer does not have "the ability to use its power over the investee to affect the amount of investor's returns".

<u>2Go Vessel Fleet</u>

As of December 31, 2016, 2Go and its subsidiaries have a total fleet of twenty-four (24) operating vessels. The fleet consists of fast crafts, RoRo/RoPax vessels, and freighters and chartered vessels from third parties. These operating vessels have a combined Gross Registered Tonnage of approximately 127,546 metric tons, a total passenger capacity of approximately 13,561 passengers and an aggregate cargo capacity of approximately 3,724 twenty-foot equivalent units ("**TEUs**").

2Go also operates eight (8) RoRo/RoPax vessels calling on Manila as their homeport. These vessels are larger coastwise vessels that sail from Luzon to Visayas and Mindanao. This includes three (3) medium-sized vessels, formerly called the Cebu Ferries, two (2) of which have Batangas as its homeport, plying the Batangas-Caticlan route, while the other vessel calls on Manila as homeport and serves the Palawan route. The eight (8) fast craft passenger vessels, on the other hand, are smaller fast crafts that ply short distances. 2Go also operates eight (8) purely-cargo vessels to fully complement its freight business.

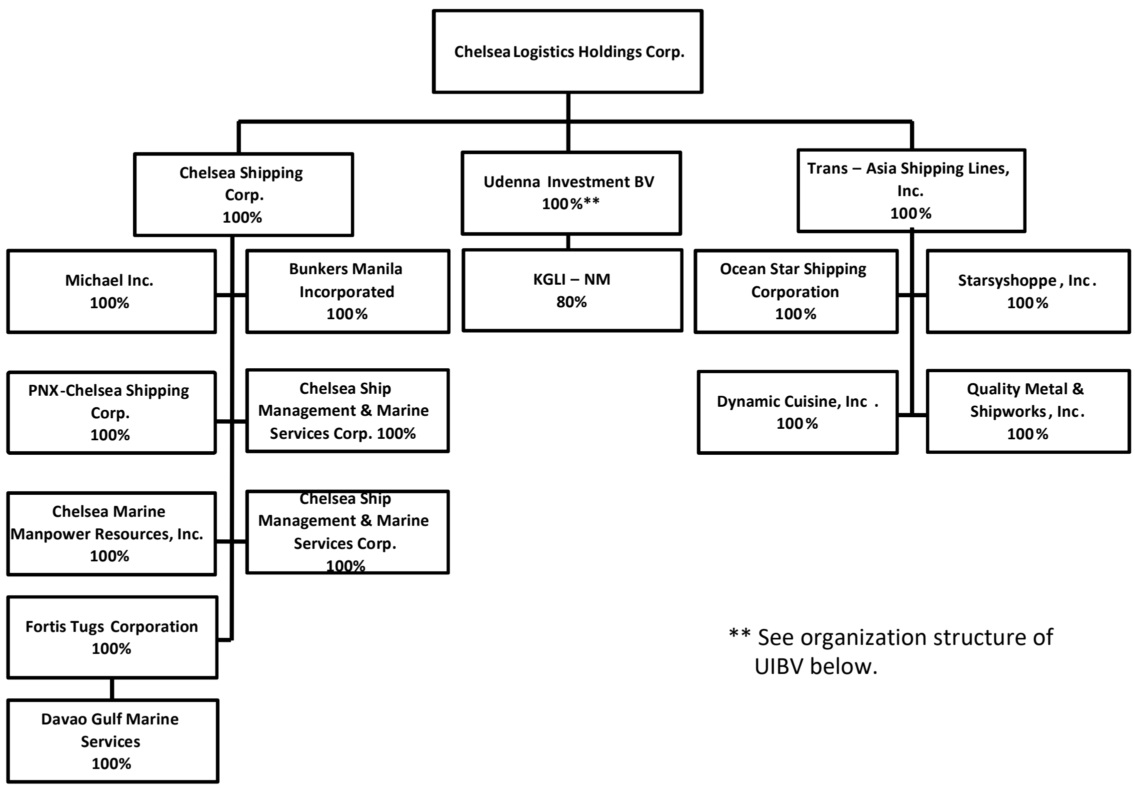
Below is the illustration of the logistics supply chain and distribution network of 2Go Group, Inc.

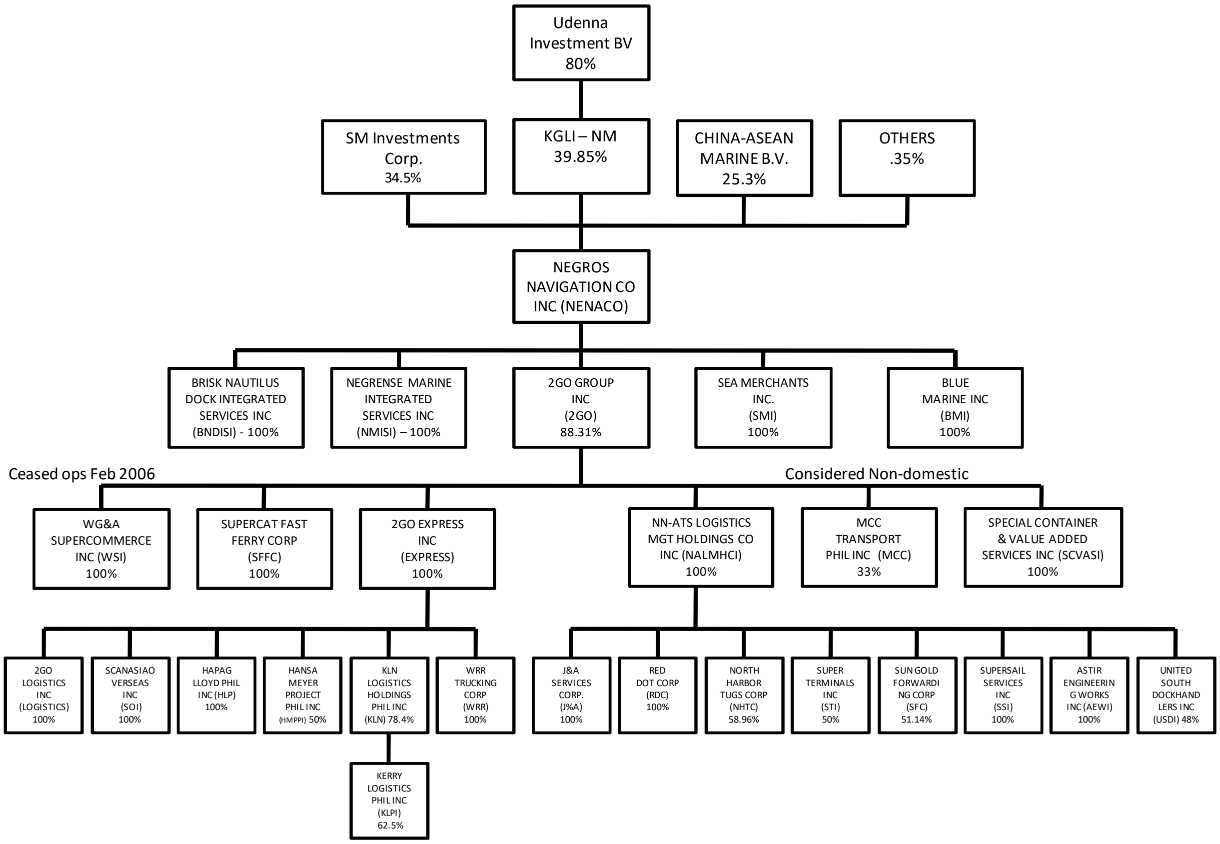


Corporate Structure and Reorganization

CLC undertook a general corporate reorganization in preparation for this Firm Offer. CLC acquired CSC and Trans-Asia from its previous stockholders through share purchase agreements, while the acquisition of UIBV was made through the issuance of shares via a share swap arrangement with Udenna Corporation. Furthermore, Fortis Tugs Corporation acquired 100% of the interest in Davao Gulf Marine Services, Inc.

All correct applicable taxes, fees and charges have been fully paid to the appropriate Philippine government offices and agencies involved in the reorganization. All relevant Certificates Authorizing Registration covering the acquisitions of the companies involved in the reorganization, CSC and Trans-Asia Shipping, have been properly obtained and secured. CLC is currently the legal and beneficial owner of the shares in CSC, Trans-Asia and UIBV.





Strengths

CLC believes that it will benefit from the following competitive strengths:

The Company has a classed fleet and an established preventive maintenance system and drydocking program, which ensures optimal machinery performance and hull quality of its vessels.

The Company's vessels are all classified and evaluated by Class Societies. A majority of the Company's vessels have been classified and evaluated by Orient Register of Shipping, Inc. and a number of vessels by Nippon Kaiji Kyokai (**"NKK"**), Bureau Veritas (**"BV"**), American Bureau of Shipping (**"ABS"**), Filipino Vessels Classification System Association, Inc. (**"FVCSA"**) and the Philippine Register of Shipping (**"PRS"**). These classification societies are focused on marine vessels and some are recognized by the International Association of Class Societies (**"IACS"**). Classification is normally required for obtaining the requisite Certificate of Public Convenience (**"CPC"**) from MARINA. Furthermore, classification also distinguishes the Company's fleet as meeting operational and safety standards. Normally, customers prefer to deal with companies that have classed vessels. The Company has an established preventive maintenance system and drydocking program for its vessel fleet to minimize the downtimes for engine breakdowns, engine overhauls and other types of repairs. During drydocking, routine engine evaluation, deck repainting, and hull cleaning are performed on the vessels. The Company endeavors to pass the strict evaluation of classification societies and ensures satisfaction of its clients by aligning their requirements with vessel specifications.

CSC has the largest tanker fleet by tonnage.

Based on the most recent MARINA information, CSC has the largest tanker fleet by tonnage amongst the six major tanker players in the industry with a total GRT of 39,271.64.

The Company is led by an experienced management team with over 470 man years of experience in the shipping industry.

Collectively, the management team of the Company includes the most experienced maritime professionals in the Philippine tanker, RoRo passenger and cargo industries. All of the Company's captains are duly licensed by MARINA.

Apart from their experience with the Company, most of the senior officers have had professional experience with other maritime companies, domestic and international, in various capacities. The Company's senior and middle management regularly attend extensive professional and technical trainings to further upgrade skills and keep abreast of latest developments in the industry. This depth and breadth of experience shared by the senior management merits the Company an advantage in its pursuit of business opportunities and providing quality services.

Aside from its affiliate P-H-O-E-N-I-X Petroleum Philippines, Inc ("PPPI")., which is a publicly-listed company, CSC has an established customer base that includes Cebu Pacific Air, Inc., Petron Corporation, Seaoil Philippines, Inc., Seagull Marine Pte. Ltd. and SMC Shipping & Lighterage Corporation.

CSC is the primary service provider of tanker services of PPPI. As PPPI continues to increase its market share, CSC capitalizes on this relationship by providing the corresponding vessel requirements needed to transport PPPI's products.

CSC also services other petroleum companies and major players in other industries such as Cebu Pacific Air, Inc., Petron Corporation, Seaoil Philippines, Inc., Chevron Philippines Inc., Pilipinas Shell Petroleum Corporation, and Seagull Marine Pte. Ltd. and SMC Shipping & Lighterage Corporation.

CLC is the affiliate of Calaca Industrial Seaport Corp. (formerly "Phoenix Petroterminals and Industrial Park Corp."), which is the owner/ operator of a private port. This allows CSC to have exclusive tug operations and priority berthing at said port.

CSC is the exclusive tugboat provider to all locators and port users at the private port of Calaca Industrial Seaport Corp. in Calaca, Batangas. In addition, CSC has the option to also operate in ports operated by its affiliate, PPPI. For its tankers, CSC enjoys priority berthing in all ports operated by its affiliates.

CSC has linkages with regional petroleum traders, which gives CSC opportunities to charter out its vessels.

CSC is the first in Philippine maritime history to bareboat charter its ships to an international charterer. Currently, two of its tankers are chartered by a prestigious Vietnamese shipping company under a five-year bareboat agreement, extendable for another five years upon mutual consent by both parties. The Company also taps the business partners of PPPI which require vessels for marine transport.

CLC holds significant beneficial interest in 2Go Group Inc.

2Go is largest supply chain enterprise and end-to-end solutions provider in the Philippines today. In May 1995, 2Go declared its Initial Public Offering putting up 235,714,285 shares on the PSE at ₱9.65 per share. This paved the way for expansion of the group, further developing its highly integrated supply chain platform. 2Go has the broadest network of strategically located warehouse operations and cross dock facilities nationwide; a logistics and distribution platform that enables national selling and merchandising for modern trade and convenience retailing; a national bulk transport network consisting of air, land and sea carriers that can fulfill both business-to-business (B2B) and business-to-customers (B2C) order through the group's Express network; and the widest cold chain delivery system and special bulk liquid carriers. 2Go also holds the distinction of being the most favored last-mile fulfiller of the fast growing e-commerce industry, having the widest logistics network in the country. Beyond the local logistics market, 2Go offers international sourcing and consolidation, customs clearance and brokerage, project cargo management, heavy lift and special cargo handling, global containerized transport and international freight forwarding. 2Go Group boasts of having the biggest sea cargo capacity carried by its very own fleet of RoRo and cargo vessels. Auxiliary services such as manpower, trucking and forwarding, water barging, tugboat services, engineering services, arrastre and stevedoring services are also offered by an alliance group to 2Go. With this formidable network in place, 2Go's scope of carrying capabilities range from light personal parcels to heavy equipment, through land, sea, or air, either locally or internationally.

Strategies

Establish regional presence in shipping by acquiring medium-range tankers for regional routes

CSC's medium term strategic plan involves the acquisition of a medium-range (MR) tanker to service existing importation requirements of PPPI. In addition, the Company also plans to expand its passenger and cargo operations in the region.

Re-fleeting and upgrade of vessels

The Company plans to acquire new and optimal-sized tankers and RoPax vessels configured to the preference of cargo owners and passengers respectively.

Expand into new routes currently not serviced by domestic vessels or by competitors

The Company capitalizes on first-mover advantage by expanding into areas in the Philippines which show superior growth. CLC constantly monitors the activity of various ports in the country, including key performance indicators such as ship calls and throughput. The Company also takes into consideration the expansion initiatives of each port and region to determine potential business opportunities. This monitoring process is integrated into the strategic deployment of its fleet.

Target acquisitions of other shipping and logistics companies

CLC is currently evaluating acquisition of two target shipping and logistics companies. The completion of the acquisition of these two targets will improve the profitability of the Company and increase its market shares, making CLC one of the dominant players in its field.

Develop facilities that will support the core business

The Company is developing support facilities for its core business, which facilities can be stand-alone businesses, separate from the core business, to wit:

1. Skills training and education facility;
2. Repair and maintenance and spare parts facility;
3. Safety and security facility;
4. Fuel, lubricants and laboratory facility; and
5. Culinary and catering facility.

The Company believes that the successful implementation of the above strategies will support its continued growth and profitability as it will increase the Company's market share and help it become the clear leader in the Philippine shipping industry.

Vessel Fleet

The Company currently maintains a fleet of eleven (11) tankers, four (4) barges, three (3) cargo vessels, eight (8) tugboats and seven (7) RoPax vessels.[2] Below is the table showing the average ages of the Company's vessels.

Type of Vessel	Average Age (in years)
Tankers	17
Barges	27
Tugboats	36
RoPax	36
Cargo	27

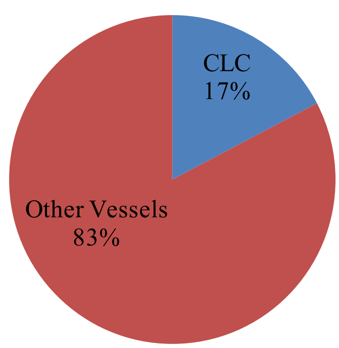
The Company obtained classification for its vessels as it is a MARINA requirement for the issuance of a CPC. Having a vessel classed ensures seaworthiness and compliance with the safety standards set forth by the MARINA. At present, most of the Company's vessels are domestically classed by Orient Register of Shipping, Inc., a MARINA-accredited classification society. Domestically-classed vessels are not recognized outside the Philippines unless they get classed by a classification society that is accredited by IACS. Seven (7) of the eleven (11) tankers of CSCare classed by IACS-certified entities i.e., BV, ABS, Korean Register of Shipping (KRS) and NKK. Refer to subsection "*Philippine Regulatory Matters in the Shipping Industry*" on page 109 for more details on classification.

[2]Does not include 16 RoPax and 8 Cargo vessels of 2Go

Shown below is a list of the vessels owned by the Company (excluding Nenaco and 2Go fleets). The Company's fleet is composed of eleven (11) tankers, four (4) barges, three (3) cargo vessels, eight (8) tugboats and seven (7) Ro-Pax vessels. In addition, CSC charters two (2) tugboats and, from time to time, spot charters tankers from third parties to supplement the fleet.

Name of Vessel	Registered Owner	Classification Society	Year Built	Type
M/Tkr Chelsea Thelma	CSC	Bureau Veritas	2012	Oil / Chemical Tanker
M/Tkr Chelsea Cherylyn	CSC	Bureau Veritas	2009	White Oil, Carrier, Tanker
M/Tkr Chelsea Denise	CSC	Ocean Register of Shipping	1985	Black / White Oil Carrier, Tanker
M/Tkr Chelsea Resolute	CSC	Ocean Register of Shipping	1979	White Oil, Carrier, Tanker
M/Tkr Chelsea Enterprise	CSC	Filipino Vessels Classification System Association, Inc.	1985	Black Oil Tanker
M/Tkr Chelsea Excellence	CSC	Ocean Register of Shipping	1998	White Oil, Carrier, Tanker
M/Tkr Chelsea Intrepid	CSC	Ocean Register of Shipping	1994	Black Oil Tanker
M/Tkr Chelsea Denise II	PNX - CSC	Bureau Veritas	2012	Black / White Oil Carrier, Tanker
M/Tkr Chelsea Dominance	PNX - CSC	American Bureau of Shipping	2016	Product Oil Tanker
M/Tkr Chelsea Donatela	PNX - CSC	Bureau Veritas	2013	Oil / Chemical Tanker
M/Tkr Chelsea Endurance	PNX - CSC	Nippon Kaijii Kyokai	2006	Product Oil Tanker
M/Tkr Chelsea Charlize	PNX - CSC	Korean Register of Shipping	2015	Product Oil Tanker
M/Tkr Ernesto Uno	MI	Ocean Register of Shipping	1979	White Oil, Carrier, Tanker
M/Tkr Jasaan	MI	Ocean Register of Shipping	1990	Black Oil Carrier, Tanker
M/Tkr BMI Patricia	BMI	PRS (Philippine Register of Shipping)	1981	Black Oil Carrier, Tanker
MV Trans Asia 1	Trans Asia Shipping	Ocean Register of Shipping	1980	Passenger Ship
MV Trans Asia 2	Trans Asia Shipping	Ocean Register of Shipping	1977	Passenger Ship
MV Trans Asia 3	Trans Asia Shipping	Ocean Register of Shipping	1989	Passenger Ship
MV Trans Asia 8	Oceanstar	Ocean Register of Shipping	1984	Passenger Ship
MV Trans Asia 9	Oceanstar	Ocean Register of Shipping	1979	Passenger Ship
MV Trans Asia 10	Trans Asia Shipping	Ocean Register of Shipping	1979	Passenger Ship
MV Asia Philippines	Trans Asia Shipping	Ocean Register of Shipping	1975	Passenger Ship
MV Trans Asia 5	Trans Asia Shipping	Ocean Register of Shipping	1989	Container Cargo Ship
MV Trans Asia 12	Trans Asia Shipping	Ocean Register of Shipping	1998	Container Cargo Ship
MV Asia Pacific	Trans Asia Shipping	Ocean Register of Shipping	1981	Other Cargo Ship
M/Tug Fortis I	FTC	Ocean Register of Shipping	1994	Tugboat
M/Tug Fortis II	FTC	Ocean Register of Shipping	1990	Tugboat
M/Tug Joy 98	FTC	Shipping Classification Standard of the Philippines Inc.	1972	Tugboat
M/Tug Fortis V	FTC	Korean Register of Shipping	1984	Tugboat
M/Tug Fortis VII	FTC	Korean Register of Shipping	1984	Tugboat
M/Tug Samal	DGMS	Shipping Classification Standard of the Philippines Inc.	1974	Tugboat
M/Tug Pindasan	DGMS	Shipping Classification Standard of the Philippines Inc.	1981	Tugboat
M/Tug Sigaboy	DGMS	Shipping Classification Standard of the Philippines Inc.	1971	Tugboat

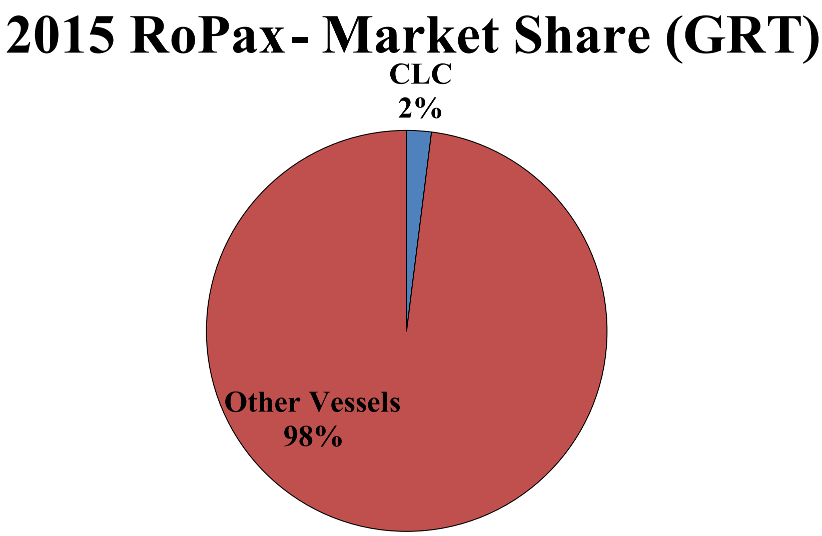
2015 Tankers - Market Share (GRT)



Source: MARINA

Tankers*				
	CLC	Other Vessels	Total Tankers > 500 GRT	%
Total GRT	39,614	189,324	228,938	17.30%
Total Count	15	106	121	12.40%

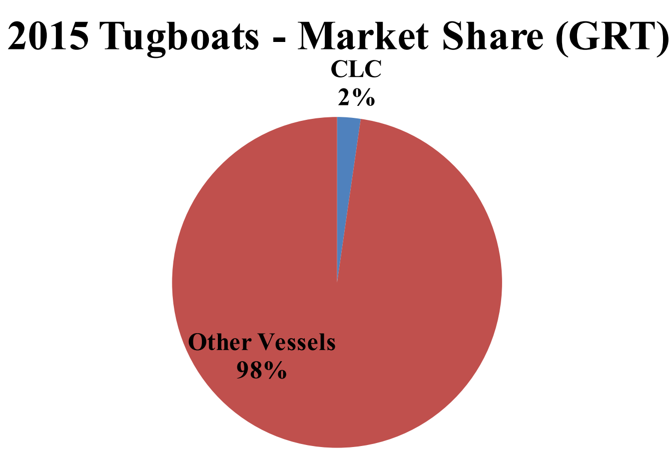
*includes Oil Tankers/Tankers/Chemical Tankers/LPG Carriers/Gas Carriers/Tanker Barge



Source: MARINA

Ropax**				
	CLC	Other Vessels	Total Ropax > 500 GRT	%
Total GRT	25,746	1,267,680	1,293,426	1.99%
Total Count	9	622	631	1.43%

includes **cargo, passenger, passenger cargo, passenger ship, passenger/cargo, passenger/cargo ship, passenger/roro ship, roro cargo, roro passenger/cargo ship & roro passenger



Source: MARINA

Tugboats*				
	CLC	Other Vessels	Total Tugboats > 100 GRT	%
Total GRT	1,332	57,204	58,535	2.33%
Total Count	6	271	277	2.17%

With an average age of tankers of 17 years; barges of 27 years; tugboats of 36 years; and Ro-Ro vessels of 32 years, the Company is well within the industry average.

Services

The Company currently derives the bulk of its revenues from four main service lines, namely: (a) Charter fees, (b) Passage, (c) Freight, and, (d) Tugboat fees.

Charter fees

This consists mainly of charter income arising from the charter hire of its tankers and is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB). Charter fees also include standby charges, which represent fees charged upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the customer. This is commonly referred to as demurrage.

Passage

This pertains to revenues generated from ferrying passengers from the point of embarkation to the point of disembarkation.

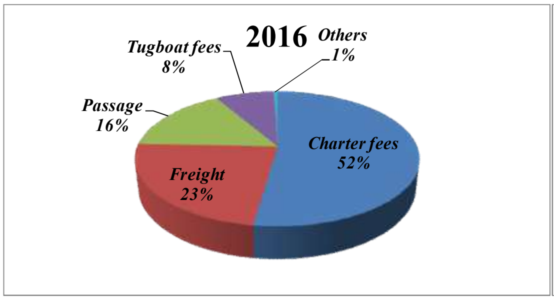
Freight

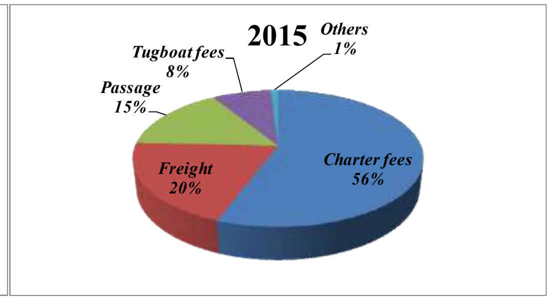
This pertains to revenues generated from transporting cargo from loading port to discharge port.

Tugboat fees

These are fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts.

Below is the information on the revenue contribution on each stream for the years ended December 31, 2016 and 2015.





Charter fees continue to be biggest contributor to the total revenues of the Company, followed by freight fees. With the acquisition of substantial stake in 2Go, it is expected that fees from freight and passage will further improve.

Plans and Prospects

The Company's business plan for the next twelve (12) to thirty-six (36) months involves the acquisition of vessels and vessel equipment, containers and terminal equipment, acquisition of other shipping and logistics companies and other general corporate purposes.

The schedule of the acquisition and disposal of vessels is presented in the table below.

	Acquire				Dispose
	Tankers	RoPax	Tugboats	Total	Tankers
2017	1	2	4	7	0
2018	2	2	0	4	2
2019	2	2	0	4	2
2020	1	2	0	3	1
2021	1	2	0	3	1

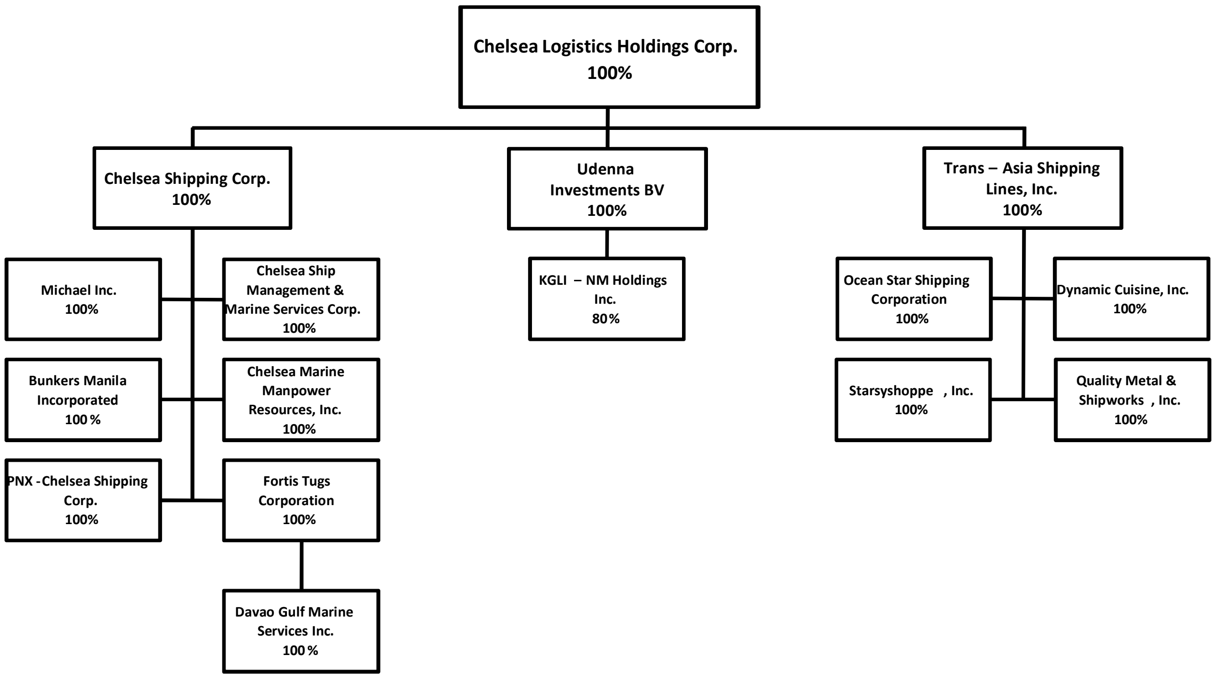
Domestic and International Expansion and Re-fleeting Initiatives

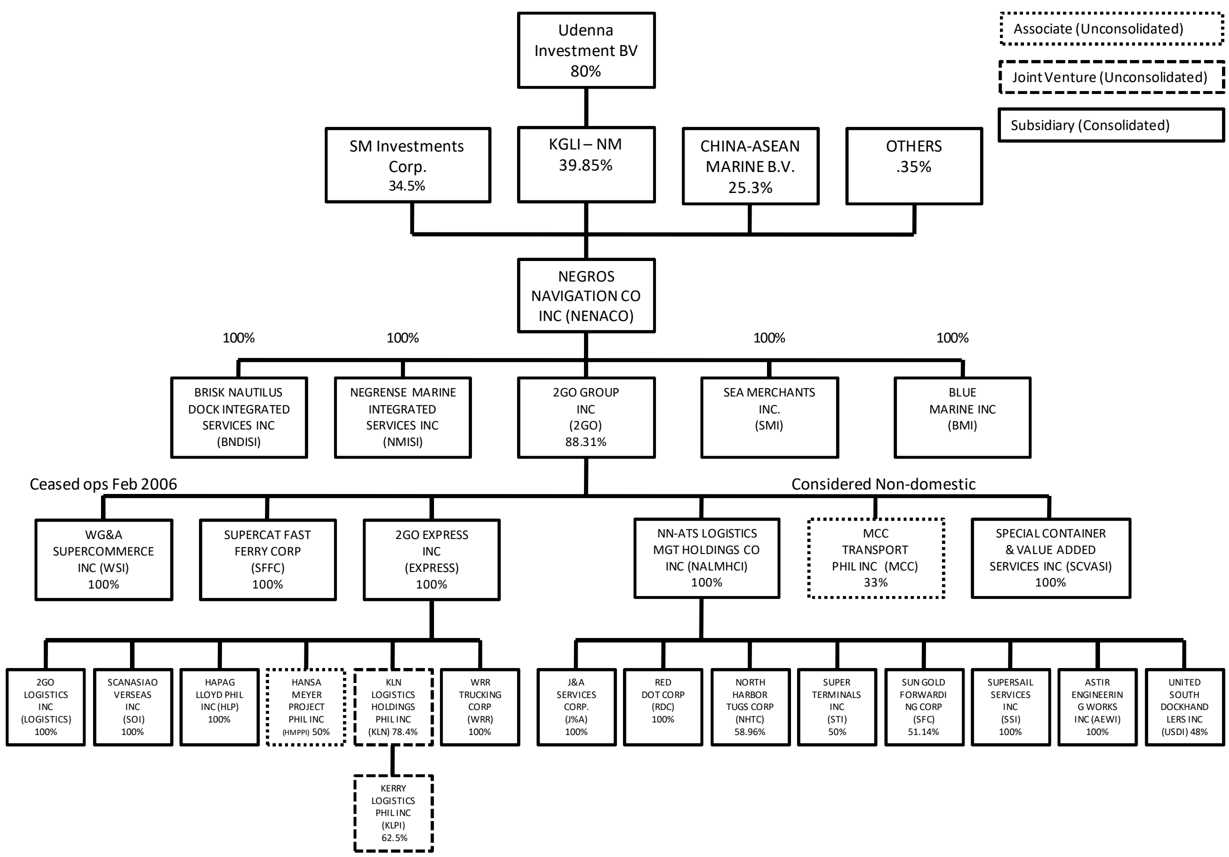
The Company believes that the successful implementation of the above strategies will support its continued growth and profitability as it will increase the Company's market share and make it the clear leader in the Philippine shipping industry.

Expansion of services offered

The Company's medium term strategic plan involves the acquisition of a medium-range (MR) tanker to service existing importation requirements of PPPI. Also, the Company capitalizes on first-mover advantage by expanding into areas in the Philippines which show superior growth.

Subsidiaries and Associates





Chelsea Logistics Holdings Corp. is a corporation organized and registered with the Philippine SEC on August 26, 2016 as "Chelsea Shipping Group Corp" primarily to act as corporation holding company. On December 21, 2016, the

Philippine SEC approved its change in corporate name to Chelsea Logistics Corp. Subsequently, on June 27, 2017, the Philippine SEC again approved the Company's change in corporate name to Chelsea Logistics Holdings Corp. The Company, through its following wholly-owned subsidiaries, is engaged in the shipping transport business, described in detail as follows:

1. CSC, incorporated on July 17, 2006, is engaged in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines.

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

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

1. PNX-Chelsea, incorporated on February 2, 2011, is engaged in operating vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.

2. FTC, incorporated on April 8, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. DGMSI, a wholly-owned subsidiary of FTC, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

3. MI, incorporated on December 26, 1957, is engaged in the charter, hire or otherwise acquire LCTs, ships, barges, or vessels, together with equipment and furniture thereof.

4. BMI, incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

5. CSMMSC, incorporated on March 30, 2012, is engaged in ship management and is authorized to act as agent, broker, ship chandler or representative of foreign/ domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals.

6. CMMRI, incorporated on June 9, 2016, is engaged in providing full and partial crewing for domestic and foreign vessels, and is authorized to act as authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

On the other hand, Trans-Asia Shipping's wholly-owned subsidiaries are engaged in the following businesses:

1. Oceanstar is engaged in the hire, charter, purchase or otherwise acquire vessels, barges, tugboats, lighters or other vessels of any class or regular services of vessels, barges, tugboats, lighters, or other vessels to enter into contract for the carriage and shipment in bulk or otherwise, and to conduct the business of general lighterage, towing ship chandlering, shipbrokers, freight contractors, barge and lighter owners and operators, forwarding agents, and general cargo handling operations of any all kinds of cargo.

2. SSI is engaged in engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

3. DCI is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, make, cook, arrange, serve and cater goods, drinks, refreshments and other food or commodities commonly served in such establishments.

4. QMSI is engaged in providing machining and mechanical works on ship machineries and industrial plants.

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

Competition

Tankers

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

The latest records of the MARINA show that there are about 203 oil tanker vessels of different sizes in the country. Majority of these vessels are 500 GRT or below, and the rest are from about 501 GRT to 5052 GRT. The aggregate tonnage of these tankers is about 190,876 GRT.

There are seven (7) major tanker owners in the Philippines each owning four (4) or more vessels. These tanker owners account for a total of about 65 vessels and an aggregate tonnage of about 105,764 GRT.

There has also been a significant improvement in the quality of the tanker vessels plying Philippine waters. From old, single hull vessels, there has been a shift to double-hulled vessels designed for environmental protection/ pollution prevention.

CSC's competitors include:

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

Tugboats

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

According to the latest records from the MARINA, there are 653 registered tugboats in the Philippines. More than half of these tugboats are less than 100 GRT. Majority of smaller GRT tugboats hold a Bay & River trading license from MARINA while bigger vessels hold a Coastwise license. The top two industry players in the tugboat industry account for more than 24% of the total tugboats over 100 GRT.

A growing economy is a positive outlook for the tugboat industry. Industry sales are directly correlated to the amount of trade a country undergoes, as servicing cargo vessels account for a big portion of the industry.

CSC's competitors in providing tugboat services include:

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

RoPax

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

There are more than 7100 RoRo and Passenger vessels registered with the MARINA. A large majority of this (98%) is less than 500 GRT and are personally owned. The largest industry players for commercial vessels account for more than a third of the aggregate tonnage of 355,773.

Trans-Asia Shipping's main competitors include:

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

Suppliers

The Company primarily sources its vessels, fuel requirements and other supply requirements from the following suppliers. However, there is no dependence or exclusivity from said sources, except for the Company's fuel requirements, which are substantially supplied by PPPI. The Company sources approximately 90% of its fuel requirements from PPPI. Trans-Asia still has existing fuel supply agreements with Petron Corporation until September 2017 and lubricant supply agreements with Chevron Philippines, Inc. until May 2017.

Vessels

1. CSEC
2. Animo Haulers and Ship Management Corp.
3. Capital Post InvestmentsLtd.

Fuel and Lubricants

1. PPPI
2. Petron Corporation
3. Chevron Philippines

Shipyard

1. Keppel Philippines Marine, Inc.
2. Josefa Slipways, Inc.
3. Seafront Shipyard and Port Terminals Services, Inc.

Third-party Charters

1. Shogun Ships Co., Inc.
2. Philippine National Lines, Inc.
3. Delsan Transport Lines, Inc.

Paints

1. Main Coat, Inc.
2. Megapaints and Coating Corporation
3. PPG Coating Philippines, Inc.

Employees

As of December 31, 2016, the Company has a total of 959 employees, 746 of which are crewmen and are stationed at various ports of operation, while the other 213 employees are office personnel or are members of support services. We expect to employ an additional 190 employees which accounts for a 20% increase in our manpower for the year 2017.

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

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

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

Out of the Company's 959 employees, 430 are regular employees, 33 are probationary, 182 are contractual, and 314 are apprentice. The following table presents the breakdown of employees per department.

Category	No. of Persons	Regular	Probationary	Contractual	Apprentice
Office of the President	3	3	0	0	0
Operations	92	73	15	4	0
Support	116	106	10	0	0
Crew	746	248	8	176	314
Consultants	2	0	0	2	0
Grant Total	**959**	**430**	**33**	**182**	**314**

Description of Property

Trans-Asia owns land located at M.J. Cuenco Ave. corner Osmeña Blvd., Brgy. San Nicholas, Cebu City consisting of 1,509.28 sq.m. and a building constructed thereon with a total floor area of 2,940 sq.m., which houses Trans-Asia Shipping's main office. Trans-Asia also owns three (3) container yards located at Quezon Blvd. within Pier 5, North Reclamation Area, Brgy. Cebu Port Center, Cebu City, with an aggregate area of 7,889 sq.m.[3] These properties are used to secure the payment of certain bank loans with China Banking Corp. and BDO Unibank, Inc. totaling P175 million as of March 31, 2017.

The Company also owns various tankers, barges, RoPax, cargo and tugs which are utilized in its business. The following table sets forth information on the tankers, tugs and barges that the Company owns as of March 31, 2017.

[3] This includes the real property with TCT No. PT -15547 which is in the process of having the title transferred to the name of Trans-Asia.

Name of Vessel	Registered Owner	Classification Society	Year Built	Type
M/Tkr Chelsea Thelma	CSC	Bureau Veritas	2012	Oil / Chemical Tanker
M/Tkr Chelsea Cherylyn	CSC	Bureau Veritas	2009	White Oil, Carrier, Tanker
M/Tkr Chelsea Denise	CSC	Ocean Register of Shipping	1985	Black / White Oil Carrier, Tanker
M/Tkr Chelsea Resolute	CSC	Ocean Register of Shipping	1979	White Oil, Carrier, Tanker
M/Tkr Chelsea Enterprise	CSC	Filipino Vessels Classification System Association, Inc.	1985	Black Oil Tanker
M/Tkr Chelsea Excellence	CSC	Ocean Register of Shipping	1998	White Oil, Carrier, Tanker
M/Tkr Chelsea Intrepid	CSC	Ocean Register of Shipping	1994	Black Oil Tanker
M/Tkr Chelsea Denise II	PNX - CSC	Bureau Veritas	2012	Black / White Oil Carrier, Tanker
M/Tkr Chelsea Dominance	PNX - CSC	American Bureau of Shipping	2016	Product Oil Tanker
M/Tkr Chelsea Donatela	PNX - CSC	Bureau Veritas	2013	Oil / Chemical Tanker
M/Tkr Chelsea Endurance	PNX - CSC	Nippon Kaijii Kyokai	2006	Product Oil Tanker
M/Tkr Chelsea Charlize	PNX - CSC	Korean Register of Shipping	2015	Product Oil Tanker
M/Tkr Ernesto Uno	MI	Ocean Register of Shipping	1979	White Oil, Carrier, Tanker
M/Tkr Jasaan	MI	Ocean Register of Shipping	1990	Black Oil Carrier, Tanker
M/Tkr BMI Patricia	BMI	Philippine Register of Shipping	1981	Black Oil Carrier, Tanker
MV Trans Asia 1	Trans Asia Shipping	Ocean Register of Shipping	1980	Passenger Ship
MV Trans Asia 2	Trans Asia Shipping	Ocean Register of Shipping	1977	Passenger Ship
MV Trans Asia 3	Trans Asia Shipping	Ocean Register of Shipping	1989	Passenger Ship
MV Trans Asia 8	Oceanstar	Ocean Register of Shipping	1984	Passenger Ship
MV Trans Asia 9	Oceanstar	Ocean Register of Shipping	1979	Passenger Ship
MV Trans Asia 10	Trans Asia Shipping	Ocean Register of Shipping	1979	Passenger Ship
MV Asia Philippines	Trans Asia Shipping	Ocean Register of Shipping	1975	Passenger Ship
MV Trans Asia 5	Trans Asia Shipping	Ocean Register of Shipping	1989	Container Cargo Ship
MV Trans Asia 12	Trans Asia Shipping	Ocean Register of Shipping	1998	Container Cargo Ship
MV Asia Pacific	Trans Asia Shipping	Ocean Register of Shipping	1981	Other Cargo Ship
M/Tug Fortis I	FTC	Ocean Register of Shipping	1994	Tugboat
M/Tug Fortis II	FTC	Ocean Register of Shipping	1990	Tugboat
M/Tug Joy 98	FTC	Shipping Classification Standard of the Philippines Inc.	1972	Tugboat
M/Tug Fortis V	FTC	Korean Register of Shipping	1984	Tugboat
M/Tug Fortis VII	FTC	Korean Register of Shipping	1984	Tugboat
M/Tug Samal	DGMS	Shipping Classification Standard of the Philippines Inc.	1974	Tugboat
M/Tug Pindasan	DGMS	Shipping Classification Standard of the Philippines Inc.	1981	Tugboat
M/Tug Sigaboy	DGMS	Shipping Classification Standard of the Philippines Inc.	1971	Tugboat

Permits

Set out below are the Philippine regulatory permits material to our business. Based on the opinion issued by our independent counsel, Romulo Mabanta Buenaventura Sayoc & de los Angeles, and unless otherwise indicated below, the material permits and licenses required for our operations are valid and subsisting.

Tankers and Tugboats Segments

Accreditation	Issuing Government Agency	Validity	Issue Date	Expiration
Certificate of Ownership	MARINA	Issued to each vessel		No expiry
Certificate of Vessel Registry	MARINA	Issued to each vessel		No expiry
Certificate of Public Convenience	MARINA	Issued to the Company	PNX-Chelsea – June 24, 2014 BMI – September 2, 2015 CSC – May 2, 2012 MI – July 11,	Every 5 years from date of issuance

			2005 (25 years) FTC – October 17, 2013 (25 years)	
Cargo Ship Safety Equipment Certificate	MARINA	Issued to each Vessel		One Year
Cargo Ship Safety Construction Certificate	MARINA	Issued to each Vessel		One Year
Minimum Safe Manning Certificate	MARINA	Issued to each Vessel		One Year
Coastwise License	MARINA	Issued to each Vessel		One Year
Loadline Certificate	MARINA	Issued to each Vessel		5 years, with annual endorsement
Certificate of Entry and Acceptance (P&I)	Steamship Mutual Underwriting Association Ltd.	Issued to each Vessel		One Year
Certificate of Insurance & Liability for Oil Pollution Damage	MARINA	Issued to each Vessel		One Year
Ship Station License	National Telecommunications Commission	Issued to each Vessel		One Year
International Oil Pollution Prevention Certificate	Philippine Coast Guard	Issued to each Vessel		5 years, with annual survey
Oily Water Separator Accreditation	Philippine Coast Guard	Issued to each Vessel		3 years
Sewage Pollution Prevention Certificate	Accredited MARPOL Surveyor	Issued to each Vessel		5 years
Shipboard Oil Pollution Emergency Plan	Philippine Coast Guard	Issued to each Vessel		1 year
Certificate of Stability	MARINA	Issued to each Vessel		5 years, subject to endorsement from date of latest Inclining Test
Tonnage Measurement Certificate	MARINA	Issued to each Vessel		No expiry
Continuous Synopsis Record	MARINA	Issued to each Vessel		No expiry
Document of Compliance	MARINA	Issued to Ship Management Company, Chelsea Ship Management & Marine Services Corp.	September 24, 2014	5 years, with annual verification
Safety Management Certificate (Interim)	MARINA	Issued to each Vessel		5 years, with annual verification
National Ship Security Certificate	Office for Transportation Security	Issued to each Vessel		5 years, subject to audit after 2 and half years
Ship Sanitation Control Certificate	Bureau of Quarantine	Issued to each Vessel		6 months

Classification Certificate	Classification Society	Issued to each Vessel		5 years
MARINA Accreditation Certificate	MARINA	Issued to the Company	PNX-Chelsea – February 22, 2017 CSC – September 30, 2015 BMI – April 20, 2015 FTC – August 1, 2016 MI – August 14, 2015	3 years
Permit to Operate	Philippine Ports Authority	Issued to the Company	FTC – January 4, 2017 CSC – January 1, 2017 MI – January 1, 2017	1 year

RoPax Segments

Accreditation	Issuing Government Agency	Validity	Issue Date	Expiration
Certificate of Accreditation	MARINA	Issued to the Company	8 June 2015 - Trans-Asia Shipping 27 June 2016 - OSC	Three (3) Years
Certificate of Ownership	MARINA	Issued to each vessel		No Expiry
Certificate of Philippine Registry	MARINA	Issued to each vessel		No Expiry
Certificate of Public Convenience	MARINA	Issued to the Company	14 June 2005 - Trans-Asia Shipping 18 Nov 2016 - OSC	25 Years from date of Issuance
Document of Compliance	MARINA	Issued to the Company	21 July 2014 - Trans-Asia Shipping 8 Feb 2017 - OSC	5 Years (subject to Annual Verification & Endorsement)
Passenger Ship Safety Certificate (For Passenger-Cargo Vessel)	MARINA	Issued to each vessel		One (1) Year
Cargo Ship Safety Certificate (For Cargo Vessel only)	MARINA	Issued to each vessel		One (1) Year
Minimum Safe Manning Certificate	MARINA	Issued to each vessel		One (1) Year
Coastwise License	MARINA	Issued to each vessel		One (1) Year

Certificate of Stability	MARINA	Issued to each vessel		Five (5) Years (Subject to endorsement after 5 years or after latest Inclining Test)
Load Line Certificate	MARINA	Issued to each vessel		Five (5) Years (Subject to Annual endorsement)
Safety Management Certificate	MARINA	Issued to each vessel		Five (5) Years (With Intermediate endorsement)
Tonnage Measurement Certificate	MARINA	Issued to each vessel		No Expiry
Continuous Synopsis Record	MARINA	Issued to each vessel		No Expiry
Certificate of Compliance of Cargo Securing Manual	MARINA	Issued to each vessel		Five (5) years subject to Annual Endorsement
Certificate of Compliance (MARINA MC 65/65-A)	MARINA	Issued to each vessel		One (1) year
Certificate of Compliance (MARINA MC 72)	MARINA	Issued to each vessel		No Expiry
Certificate of Compliance (MARINA MC 150)	MARINA	Issued to each vessel		One (1) year
Oil Pollution Prevention Certificate of Compliance (OPPC)	Philippine Coast Guard	Issued to each vessel		Five (5) years subject to Annual Survey
Oily Water Separator (OWS) Accreditation	Philippine Coast Guard	Issued to each vessel		Three (3) Years
Shipboard Oil Pollution Emergency Plan (SOPEP)	Philippine Coast Guard	Issued to each vessel		Three (3) Years
Garbage Management Plan	Philippine Coast Guard	Issued to each vessel		Three (3) Years
Ship Station License	National Telecommunications Commission	Issued to each vessel		One (1) Year
Ship Sanitation Control Certificate	Bureau of Quarantine	Issued to each vessel		Six (6) Months
DOT Accreditation	Department of Tourism (**"DOT"**)	Issued to the Company	10 March 2016 - Trans-Asia Shipping 8 Aug 2016 - OSC	One (1) Year
Cebu City Tourism Commission License	Cebu City Tourism Commission	Issued to the Company	2017	One (1) Year
National Ship Security Certificate	Office for Transportation Security	Issued to each vessel		Five (5) Years subject to Intermediate Audit and Verification
Certificate of Accreditation As Importer	Bureau of Customs	Issued to the Company	9 Oct 2014 - 8 Sept 2017	

Certificate of Classification (Hull & Machinery)	Classification Society	Issued to each vessel		Five (5) Years subject to Annual/Occasional Survey
Passenger Insurance	The Oriental Insurance Company Ltd. Through BDO Insurance Brokers, Inc.	Issued to the company enumerating covered vessel/s		One (1) Year
Hull and Machinery Insurance	Pioneer Insurance and Surety Corp.	Issued to the company enumerating covered vessel/s		One (1) Year

Material Lease Contracts

The Company and its subsidiaries also lease various properties for use in their respective businesses, as follows:

Lessee	Lessor	Leased Property	Lease Rate	Term	Renewal Clause
Chelsea Shipping Corp.	Fort Legend Towers Corporation	26th Floor of Fort Legend Tower located at 3rd Avenue cor. 31st Street, Fort Bonifacio Global City, Taguig City with a total tenantable area of 1,042.26 sqm.	₱613.37 / sqm. subject to 10% escalation on the 2ndyear and 6% annual escalation thereafter.	Initial term - 5 years from June 15, 2009 to June 14, 2014. Renewed term – extended until September 30, 2017.	3 year renewal at the option of the Lessee with prior written notice 180 days before the end of the lease term, subject to mutually agreed terms.
Chelsea Shipping Corp.	Valueleases, Inc.	Six (6) transportation equipment including three Honda Civic, one Isuzu D-Max, one Ford Expedition and one Toyota Innova.	P230,245 per month, exclusive of VAT,	One year	None.
Chelsea Ship Management & Marine Services Corp.	Phoenix Petroterminals & Industrial Park Corp.	Single storey warehouse-type building inside the Industrial Park with an area of 1,050 sqm.	₱315,500.00 per month, exclusive of VAT, 5% annual escalation.	10 years upon turnover of the single storey building. The building will be constructed within 4 months from signing of the Contract (October 14, 2015)	Renewable upon mutual agreement of the Parties

Trans-Asia Shipping Lines, Inc.	Amelia Y. Lua	One (1) door warehouse, a portion of a property situated at Pier 4, Reclamation Area, Cebu City with an area of 775 sqm.	₱77,500.00 per month and subject to 10% annual escalation.	December 15, 2015 to December 16, 2020	Option to renew by the Lessee subject to a 60-day notice to the Lessor

For the next twelve (12) months, the Company intends to acquire properties discussed under *Use of Proceeds* on Page 32.

Legal Proceedings

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

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

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

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

   The transactions subject of the complaints refer to the Charter Agreement between MI and PKI whereby MI agreed to transport on its vessel M/Tkr Ernesto Uno the crude coconut oil (**"CCO"**) of PKI. The Charter Agreement was for a period of two (2) years from January 8, 2009 to January 7, 2011, and the agreed Charter Rate was ₱2,050,000 per month. From December 2009 to July 2010, MI transported PKI's CCO from Mindanao to various ports of destination, and accordingly billed PKI Charter Fees in the amount of ₱15,921,666.67. However, PKI refused to pay the Charter Fees on its allegation that the CCO transported by MI was contaminated with seawater. In its Answer to PKI's Complaint, MI alleged that it proposed several plans to PKI to resolve the alleged contamination but the same were refused by PKI.

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

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

   This Complaint, which was filed on March 23, 2016, seeks to recover from defendants the sum of ₱11,613,082.78, which represents payment for the tugboat services rendered by the plaintiff to the defendants from the period November 2013 to October 2015. The plaintiff has a prayer for the issuance of a Writ of Preliminary Attachment against the properties of the defendants on the ground that the latter are guilty of fraud in issuing checks to the plaintiff in payment of their obligations and thereafter issuing a stop payment order on the said checks. Plaintiff also prayed for the grant of Exemplary Damages in the amount of ₱100,000 and Attorney's Fees in the same amount.

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

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

   The original Complaint was filed by 79 plaintiffs on April 11, 2000. Plaintiffs were the passenger-survivors and heirs of the casualties of the sinking of MV Asia South Korea which sank off the vicinity of Bantayan Island en route to Iloilo on December 23, 1999. Their total claim for damages is in the amount of ₱380,000,000.00. An Amended and Second Amended Complaint were filed in April and August 2000 respectively. Defendant Trans- Asia Shipping's main defense is that the cause of the accident was *force majeure* as the vessel was seaworthy and properly manned at the time of accident.

   On April 18, 2013, the Regional Trial Court issued its Decision ordering Trans-Asia Shipping to pay ₱801,000.00 for four deaths and ₱585,000.00 for 13 survivors or a total of ₱1,386,000.00. Although Trans-Asia Shipping offered to pay in accordance with the Decision, not a single plaintiff accepted payment. Instead, some of the plaintiffs filed their Motion for New Trial, some filed Motion of Reconsideration of the Decision, and some filed their Notice of Appeal.

   The trial court issued an Order granting new trial for two plaintiffs, and set the hearing for reception of evidence for said plaintiffs. The trial court also issued its Order dated March 22, 2016 modifying the award of damages to ₱8,865,399.96 for four deaths and 11 survivors, plus 15% interest on the total monetary award. Trans-Asia Shipping filed its Motion for Reconsideration of the two Orders, which was denied by the trial court. Trans-Asia Shipping has filed its Notice of Appeal. At the May 17, 2017 hearing, plaintiff manifested that they are willing to study the settlement of the case. The case is set for hearing on July13, 2017 to allow the parties to discuss settlement.

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

   This Complaint was filed by 5 plaintiffs on October 2009 arising from the sinking of MV Asia South Korea. A Compromise Agreement dated June 18, 2013 was entered into by four of the plaintiffs pursuant to which said plaintiffs agreed to withdraw their claims against Trans-Asia Shipping in return for the payment by defendant of the amount of ₱75,000.00 each to said plaintiffs. Plaintiff Nelly A. Gangoso pursued this case against Trans-Asia Shipping. Plaintiff Nelly Gangoso and defendant Trans-Asia have completed the presentation of their respective documentary and testimonial evidence. Plaintiff has filed her Memorandum, and defendant was supposed to file its Memorandum on April 28, 2017. On May 28, 2017, a Decision was issued by the trial court, awarding a total of ₱1,050,000 in favor of the plaintiff. Trans-Asia filed its Motion for Reconsideration of the said Decision, and requested that the same be set for hearing on 30 June 2017.

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

   This Complaint was filed by Trans-Asia in September 2012 to collect the insurance proceeds arising from the sinking of MV Asia Malaysia, which proceeds are in the approximate amount of ₱120,000,000. Said Complaint was filed when defendant Philippine Fire only offered to pay the amount of ₱50,000,000. Defendant Philippine Fire filed its Motion to Dismiss the complaint on the ground of lack of jurisdiction and insufficient docket fees paid. When said Motion to Dismiss was denied, defendant Philippine Fire filed a Petition for Certiorari with the Court of Appeals in December 2014. Said Petition for Certiorari was dismissed by the Court of Appeals on June 28, 2016. On March 30, 2017, the regional trial court issued an Order setting the case for pre-trial on June 9, 2017. At the 9 June hearing, the case was remanded to the Executive Judge for transfer to Branch 11, which is the only commercial court in Cebu City.

Need for Government Approvals on Services

The government approvals required for services rendered by the Company are enumerated in the succeeding table below, including the issuing government agency, validity of license/accreditation, and expiration date of license/accreditation. Government approvals are discussed further on the section "*Regulatory Framework*" found on page 153 of this Prospectus.

Tankers and Tugboats Segments

Accreditation	Issuing Government Agency	Validity	Issued Date	Expiration
Certificate of Ownership	Maritime Industry Authority (MARINA)	Issued to each vessel		No Expiry
Certificate of Vessel Registry	MARINA	Issued to each vessel		No Expiry
Certificate of Public Convenience	MARINA	Issued to the Company	PNX-Chelsea - June 24, 2014; BMI - September 2, 2015; CSC - May 2, 2012; MI - July 11, 2005 (25 Years); FTC - October 17, 2013 (25 Years)	Every 5 Years from date of issuance
Cargo Ship Safety Equipment Certificate	MARINA	Issued to each vessel		One Year
Cargo Ship Safety Construction Certificate	MARINA	Issued to each vessel		One Year
Minimum Safe Manning Certificate	MARINA	Issued to each vessel		One Year
Coastwise License	MARINA	Issued to each vessel		One Year
Loadline Certificate	MARINA	Issued to each vessel		5 years with annual endorsement
Certificate of Entry and Acceptance (P&I)	Steamship Mutual Underwriting Association	Issued to each vessel		One Year
Certificate of Insurance &Liability of Oil Pollution Damage	MARINA	Issued to each vessel		One Year
Ship Station License	National Telecommunications Commission	Issued to each vessel		One Year
International Oil Pollution Prevention Certificate	Philippine Coast Guard	Issued to each vessel		5 years with annual survey
Oily Water Separator Accreditation	Philippine Coast Guard	Issued to each vessel		3 years
Sewage Pollution Prevention Certificate	Accredited MARPOL Surveyor	Issued to each vessel		5 Years
Shipboard Oil Pollution Emergency Plan	Philippine Coast Guard	Issued to each vessel		One Year
Certificate of Stability	MARINA	Issued to each vessel		5 Years subject to endorsement from date of latest inclining Test
Tonnage Measurement Certifictae	MARINA	Issued to each vessel		No Expiry
Continuous Synopsis Record	MARINA	Issued to each vessel		No Expiry
Document of Compliance	MARINA	Issued to Ship Management Company, Chelsea Ship Management & Marine Services Corp.	September 24, 2014	5 years with annual verification
Safety Management Certificate (Interim)	MARINA	Issued to each vessel		5 years with annual verification
National Ship Security Certificate	Office For Transportation Security	Issued to each vessel		5 years, subject to audit after 2 and a half years
Ship Sanitation Control Certificate	Bureau of Quarantine	Issued to each vessel		6 months
Classification Certificate	Classification Society	Issued to each vessel		5 years
Marina Accreditation Certificate	MARINA	Issued to the Company	PNX-Chelsea - February 22, 2017; BMI - April 20, 2015; CSC - September 30, 2015; MI - August 14, 2015; FTC - August 1, 2016	3 years
Permit to Operate	Philippine Ports Authority	Issued to the Company	FTC - January 4, 2017; CSC - January 1, 2017; MI - January 1, 2017	One Year

RoPax

Accreditation	Issuing Government Agency	Validity	Issued Date	Expiration
Certificate of Accreditation	Maritime Industry Authority (MARINA)	Issued to the Company	8 June 2015 - Trans Asia Shipping; 27 June 2016 - OSC	3 Years
Certificate of Ownership	MARINA	Issued to each vessel		No Expiry
Certificate of Philippine Registry	MARINA	Issued to each vessel		No Expiry
Certificate of Public Convenience	MARINA	Issued to the Company	14 June 2005 - Trans Asia Shipping; 18 November 2016 - OSC	Every 25 Years from date of issuance
Document of Compliance	MARINA	21 July 2014 - Trans Asia Shipping; 8 Feb 2017 - OSC	September 24, 2014	5 years with annual verification & Endorsement
Passenger Ship Safety Cetificate (For Passenger - Cargo Vessels)	MARINA	Issued to each vessel		One year
Cargo Ship Safety Certificate (For Cargo Vessel Only)	MARINA	Issued to each vessel		One year
Minimum Safe Manning Certificate	MARINA	Issued to each vessel		One Year
Coastwise License	MARINA	Issued to each vessel		One Year
Certificate of Stability	MARINA	Issued to each vessel		5 Years subject to endorsement after 5 years or after latest inclining test
Loadline Certificate	MARINA	Issued to each vessel		5 years with annual endorsement
Safety Management Certificate	MARINA	Issued to each vessel		5 years with intermidiate endorsement
Tonnage Measurement Certifictae	MARINA	Issued to each vessel		No Expiry
Continuous Synopsis Record	MARINA	Issued to each vessel		No Expiry
Certificate of Compliance of Cargo Securring Manual	MARINA	Issued to each vessel		5 years subject to annual endorsement
Certificate of Compliance (MARINA MC 65/65-A)	MARINA	Issued to each vessel		One year
Certificate of Compliance (MARINA MC 72)	MARINA	Issued to each vessel		No Expiry
Certificate of Compliance (MARINA MC 150)	MARINA	Issued to each vessel		One year
Oil Pollution Prevention Certificate of Compliance (OPPC)	Philippine Coast Guard	Issued to each vessel		5 years subject to annual survey
Oily Water Separator (OWS) Accreditation	Philippine Coast Guard	Issued to each vessel		3 Years
Shipboard Oil Pollution Emergency Plan (SOPEP)	Philippine Coast Guard	Issued to each vessel		3 Years
Garbage Management Plan	Philippine Coast Guard	Issued to each vessel		3 Years
Ship Station License	National Telecommunications Commission	Issued to each vessel		One Year
Ship Station Control Certificate	Bureau of Quarantine	Issued to each vessel		Six (6) Months
DOT Accreditation	Department of Tourism	Issued to the Company	10 March 2016 - Trans Asia Shipping; 8 Aug 2016 - OSC	One year
Cebu City Tourism Commission License	Cebu City Tourism Commission	Issued to the Company	2017	One year
National Ship Security Certificate	Office For Transportation Security	Issued to each vessel		5 years, subject to intermediate audit and verification
Certificate of Accreditation as Importer	Bureau of Customs	Issued to the Company	9 October 2014 - 8 Sept 2017	
Certificate of Classification (Hull & Machinery)	Classification Society	Issued to each vessel		5 years subject to annual / occasional survey
Passenger Insurance	The Oriental Insurance Company Ltd. Through BDO insurance Brokers, Inc.	Issued to the company enumerating covered vessel/s		One year
Hull and Machinery Insurance	Pioneer Insurance and Surety Corp.	Issued to the company enumerating covered vessel/s		One year

Effects of Existing or Probable Governmental Regulations on the Business

The Company believes that it complies with relevant laws, rules and regulations for all the business activities that it is currently engaged in. The Company cannot provide assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail further expansion or development. Additionally, new rules and regulations that may be enacted may increase the Company's operating costs and may adversely affect the Company's results of operations and financial condition.

Environmental Laws

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

The environmental laws relating to the conduct of the Company's business are discussed on the section "*Regulatory Framework*" found on page 153 of this Prospectus.

INDUSTRY

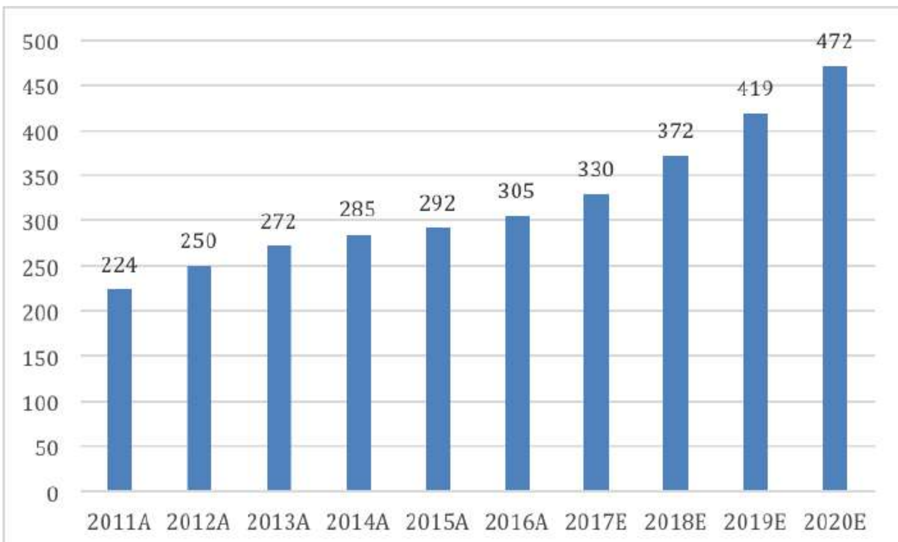
Overview of the Philippine Economy

Strong economic growth

The GDP growth of the Philippine economy has steadily grown at a CAGR of 6.33%. Going forward, the International Monetary Fund (**"IMF"**) forecasts the Philippines' nominal GDP to grow at a CAGR of 11.55% from 2016 to 2020E. Growth will be driven by domestic consumption, foreign direct investments, rising average family income, growth in overseas remittances, and a strong macro environment.

The chart below sets out the actual and expected nominal GDP development in the Philippines from 2011 to 2020E.

Philippines Nominal GDP (US$billion)



Source: IMF

Future growth drivers

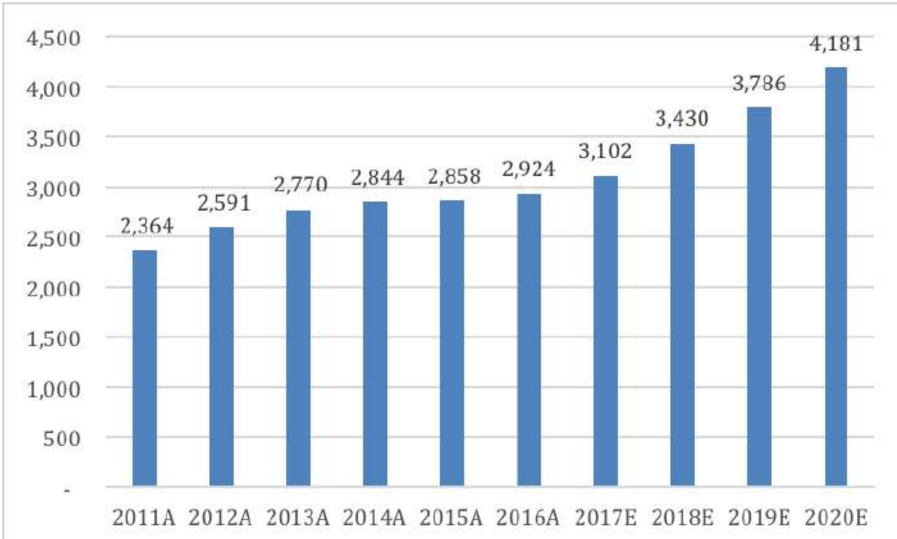
Private consumption accounted for 73.1% of GDP in 2015, according to the World Bank. Increasing average income and increasing Overseas Filipino Workers' cash remittances form the key drivers for future economic growth and domestic consumption.

Increasing average income

Increasing average income is expected to provide a strong foundation for consumption growth in the Philippines. According to the Philippine Statistics Authority (**"PSA"**), average family income in the Philippines has grown at a three-year CAGR of 4.2% from ₱208,000 in 2009 to ₱235,000 in 2012. Furthermore, nominal GDP per capita grew at a CAGR of 4.33% rising to US$2,924 from US$2,364 between 2011 and 2016. The IMF forecasts that nominal GDP per capita will reach US$4,181 by 2020E, representing a CAGR of 9.3%.

The charts below set out the per capita nominal GDP in the Philippines from 2011 to 2020E.

Nominal GDP per capita (US$)



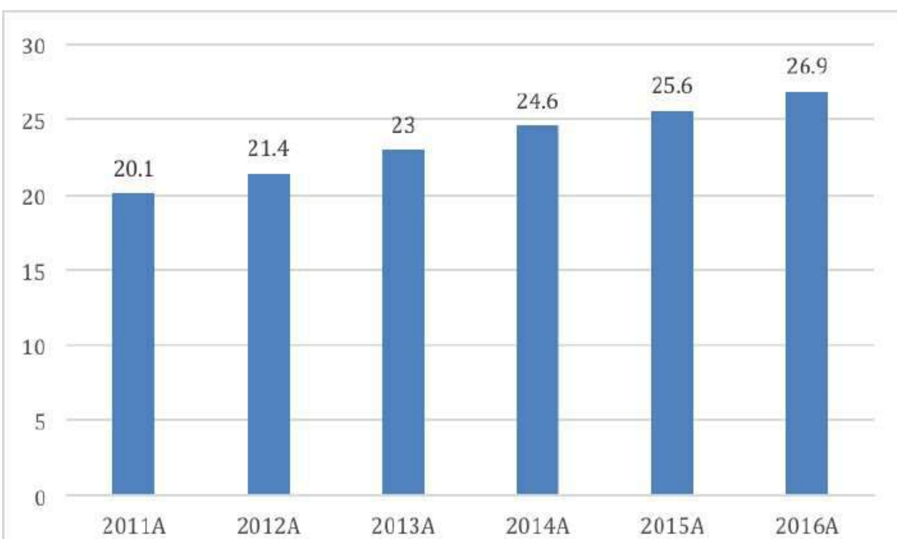
Source: IMF

Increasing Overseas Filipino Workers' cash remittances

Cash remittances by Overseas Filipino Workers (**"OFWs"**) represented approximately 8.8% of nominal GDP in 2015. The number ofOFWs as of 2015 was 2.4 million according to the PSA. According to the BSP, OFW cash remittances grew from US$20.1 billion to US$26.9 billion between 2011 and 2016, representing a CAGR of 6.0%.

The chart below sets forth information on cash remittances from 2011 to 2016.

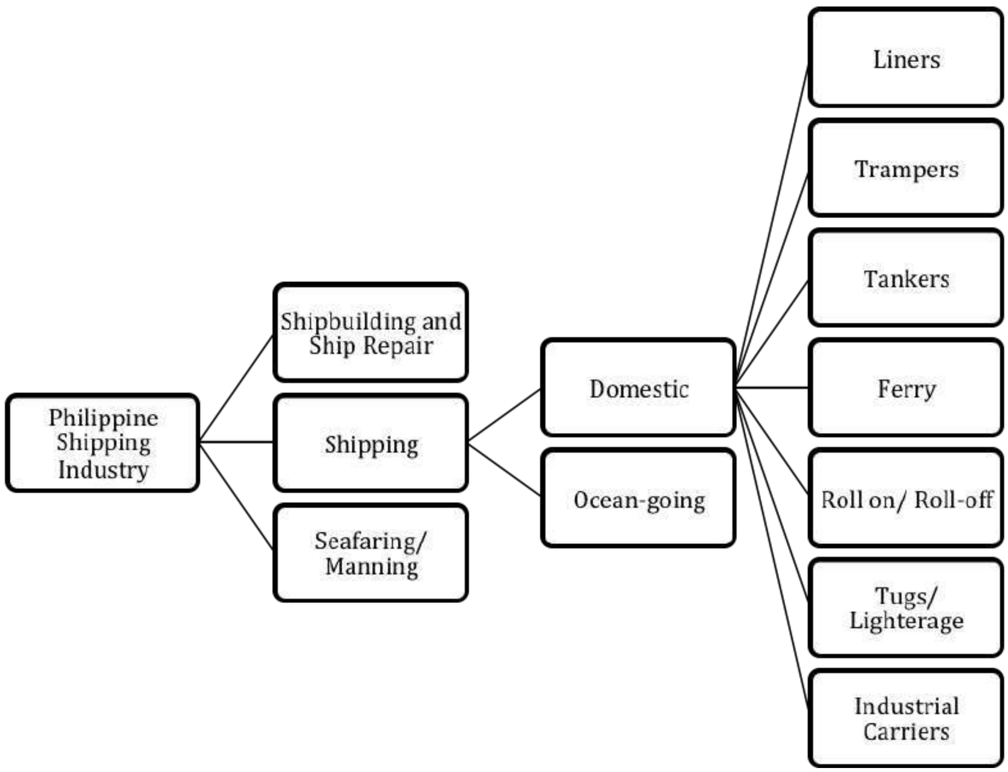
Overseas Filipinos' cash remittances (US$billion)



Source:BSP

Overview of the Philippine Shipping Industry

The shipping industry has an essential role in the development of the country's economy as it allows for the movement of goods and people from the Philippines to other countries, and vice-versa. Considering the archipelagic setting of the country, shipping provides the primary means of interisland transport. That is, the bulk of domestic trade is transported by shipping; interisland travel, especially in the southern part of the country, is also largely dependent on shipping. Considering this role, an efficient shipping industry that facilitates the movement of commodities, products and people is vital to the growth of the country. It is divided into three sectors: (i) shipbuilding and ship repair; (ii) shipping; and, (iii) seafaring/manning.



Source: World Bank

The primary services within the shipping and seafaring sector can be generally classified into a) Maritime Transport services, b) Maritime auxiliary services, c) Port Services and, d) Crew and ship management.

Maritime Transport Services	Refers to the actual transportation service performed once the commodity or passenger is onboard a ship until the ship reaches its port of destination.
Maritime Auxiliary Services	Refer to activities related to cargo manipulation in ports and on ships. This includes cargo handling, storage and warehousing, customs clearance, container station and depot, maritime agency and freight forwarding.
Port Services	Refers to those activities related solely to ship management in ports. This include pilotage, towing and tug assistance, provisioning, fueling and watering, garbage collecting and disposal, port captain's services, navigation aids, shore-based operational services and emergency repair facilities
Crewing and Ship Management	Crewing refers to providing services for crew and crew management. Ship Management is providing services not limited to Technical, Marine and HSQE services to

	Shipowners/Operators.

As the Shipping industry is primarily driven by trade and population mobility, its development is closely tied to the development of the broader national economy. In fact, as seen in the table below, it has roughly grown at the same rate as the Philippines' GDP.

Cargo, Passenger, Ship Traffic
(Figures in thousands, except percentage)

	2011	2012	2013	2014	2015	Inc. (Dec) 2015 vs 2014	CAGR 2011 - 2015
Cargo (MT)	**178,279**	**193,775**	**202,059**	**214,813**	**223,672**	**4.12%**	**5.83%**
Domestic	**74,172**	**75,876**	**77,961**	**79,713**	**89,051**	**11.71%**	**4.68%**
Foreign	**104,107**	**117,899**	**124,098**	**135,099**	**134,621**	**-0.35%**	**6.64%**
Import	53,354	57,540	60,880	66,633	73,766	10.70%	8.44%
Export	50,753	60,359	63,217	68,466	60,855	-11.12%	4.64%
Container (TEUs)	**4,932**	**5,213**	**5,238**	**5,525**	**5,862**	**6.09%**	**4.41%**
Domestic	**1,924**	**2,065**	**2,057**	**2,171**	**2,380**	**9.61%**	**5.46%**
Foreign	**3,009**	**3,147**	**3,182**	**3,354**	**3,482**	**3.82%**	**3.72%**
Import	1,503	1,591	1,619	1,712	1,738	1.50%	3.70%
Export	1,506	1,556	1,563	1,642	1,744	6.24%	3.74%
Passenger	**24,267**	**24,557**	**26,209**	**27,244**	**30,568**	**12.20%**	**5.94%**
Embarked	**24,267**	**24,557**	**26,209**	**27,244**	**30,568**	**12.20%**	**5.94%**
Shipcalls	**341**	**346**	**257**	**363**	**395**	**8.84%**	**3.72%**
Domestic	**331**	**335**	**246**	**353**	**385**	**8.94%**	**3.88%**
Foreign	**10.9**	**10.6**	**10.6**	**9.7**	**10.2**	**5.45%**	**-1.60%**

Source: Philippine Ports Authority

As of December 31, 2015, the Philippine Shipping Industry had a total of 25,063 vessels composed primarily of 12,021 Merchant vessels and 13,042 fishing vessels. As compared to 2011, this represents a 91% increase in fleet size. While overall fleet size has increased dramatically, total tonnage has grown at a slower pace, increasing 40% over the same period.

Type of Service	2011	2012	2013	2014	2015
MERCHANT FLEET	**7,299**	**8,499**	**9,574**	**10,694**	**12,021**
Passenger	4,263	5,077	5,745	6,567	7,387
Cargo	2,121	2,449	2,813	3,051	3,476
Tanker	288	263	245	249	257
Tug	432	481	534	566	722
Dredger	20	21	26	28	34
Speed Boat	2	13	13	21	26
Special Purpose Ship	15	14	20	16	20
Miscellaneous Ship	53	67	63	78	99
Others	94	14	112	118	-
No Information	11	-	3	-	-
FISHING	**5,830**	**7,242**	**9,437**	**11,340**	**13,042**
TOTAL	**13,129**	**15,741**	**19,011**	**22,034**	**25,063**

Type of Service	TONNAGE (Total GRT)				
	2011	2012	2013	2014	2015
MERCHANT FLEET	**1,762,706.27**	**1,968,583.74**	**2,267,475.27**	**2,362,989.75**	**2,521,362.30**
Passenger	451,944.15	449,809.92	455.360.59	402.859.98	414,890.84
Cargo	1,016,461.18	1,189,044.22	1,466,964.17	1,585,686.63	1,710,981.93
Tanker	216,395.42	232,457.61	240,328.53	258,176.77	271,261.17
Tug	41,182.07	47,935.01	56,443.94	61,957.57	85,274.87
Dredger	5,438.95	7,092.86	12,452.27	13,224.27	14,520.90
Speed Boat	7.30	65.90	44.45	77.47	101.24
Special Purpose Ship	2,101.41	1,571.72	1,610.49	3,631.51	3,815.57
Miscellaneous Ship	13,349.40	26,362.59	20,184.69	20,518.07	20,515.78
Others	12,426.08	14.243.91	13,319.65	14,857.48	-
No Information	3,400.31	-	766.49	-	-
FISHING	**317,998.23**	**356,835.89**	**386,958.46**	**422,714.27**	**420,880.99**
TOTAL	**2,080,704.50**	**2,325,419.63**	**2,654,433.73**	**2,783,704.02**	**2,942,243.29**

Source: MARINA/MISO

Due to the increase in number of vessels, average ship age has also gone down to 12.19 years in 2015 from 12.76 years in 2011. However, average tanker age has increased dramatically, peaking at 20.44 years in 2015. CSC, on the other hand, has an average tanker age of 17.73, well below the industry.

Type of Service	Average Age				
	2011	2012	2013	2014	2015
MERCHANT FLEET	**12.76**	**12.40**	**12.44**	**12.50**	**12.19**
Passenger	8.84	8.65	9.05	9.29	8.84
Cargo	16.78	16.18	15.65	15.65	15.59
Tanker	15.28	18.17	19.62	20.24	20.44
Tug	27.46	27.25	27.18	27.54	27.00
Dredger	17.85	20.81	20.42	20.93	19.59
Speed Boat	1.50	7.54	8.31	5.81	5.62
Special Purpose Ship	20.13	17.79	12.95	16.44	16.90
Miscellaneous Ship	22.48	13.15	13.60	11.96	10.89
Others	16.71	19.29	18.60	19.58	-
No Information	8.80	-	23.33	-	-
FISHING	**14.76**	**13.97**	**12.90**	**12.37**	**12.15**
TOTAL	**13.65**	**13.12**	**12.67**	**12.43**	**12.17**

Source: MARINA/MISO

PHILIPPINE REGULATORY MATTERS IN THE SHIPPING INDUSTRY

Republic Act No. 9295 - The Domestic Shipping Development Act of 2004

The participants in the domestic shipping industry are required to have vessels registered in the Philippines. Foreign shipping companies are not allowed to enter the market due to restrictions provided in R.A. 9295. This Republic Act specifically states that no foreign vessel shall be allowed to transport passengers or cargo between ports or places within Philippine territorial waters, except upon the grant of special permit by the MARINA when no domestic vessels are available or suitable to provide the needed shipping service and public interest warrants the same. In addition, the Act mentions the significance of building a strong and competitive domestic merchant fleet for the economic development of the country. It particularly states that at least 60.0% of the capital of potential participants must be Filipino-owned, while vessels used in the provision of services must be manned by qualified Filipino officers and crew.

The Act outlines the following policies for the improvement and development of the shipping industry:

1. Promote Filipino ownership of domestic vessels;

2. Attract capital investment in the shipping industry by creating a competitive investment and operating environment;

3. Provide necessary assistance and incentives to the industry players;

4. Improve and upgrade the existing domestic merchant marine fleet and Filipino crew to meet international standards;

5. Ensure the continued viability of domestic shipping operations; and,

6. Encourage development of the shipbuilding and ship repair industry.

The Act also states that the MARINA shall have the power and authority to issue CPCs to qualified domestic ship operators, taking into consideration the economic benefits that may be reaped by the port province or region, as well as the financial capacity of the domestic ship operator to provide and sustain safe and reliable service.

The MARINA shall monitor all shipping operations and exercise regulatory intervention, where it is established after due process that public interest needs to be protected and safeguarded.

Executive Order No. 909 – Encouraging Investments in Newly Constructed Ships or Brand New Vessels in the Domestic Shipping Industry by Providing Incentives Therefore

E.O. 909 encourages ship owners and operators to introduce International Association of Classification Societies ("**IACS**") classed brand new or newly constructed vessels that are appropriate and suitable to the weather and sea conditions of the archipelago for the purpose of transporting passengers, cargoes or fuel/oil products on domestic waters in order to bring about safer and more efficient sea transport and improved quality of services.

The following are the incentives given to ship owners and operators in the domestic trade which introduce IACS-classed brand new or newly constructed vessels in their respective authorized or applied routes:

1. MARINA can only charge fifty percent (50%) of the regular fees in all application and renewal of ship documents, licenses, certificates and permits during the period of protection for the ship while operating in the applied or authorized routes. If a ship is newly constructed, it can be dry docked after 5 years, not after 2 ½ years;

2. Priority in issuance of CPC;

3. Route protection;

4. Provision for special ramp/berth facility; and

5. Exemption from Value-Added-Tax ("**VAT**") and other Import Duties and Taxes pursuant to R.A. 9295 and Memorandum Order No. 299 dated March 30, 2009.

Registration of Vessels

All domestically owned motorized vessels weighing more than fifteen (15) GRT are required to be registered with the MARINA. In the event that the vessel is used for carrying goods and/or passengers for hire or used in towing/pushing, the vessel is required to be registered with the MARINA regardless of tonnage. This regulatory requirement is also applicable to vessels used in international waters, so long as the vessels are owned by Filipino citizens. Vessels used in domestic operations must be registered at the original homeport, or at the nearest MARINA office. On the other hand, vessels engaged in international trade shall be registered in Manila or in any port designated by the MARINA. This homeport shall be referred to as the Port of Registry.

Upon registration, a Certificate of Philippine Registry ("**CPR**") is issued by MARINA, so long as the vessel has secured a ship identity certificate.

For vessels acquired and/or constructed abroad through importation, bareboat charter or lease-purchase, a Provisional Certificate of Philippine Registry ("**PCPR**") from MARINA shall first be obtained before they can be brought to the Philippines. The application and all necessary supporting documents are to be endorsed by the MARINA to the Department of Foreign Affairs for the issuance of a PCPR by the appropriate embassy or consulate.

Inspection, classification, and certification of vessels

The Philippine Merchant Marine Rules and Regulations ("**PMMRR**") is the regulatory standard being enforced by the MARINA regarding the inspection, survey and marking of vessels. The MARINA is also authorized to use surveyors or organizations to carry out its duties. In the event that the MARINA obtains the service of a surveyor or an organization, it shall be with the power to carry out inspections and surveys if requested by the appropriate authorities of the State and to require repairs for a ship.

In the event that the authorized surveyor determines that the condition of the vessel does not substantially meet the specific requirements for the provision of ship safety certificates, or the vessels are not in the condition to proceed to sail without imminent danger to the vessel or persons aboard, the authorized surveyor shall instantaneously make sure that corrective actions are taken and should notify the MARINA as soon as possible. In the event that such corrective action is not taken, then the relevant safety certificate shall be revoked immediately. If the vessel is in a port outside the jurisdiction of the MARINA, the port authority of such State shall be notified immediately.

Below are the inspections/surveys to be undertaken and their respective frequencies:

1. *Initial survey* which is done before the vessel is put in service includes the inspection of the exterior of the ship's bottom.

2. *Renewal survey*s done at intervals specified by MARINA, but not exceeding five years.

3. *Periodic/Intermediate survey* is done within three (3) months before or after the second anniversary date or within three (3) months before or after the third anniversary date of the certificate. This will take the place of one of the annual surveys.

4. *Annual survey* is undertaken within three (3) months before or after each anniversary date of the certificate.

5. *Additional survey* is only required when the occasion arises.

6. Two *inspections of the ship's hull* are required within a five (5) year period to include the inspection of the exterior of the ship's bottom.

7. *Drydocking* of unclassed vessels is required every two (2) years, and every year for unclassed passenger vessels.

At present, the MARINA has six (6) accredited local classification societies to class Philippine registered vessels, namely: Philippine Classification Register, Inc., Shipping Classification Standards of the Philippines, Inc., Ocean

Register of Shipping, Inc., Philippine Register of Shipping, Inc., Orient Register of Shipping, Inc., and, Filipino Vessels Classification System Association, Inc.

Once a vessel is classed by any of the classification societies, the vessel shall be class-maintained and dry docked in accordance with the schedule prescribed by the rules of the classification society. Tugboats, like other vessels, are also classed and must conform to the safety requirements implemented by the classification society. Presented below are the classification requirements per type of vessel:

Vessel Type	Classification Requirements
Passenger-carrying cargo ships 500 GRT and above; passenger high-speed craft	International Classification society
Passenger-carrying ships 500 GRT and above (if vessel is acquired after January 1, 1997); tankers and barges hauling petroleum; petroleum by-products; chemicals and other hazardous cargo (regardless off GRT); Bulk carriers and cargo vessels 500 GRT and above	Any Classification society recognized by MARINA
Other takers and barges 500 GRT and above (imported or chartered); bulk carriers below 500 GRT; cargo vessels below 500 GRT	Any international classification society or local classification society recognized by MARINA. Classification requirement optional effective January 1, 1997 subject to pertinent provisions.
Passenger-carrying ships below 500 GRT	International classification society, classification requirement optional effective January 1, 1997 subject to pertinent provisions.
Other tankers and barges not hauling petroleum or chemicals (imported or chartered); barges locally constructed as of September 20, 1990; non-propelled boat charges over 3 GRT; vessels 3 GRT and below	No Classification requirements

The following are the certificates issued to vessels depending on their class and category:

1. Passenger Ship Safety Certificate
2. Cargo Ship Safety Construction Certificate
3. Cargo Ship Safety Equipment Certificate
4. Certificate of Inspection
5. Load Line Certificate
6. Tonnage Certificate
7. Radio Telegraphy Certificate or Radio Telephony Certificate
8. Exemption Certificate
9. Other certificates that may be required to be consistent with the provisions of the national laws, rules and regulations and of the International Maritime Conventions and Resolutions.

An Exemption Certificate may be issued to a vessel when it is allowed an exemption under and in accordance with the provisions of the PMMRR.

The MARINA shall issue a Ship Safety Certificate for a specified period of time, but it shall not be more than five (5) years. The Exemption Certificate is valid only for the period of the certificate it relates to, while the Certificate of Inspection is valid for two (2) years subject to mandatory survey on the first anniversary date of the Certificate of Inspection.

Rules on Flag State Administration

The Safety of Life at Sea ("SOLAS") Convention is the most significant international treaty regarding safety of merchant vessels. The SOLAS Convention tackled different aspects of safety at sea, such as minimum standards for the construction and operation of ships, equipment like the Global Maritime Distress Safety System equipment ("**GMDSS**"), and appropriate manning. As of date, the Convention that is currently implemented is SOLAS 1974 merged with the 1978 protocol or SOLAS 74/78.

MARINA being the flag state administration authority in the Philippines, requires all Philippine registered vessels to comply with the implementation of international safety management, especially that of the SOLAS Convention. SOLAS 74/78 states the responsibilities and authorities of the flag state and the port state. The government of the flag that the vessel sails, or the flag state, has the responsibility to make sure that such vessel abides by the rules and requirements of the SOLAS Convention, and where applicable, the said vessel has the necessary statutory/legal certificates to show its compliance. In the event that a vessel is situated outside its country of registry, the Port State Control Governments or sometimes called the port states, of the other IMO member nations, provided the vessel's flag state is a member of the IMO, have the authority to inspect vessels of other IMO-member countries as long as there is evident proof to doubt the compliance with the requirements of the vessel and/or the equipment. This is also called Port State Control. For example, the Philippines as the flag state of the Company tugs, has the responsibility to ascertain that the tugs are compliant with the SOLAS convention. In case these tugs are located or operating in other IMO-member country, the port state of such country has the right to inspect the Company's tugs if it is compliant with the SOLAS Convention.

MARINA also requires vessels temporarily used in international waters to secure a Minimum Safe Manning Certificate from MARINA.

Philippine Ports Authority Issuances

The PPA is the main government agency to develop, operate and regulate the seaports in the country. Among the objectives of the PPA is to maintain port facilities and ensure the safe maneuvering of vessels at the port through the use of tugs. In general, the PPA requires that foreign and domestic vessels with GRT greater than or equal to 500 metric tons shall acquire tug assistance services. The Captain of a vessel may avail of tug assistance services on vessels with less than 500 GRT, depending on prevailing weather conditions. The PPA issued separate Administrative Orders ("**AO**") for MICT and the ports of Batangas, CDO, Cebu, Iligan and Davao. In addition, the PPA determines tug assistance requirements per registered GRT of the vessels. The PPA has the main responsibility to ensure the availability of tug assistance in its ports. It shall authorize shipping companies or private entities to provide tug assistance services. No entity is allowed to provide tug assistance unless it has received a PPA-issued permit.

Government Agencies

The following government agencies assist in the effective execution of legislation particularly in the domestic shipping industry:

Regulatory Authorities	**Responsibilities/Duties**
Department of Transportation and Communications	The DOTC is responsible for the supervision, management and control over the transportation system in the country. Under the DOTC are the attached agencies for the maritime industry including MARINA, PPA and the PCG.
Maritime Industry Authority	MARINA shall be responsible for the formulation and implementation of respective policies for the improvement and development of the country's shipping industry
Philippine Coast Guard (**"PCG")**	The PCG is involved in the broader enforcement of maritime laws in the country, especially against smuggling, illegal fishing and privacy. It is also involved in maritime search and rescue missions, as well as the protection of the marine environment.
Philippine Ports Authority	The PPA was created for the planning, development, operations and maintenance of ports or port systems in the country.
Department of Environment and Natural Resources (DENR)	The DENR regulates all kinds of environmental pollution.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Pursuant to its Amended Articles of Incorporation, CLC's Board of Directors consists of nine (9) members, three (3) of whom are independent directors. The table below sets forth each member of CLC's Board of Directors as of the date of this Prospectus.

Name	Age	Nationality	Position
Dennis A. Uy	43	Filipino	Chairman of the Board
Chryss Alfonsus V. Damuy	43	Filipino	Director, President and CEO
Cherylyn C. Uy	37	Filipino	Director, Treasurer
Arthur Kenneth L. Sy	49	Filipino	Director
Efren E. Uy	55	Filipino	Director
Eduardo A. Bangayan	65	Filipino	Director
Miguel Rene A. Dominguez	40	Filipino	Independent Director
Jesus S. Guevara II	62	Filipino	Independent Director
Gener T. Mendoza	57	Filipino	Independent Director

The table below sets forth our key executive and corporate officers as of the date of this Prospectus.

Name	Age	Nationality	Position
Chryss Alfonsus V. Damuy	43	Filipino	President and CEO
Cherylyn C. Uy	37	Filipino	Treasurer
Ignacia S. Braga IV	51	Filipino	Vice President - Finance
Ma. Henedina V. San Juan	55	Filipino	Asst. Vice President - Business Development and Corporate Affairs / Corporate Secretary
Irwin M. Montano	51	Filipino	Vice President – Human Resources
Ricky P. Victoria	57	Filipino	Vice President – Ship Management
Athelle Beverly Diamond G. Feliciano	37	Filipino	AVP - Chartering and Synergy Functions
Rodel V. Marqueses	32	Filipino	Finance Comptroller
Leandro E. Abarquez	34	Filipino	Compliance Officer
Daryl Eunika B. Maloles	29	Filipino	Investor Relations Officer

The business experience for the last five years of members of CLC's Board of Directors and key executive and officers are set forth below.

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Dennis A. Uy, Filipino, 43 years old, is the founder and Chairman of CLC since its incorporation. He has also served as President and Chief Executive Officer of CLC from incorporation until March 27, 2017. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of PPPI, and Udenna Corporation, the ultimate parent company of PPPI. He is also the President and CEO of Udenna Management & Resources Corp. and its subsidiaries. Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp., Global Synergy Trade and Distribution Corp., Udenna Development (UDEVCO) Corporation, ValueLeases, Inc., Udenna Environmental Solutions, Inc., and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation. He is a member of the Young Presidents Organization – Philippine chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippines since November 2011. He is a graduate of De La Salle University with a degree in Business Management.

Chryss Alfonsus V. Damuy, Filipino, 43 years old, has been the Director of CLC since its incorporation. He has been the President and CEO of the Company from March 27, 2017. He is the Chief Operating Officer of CSC and its subsidiaries. He is likewise the Vice-President for Finance of PPPI and General Manager of Calaca Industrial Seaport Corp. (formerly Phoenix Petroleum Industrial Park Corp.). Mr. Damuy is currently the Vice Chairman of Trans-Asia Shipping and its subsidiaries Oceanstar, SSI, DCI and QMSI. Prior to his employment with the Company, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College where as a dean's lister, he earned his Bachelor of Science Degree in Accountancy in 1997. Mr. Damuy is a Certified Public Accountant.

Cherylyn C. Uy, Filipino, 37 years old, has been the Director and Treasurer of CLC since February 10, 2017. Ms. Uy is also a Director of Phoenix Petroleum Philippines, Inc. She also serves as the Treasurer of CSC, PNX-CSC, FTC, MI, BMI, CSMMSC, DGMSI and Corporate Treasurer of the Udenna Group of Companies and F2 Logistics, Inc. She is a graduate of Ateneo de Davao University with a degree in Business Finance.

Arthur Kenneth L. Sy, Filipino, 49 years old, has the Director of CLCsinceMarch 27, 2017. He is President and CEO of Trans-Asia Shipping Lines, Inc. Mr. Sy is also currently the President and CEO of JGSY Marine and Allied Ventures Corp., Dynamic Cuisine, Inc., Starsy Shoppe, Inc., Sybu Real Estate Corporation, Oceanstar Shipping Corporation, Allmix Trading Inc., Quality Metal and Shipworks Inc. and, Funflatables Corporation. Mr. Sy brings with him 30 years of operations experience in the Shipping Industry. Heis a holder of several degrees, Bachelor of Science in Business Administration from the University of San Carlos, Bachelor of Science in Marine Engineering and Bachelor of Science in Mechanical Engineering from the University of Cebu.

Efren E. Uy, Filipino, 55 years old, has been the Director of CLC since March 27, 2017. Mr. Uy currently serves as the President and Chief Executive Officer of F2 Logistics Philippines Inc. He also serves as the President and Chief Executive Officer of F2 Global Logistics Inc., Agri Farmers Inc., F8 Prime Transport Services Inc., Ultimate Yellow Transport Services Inc., and Fmoves Transport Corp. He is also the President & Chief Executive Officer of Miren Holdings Inc. He holds a degree in Bachelor of Science in Mechanical Engineering from the University of San Carlos.

Eduardo A. Bangayan, Filipino, 65 years old, has been the Director of CLC since March 27, 2017. Mr. Bangayan is currently the President of Summit World Group of Companies. He also serves as a Director for Fuji Oil Philippines and an Independent Director for Manila Mining Corporation. He also currently serves as a Vice President of the New Leyte Edible Oil Manufacturing Corporation. From 2004 until 2008, he served as Trustee of the Local Water Utilities Association's. For the past five years, he is involved in real estate, coconut oil/copra production, served as Director since 2002 before becoming the Chairman of the Davao City Water District since January 2017 with a term until 2023. Also, he serves as an Independent Director of Rural Bank of Tagum from 2015 until present. Mr. Bangayan holds a degree in Bachelor of Science in Business Administration from the Silliman University.

Miguel Rene A. Dominguez, Filipino, 40 years old, has been an Independent Director of CLC since March 27, 2017. Mr. Dominguez is currently the Vice President of Alsons Agribusiness Unit, Director of Sarangani Agricultural Company, Inc. and Director of Philippine Business for Social Progress. He served as Chairman of the Regional Peace and Order Council for Region 12 (2011-2013), Chairman of SOCSARGEN Area Development Board (2008-2011) and Chairman of Regional Development Council of Region 12 (2007-2010). Mr. Dominguez was named an awardee for Governance and Public Service in the Ten Outstanding Young Men 2013 by the Junior Chamber International Philippines and the TOYM Foundation. He was the first awardee of the Jesse Robredo Leadership Award given the same year. He was governor of Sarangani province for three consecutive 3-year terms that began in 2004. Prior to his election as governor, he was the National Sales and Marketing Manager of the Alsons Aquaculture Corporation in 2003, earning for the brand "Sarangani Bay" a strong hold in the international markets, particularly in the US, Japan and Europe. He earned his degree in AB Economics from Boston College in the US.

Jesus S. Guevara II, Filipino, 62 years old, has been an Independent Director of CLC since March 27, 2017. Mr. Guevara is currently the President of Alternative Power Resource Holdings, Inc. From 2009 to the present, he sits as Director of Lipa Bank, Inc. He served as Executive Vice President of the Development Bank of the Philippines where he worked for 18 years. In the last five years, he has served as Director for DBP Service Corporation, DBP Management Corporation, LGU Guarantee Corporation and DBP Insurance Brokerage, Inc. He has been appointed as Chairman of the Board of Phividec Industrial Authority. Mr. Guevara holds a degree in Bachelor of Arts in Economics and Masters in Industrial Relations from the University of the Philippines.

Gener T. Mendoza, Filipino, 59 years old, has been an Independent Director of CLC since March 27, 2017. Mr. Mendoza is currently the President of GNCA Holdings, Inc. Apart from his assignment in GNCA, he serves as court-appointed rehabilitation receiver or liquidator for the following companies: Ensogo, Inc., Universal Rightfield Property Holdings, Inc., Pacific Activated Carbon Company, Inc., and Premium Agro-Vet Products, Inc. He also assists the liquidator of National Steel Corporation and Advent Capital Corporation. Previously, he was a Principal of SyCip Gorres Velayo & Co., Vice President for Corporate Finance at Kuok Philippine Properties, Inc., and Executive Vice President of Crown Equities Inc. He serves as a Director of IPM Holdings Inc., Organizational Change Consultants International, Inc., ACM Landholdings, Inc., Dualtech Training Center Foundation, Inc., and Rose Pharmacy, Inc. He earned his MBA from the Harvard Business School and his Bachelor of Science in Management Engineering (summa cum laude) from the Ateneo de Manila University.

Ignacia S. Braga IV, Filipino, 51 years old, is the Vice President-Finance of the Company. She is also the Vice President-Finance of CSC, PNX-CSC, FTC, BMI, CSMMSC and DGMSI as well as Treasurer of CMMRI, Trans-Asia Shipping and its subsidiaries. Ms. Braga is a Certified Public Accountant with more than 20 years of corporate finance and accounting experience. Prior to joining the Company, she was formerly the Assistant Vice President – Group Controller of Lapanday Foods Corporation and former Controller of Macondary Agro-Industrial Corporation. She was the Finance Manager of RFM Tuna Corporation and the Asia Industries (Mindanao) Inc. Ms. Braga is a Bachelor of Science Major in Commerce, Cum Laude graduate from the Ateneo de Davao University. She began her career as an auditor of Sycip Gorres Velayo & Co. in 1986.

Ma. Henedina V. San Juan, Filipino, 55 years old, is the Corporate Secretary of the Company. Ms. San Juan also serves as Corporate Secretary of CSC, PNX-CSC, FTC, MI, BMI and CMMRI, and other Companies in the Udenna Group. She is also currently the Assistant Vice President for Business Development and Corporate Affairs of CSC. Prior to joining the Company, she worked for Petron Corporation, Petronas Energy & Petroleum, Inc. and Herma Corporation. Ms. San Juan holds a degree of Bachelor of Arts in Political Science from the University of the Philippines and a Bachelor of Laws degree from the same university.

Irwin M. Montano, Filipino, 51 years old, is the Vice President for Human Resources of the Company. Irwin was formerly the Vice President for Human Resources, Environment/Safety and Health, Security, and Customer Service of Amkor Technology Philippines. He was formerly the AVP for Human Resources and Business Unit Head of the IT Outsourcing Group of American Data Exchange Corporation. He holds a degree in Bachelor of Science in Electronics and Communications Engineering, graduated Cum Laude from the Mapua Institute of Technology. He is a Graduate of MBA Regis Program (Gold Medalist) from the Ateneo Graduate School of Business.

Ricky P. Victoria, Filipino, 57 years old, is the Vice President for Ship Management of CSC. Prior to joining CSC, he was the President of Navia Crewing Services, Inc. He was formerly the General Manager of SynergyGroup Operations, Inc. and Senior Operations Manager of Jebsen's Maritime, Inc. He was also with SAV Shipmanagement and Marine Services, Inc. as Managing Director. He holds a degree in Bachelor of Science in Marine Transportation from the Philippine Merchant Marine Academy and a Masters Degree in Business Administration from the University of Western Australia.

Athelle Diamond Beverly G. Feliciano, Filipino, 37 years old, is the AVP for Chartering and Synergy Functions of CSC. She was formerly with Emirates National Oil Company (ENOC) in charge of Risk Management. Prior to this, she was Chartering & Business Planning and Tanker Vessels Voyage Manager of Chevron Philippines, Inc. She holds a degree in Bachelor of Science in Business Economics from the University of Santo Tomas and Masteral Degree in Business Administration from the Ateneo Graduate School of Business. She is a Lean Six Sigma Green Belter.

Rodel V. Marqueses, Filipino, 32 years old, is the Finance Comptroller of the Company. A Certified Public Accountant, he was formerly a Senior Manager of Punongbayan and Araullo. He holds a degree in Bachelor of Science in Accountancy from San Beda College.

Leandro E. Abarquez, Filipino, 34 years old, is the Compliance Officer of the Company. Prior to joining the Company, he was a Senior Associate at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles. He received his bachelor's degree in Biology from the Ateneo de Manila University in 2004, and his *juris doctor* degree from the same university in 2009.

Daryl Eunika B. Maloles, Filipino, 29, is the Investor Relations Officer of the Company. Prior to joining the Company, she was an Investor Relations Officer at DNL Industries, Inc. She received her bachelor's degree in BS Economics from the University of the Philippines in 2008. Concurrent to her role in the Company, she also handles Mergers and Acquisitions and Investor Relations at PPPI.

<u>Directorships in other reporting companies</u>

During the last five (5) years, the following Directors are also Directors of other reporting companies as listed below:

Name of Director	Name of Reporting Company	Position Held
Dennis A. Uy	P-H-O-E-N-I-X Petroleum Philippines, Inc.	Director, President and CEO
	2Go Group, Inc.	Director, President and CEO
Cherylyn C. Uy	P-H-O-E-N-I-X Petroleum Philippines,	Director

Name of Director	Name of Reporting Company	Position Held
	Inc.	

Corporate Governance

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

The Manual features the following provisions:

1. *Protection of investors*. The Manual provides for shareholders' rights and protection, investor relations, and a disclosure system to ensure transparency and accountability.

2. *Board of Directors and Management*. The detailed qualifications and disqualifications, duties, functions and responsibilities of the Board and executive officers are also enumerated in the Manual.

3. *Checks and balances*. The Manual contains the vision, strategic objectives, key policies, procedures for the management of our Company, and mechanisms for monitoring and evaluating management's performance.

4. *Compliance with the Manual*. The appointment of a Compliance Officer to monitor compliance with and violations of the Manual is also provided.

5. *Creation of committees*. The Manual mandates the creation of the Nomination Committee, the Audit Committee, the Corporate Governance Committee, the Board Risk Oversight Committee and the Related Party Transaction Committee to ensure the performance of certain important functions of the Board and management.

CLC shall continue to improve its corporate governance, and shall amend, the Manual as may be necessary.

A copy of the Manual containing the foregoing provisions was submitted to the Philippine SEC together with the registration statement filed with respect to the Offer Shares.

Committees of the Board of Directors

CLC's Board of Directors created and appointed Directors to the five (5) board committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified. The five committees are: (i) the Nomination Committee; (ii) the Audit Committee; (iii) Corporate Governance Committee; (iv) Board Risk Oversight Committee; and, the (v) Related Party Transaction Committee.

Nomination Committee

CLC's Nomination Committee is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of Directors. The Nomination Committee must comprise at least three (3) Directors, one of whom should be an Independent Director. The Nomination Committee reports directly to CLC's Board of Directors.

The Nomination Committee chairman is Dennis A. Uy who serves with Miguel Rene A. Dominguez and Efren E. Uy.

Audit Committee

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

The Audit Committee has the following functions:

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

2. Perform oversight functions over our internal and external auditors. It should ensure that the internal and external auditors act independent from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

3. Review the annual internal audit plan to ensure its conformity with our objectives. The plan shall include the audit scope, resources and budget necessary to implement it;

4. Prior to the commencement of an audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

5. Organize an internal audit department, and consider, when necessary and desirable the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;

6. Monitor and evaluate the adequacy and effectiveness of the our internal control system including financial reporting control and information technology security;

7. Review the reports submitted by the internal and external auditors;

8. Review the quarterly, half-year and annual financial statements before their submission to the board of directors, with particular focus on the following matters: any change(s) in accounting policies and practices; major judgment areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards; and compliance with tax, legal and regulatory requirements;

9. Coordinate, monitor and facilitate compliance with laws, rules and regulations;

10. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fee paid to the external auditor in relation to its significance to the total annual income of the external auditor and to our overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with its duties as an external auditor or may pose a threat to its independence. The non-audit work, if allowed, should be disclosed in our annual report; and,

11. Establish and identify the reporting line of our internal auditor to enable him to properly fulfill his duties and responsibilities. It shall functionally report directly to the Audit Committee.

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

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

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

Miguel Rene A. Dominguez is our Audit Committee chairman, who serves with Dennis A. Uy and Jesus S. Guevara II.

Corporate Governance Committee

The Corporate Governance Committee shall be composed of at least three (3) members, all of whom should be Independent Directors, including the Chairman. The Corporate Governance Committee shall have the following duties and functions among others:

1. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;

2. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;

3. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;

4. Recommends continuing education/training programs for Directors, assignment of tasks/projects to Board committees, succession plan for the Board members and senior officers, and remuneration packages for corporate and individual performance;

5. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;

6. Proposes and plans relevant trainings for the members of the Board;

7. Determines the nomination and election process for the CLC's Directors and has the special duty of defining the general profile of Board members that CLC may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and,

8. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates.

Jesus S. Guevara II is our Corporate Governance Committee chairman, who serves with Gener T. Mendoza and Miguel Rene A. Dominguez.

Board Risk Oversight Committee

The Board Risk Oversight Committee (**"BROC"**) shall be composed of at least three (3) members, majority of whom should be Independent Directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the Committee must have relevant thorough knowledge and experience on risk and risk management. The Committee has the following duties and responsibilities:

1. Develops a formal enterprise risk management plan which contains the following elements: (i) common language or register of risks; (ii) well-defined risk management goals, objectives and oversight; (iii) uniform processes of assessing risks and developing strategies to manage prioritized risks; (iv) designing and implementing risk management strategies; and, (v) continuing assessments to improve risk strategies, processes and measures;

2. Oversees the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The BROC conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

3. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The BROC revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

4. Advises the Board on its risk appetite levels and risk tolerance limits;

5. Reviews at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;

6. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;

7. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and,

8. Reports to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

Gener T. Mendoza is our Board Risk Oversight Committee chairman, who serves with Arthur Kenneth L. Sy and Miguel Rene A. Dominguez.

Related Party Transaction Committee

The Related Party Transaction (**"RPT"**) Committee shall be composed of at least three (3) non-executive Directors, two (2) of whom should be independent, including the Chairman. The Committee shall have the following functions:

1. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

2. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

    a. The related party's relationship to the Company and interest in the transaction;

    b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

    c. The benefits to the corporation of the proposed RPT;

    d. The availability of other sources of comparable products or services; and

    e. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

3. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;

4. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

5. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

6. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

Jesus S. Guevara III our Related Party Transaction Committee chairman, who serves with Eduardo A. Bangayan and Gener T. Mendoza.

Executive Compensation Table

Compensation

The following table sets forth CLC's most highly compensated executive officers, including its President and CEO, for the year ended December 31, 2016:

Name	Position
Chryss Alfonsus V. Damuy	President and CEO
Cherylyn C. Uy	Treasurer
Ignacia S. Braga IV	Vice President - Finance
Arthur Kenneth L. Sy	Trans-Asia President
Ricky P. Victoria	Vice President – Ship Management

The following table identifies and summarizes the aggregate compensation of CLC's President & CEO and the four most highly compensated executive officers, as well as the aggregate compensation paid to all other officers and Directors as a group, for the years ended December 31, 2014, 2015 and 2016:

Aggregate Compansation - Executive Officers (Top Five)

Year	Total (P million)
2014	21
2015	19
2016	21

Aggregate Compensation - Directors and Executive Officers (Excluding top 5 above)

Year	Total (P million)
2014	18
2015	26
2016	18

Standard Arrangements

Other than payment of reasonable per diem as may be determined by CLC's Board of Directors for every meeting, there are no standard arrangements pursuant to which its Directors are compensated directly or indirectly, for any services provided as a Director.

Other Arrangements

There are no other arrangements pursuant to which any member of CLC Board of Directors is compensated, directly or indirectly, for any service provided as a Director.

Warrants and Options

There are no outstanding warrants or option held by Directors and officers nor are there any adjustments in the exercise price of said warrants or options.

Involvement in Certain Legal Proceedings of Directors and Executive Officers

As of the date of this Prospectus, there are no other material legal proceedings involving CLC's Directors and executive officers except the following:

1. People of the Philippines vs. Dennis Ang Uy, John Does and/or Jane Does, Criminal Case Nos. 18291-18293 Regional Trial Court, 4th Judicial Region, Batangas City, Branch 3

   On August 27, 2013, the Department of Justice filed three (3) Informations before the Regional Trial Court (RTC) of Batangas City against Mr. Uy and several John Does and/or Jane Does in connection with the Resolutions dated April 24, 2013 and August 13, 2013 issued by the Secretary of Justice (**"SOJ"**), finding probable cause against Mr. Uy for alleged violation of Section 3602 in relation to Sections 3601, 2530 (I)(1), (3), (4) and (5), Sections 1801, 1802, 3604; and 2530 of the Tariff and Customs Code of the Philippines (**"TCCP"**), as amended, and Administrative Order (CAO) No.3-2010 and Customs Memorandum Order (CAO) No.18-2010.

   On September 2, 2013, an Entry of Appearance with Motion to Determine Probable Cause (with Prayer to Hold in Abeyance Issuance of Warrant of Arrest) of even date ("**Motion to Determine Probable Cause**") was filed by Mr. Uy's counsel, which sought the dismissal of the criminal cases for lack of probable cause.

   In its Order dated September17, 2013, the trial court dismissed the criminal cases against Mr.Uy for lack of probable cause.

   Thereafter, plaintiff People of the Philippines filed a Motion for Reconsideration with Urgent Motion for Inhibition of Judge Ruben A. Galvez dated November 7, 2013, to which an Opposition dated November 22, 2013 was filed by Mr. Uy's counsel.

   In the Order dated December 6, 2013, the trial court denied plaintiff People of the Philippines' Motion for Reconsideration on the ground that there were no substantial arguments to warrant reconsideration or modification of the assailed Order was raised.

   On July 7, 2014, the trial court issued a Certificate of Finality of even date certifying that the Order dated December 6, 2013 has already become final and executory, there being no appeal filed thereto.

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

   On August 27, 2013, the DOJ filed twelve (12) Informations before the Regional Trial Court of Davao (docketed as Criminal Case Nos.75,834-13 to 75,845-13) against Mr. Uy and several John Does and/or Jane Does in connection with the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ, finding probable cause against Mr.Uy for alleged violation of Section 3602 in relation to Sections 3601, 2530 (I)(1), (3), (4), and (5), Sections 1801,1802, 3604; and 2530 of the TCCP, as amended, and AO No.243, CAO No.3-2010 and CAO No.18-2010.

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

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

   On September19, 2013, a Supplemental Motion for Judicial Determination of Probable Cause dated September 18, 2013 was filed by Mr. Uy’s counsel, seeking the dismissal of the ten (10) additional criminal cases for lack of probable cause.

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

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

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

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

On October27, 2014, petitioner People of the Philippines filed a Petition for Certiorari seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by the trial court dismissing the cases filed against Dennis Ang Uy. The respondents filed their Comment to said Petition for Certiorari, and the parties subsequently filed their respective Memoranda. In its Decision dated October 12, 2016, the Court of Appeals denied the Petition for Certiorari filed by the People of the Philippines. On November7, 2016, the People of the Philippines filed its Motion for Reconsideration of the Decision dated October 12, 2016. To date, the Court of Appeals has not acted on the Motion for Reconsideration dated November 7, 2016.

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

   There being no appeal or any other plain, speedy and adequate remedy in the ordinary course of law available to question and seek the reversal of the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ finding probable cause against Mr. Uy for alleged violation of the TCCP and other related rules and regulations, Dennis A. Uy filed a Petition for Certiorari with the Court of Appeals on September 4, 2013.

   On September 10, 2013, petitioner filed a Motion for Consolidation seeking the consolidation of this case with the Petition for Certiorari (with Application for Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction) filed by Jorlan Cabanes, docketed as CA-G.R.SP No.129740. The Motion for Consolidation was granted in the Resolution dated November 6, 2013. Thereafter, all the parties filed their respective Memoranda. On July 25, 2014, the Court of Appeals issued its Decision granting the Petition for Certiorari and declaring the Resolutions dated April 24, 2013 and August13, 2013 nullified and set aside, and directing that the Information filed against Dennis Uy and Jorlan C. Cabanes before the RTCs of Batangas City and Davao City be withdrawn and/or dismissed for lack of probable cause. A Motion for Reconsideration of the Decision dated July 25, 2014 was filed by respondents SOJ and Bureau of Customs. On July 23, 2015, the Court of Appeals issued its Resolution denying respondents' Motion for Reconsideration. On September 10, 2015, petitioner received a copy of the Motion for Extension to File Petition for Review on Certiorari filed by the respondents with the Supreme Court. To date, the Supreme Court has not acted on respondents' Motion.

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

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

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

   These cases charge Mr. Eduardo Bangayan for (a) violation of Section 3(e) of R.A. 3019; (b) violation of Section X126.2(C)(1)(2) of the Manual of Regulation for Banks in relation to Sections 36 and 37 of R.A. No. 7653; and, (c) committing Malversation of Public Funds under the Revised Penal Code, for allegedly conspiring with the other accused in the (a) Local Water Utilities Association's (**"LWUA"**) purchase of 445,377 shares in Express Savings Bank, Inc. (**"ESBI"**) and release from the LWUA Fund of at least ₱80,003,070.51 in connection with the said purchase of shares; and, (b) LWUA's deposit and/or capital infusion of the ₱400,000,000.00 and deposit of ₱300,000,000.00 with ESBI, as well as the release of the foregoing amounts from the LWUA Fund.

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

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

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

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

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

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

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

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

The Company is not aware of the occurrence of any of following events that occurred during the past five (5) years, which is material to an evaluation of the ability or integrity of any director, any nominee for election as director, executive officer, underwriter or control person of the Company:

(a) Any bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
(b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Significant Employees

The Company considers the collective efforts of its employees as vital to its success. CLC does not solely rely on key individuals for the conduct of our business. Therefore, the resignation or loss of any non-executive employee will not have any significant adverse effect on our business. No special arrangement with non-executive employees to assure their continued stay with us exists, other than standard employment contracts.

Family Relationships

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

1. Spouses Dennis A. Uy (Chairman of the Board) and Cherylyn C. Uy (Treasurer)

2. Spouses Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Shiela Fay U. Sy (Trans-Asia Shipping VP for Marketing and Operations)

3. Siblings Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Judith Ann S. Sandoval (Trans-Asia Shipping AVP for Treasury and Administration Services)

OWNERSHIP

Principal Shareholders

As of the date of this Prospectus, CLC has ten (10) stockholders. The table below sets out the security ownership of record and beneficial owners of CLC's voting securities as of the date of this Prospectus:

Shareholder	Number of Shares Owned of Record	% of Shareholding
Udenna Corporation	1,275,384,606	99.99%
Cherylyn C. Uy	1	Nil
Dennis A. Uy	1	Nil
Chryss Alfonsus V. Damuy	1	Nil
Eduardo A. Bangayan	1	Nil
Arthur Kenneth L. Sy	1	Nil
Efren E. Uy	1	Nil
Miguel Rene A. Dominguez	1	Nil
Jesus S. Guevara II	1	Nil
Gener T. Mendoza	1	Nil
Total	**1,275,384,615**	**100%**

Security Ownership of Certain Record and Beneficial Owners of more than 5% of our voting securities as of December 31, 2016

Title of Class	Name and Address of Record Owner and Rellationship with Issuer	Name of Bneficial Owner and Relationship with Record Owner	Citizenship	No. Of Shares Held	% of Total Outstanding Shares
Common	Udenna Corporation parent Company of CLC	Please see note 1 below	Filipino	500,000,000	99.99%

Note 1 – The beneficial owners are Dennis A. Uy and Cherylyn C. Uy.

Security Ownership of Directors and Officers

The following comprise CLC's Board of Directors as of the date of this Prospectus. Under the Philippine Corporation Code, to qualify as a member of the Board of Directors, each Director is required to hold at least one share in his name in the books of the corporation.

Title Of Class	Name of Record Owner	Number of Shares	Amount (P)	Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Dennis A. Uy	1	1.00	Direct	Filipino	Nil
Common	Cherylyn C. Uy	1	1.00	Direct	Filipino	Nil
Common	Chryss Alfonsus V. Damuy	1	1.00	Direct	Filipino	Nil
Common	Eduardo A. Bangayan	1	1.00	Direct	Filipino	Nil
Common	Arthur Kenneth L. Sy	1	1.00	Direct	Filipino	Nil
Common	Efren E. Uy	1	1.00	Direct	Filipino	Nil
Common	Miguel Rene A. Dominguez	1	1.00	Direct	Filipino	Nil
Common	Jesus S. Guevara II	1	1.00	Direct	Filipino	Nil
Common	Gener T. Mendoza	1	1.00	Direct	Filipino	Nil

Dilution of Principal Shareholders

The chart below shows the dilution of our principal shareholders as a result of the Offer.

Name of Shareholder	Number of Subscribed Shares	% Total of Shareholding before the Offer	% Total of Shareholding after the firm offer
Udenna Corporation	1,275,384,606	99.99%	70%
Dennis A. Uy	1	Nil	Nil
Cherylyn C. Uy	1	Nil	Nil
Chryss Alfonsus V. Damuy	1	Nil	Nil
Eduardo A. Bangayan	1	Nil	Nil
Arthur Kenneth L. Sy	1	Nil	Nil
Efren E. Uy	1	Nil	Nil
Miguel Rene A. Dominguez	1	Nil	Nil
Jesus S. Guevara II	1	Nil	Nil
Gener T. Mendoza	1	Nil	Nil

Voting Trust Holders of 5.0% or More

There were no persons holding more than 5.0% of a class of Shares under a voting trust or similar agreement as of the date of this Prospectus.

Lock-up

The PSE rules require existing shareholders owning at least 10% of the outstanding shares of a company not to sell, assign or in any manner dispose of their shares for a period of 365 days after the listing of the shares or 365 days after the Listing Date in case CLC is exempt from the track record and operating history requirements. In addition, all Shares issued or transferred done and fully-paid within 180 days prior to the commencement of the Offer at an issue or transfer price less than the price per Offer Share shall be subject to a lock-up period of at least 365 days from the date that full payment is made on such Shares.

Thus, the following Shares will be subject to the aforesaid 365-day PSE lock-up from the date of full payment of such Shares:

Shareholder	No. of Common Shares Covered by the 365 Days Lock-up	Ownership Percentage to Total Issued Shares Before the Offer
Udenna Corporation	1,275,384,606	99.99%
Cherylyn C. Uy	1	Nil
Arthur Kenneth L. Sy	1	Nil
Efren E. Uy	1	Nil
Eduardo A. Bangayan	1	Nil
Miguel Rene A. Dominguez	1	Nil
Jesus S. Guevara II	1	Nil
Gener T. Mendoza	1	Nil
Total	**1,275,384,613**	**99.99%**

To implement the foregoing lock-up requirements, the PSE requires the applicant company to lodge the shares with the PDTC through a PCD participant for the electronic lock-up of the shares or enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution.

Changes in Control

As of the date of this Prospectus, there are no arrangements, which may result in a change in control of CLC.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, CLC engages in transactions with related parties and affiliates. It is the Company's policy to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties. A summary of the Company's RTP as of and for the three months ended March 31, 2016 and 2017 and the years ended December 31, 2014, 2015 and 2016 is shown below.

		Amount of Transactions		Outstanding Balances	
Related Party Category	Notes	**March 31, 2017**	March 31, 2016	**March 31, 2017**	December 31, 2016
Udenna –					
Cash advances obtained	21.4	**P 39,708,002**	P -	**(P 39,708,002)**	P -
Cash advances granted	21.4	**-**	10,000,000	**-**	-
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI):					
Repayment of advances	21.4	**84,830,229**	370,816,632	**-**	-
Chartering services rendered	21.1	**114,651,167**	238,653,796	**432,355,225**	460,059,177
Fuel purchases	21.2	**9,922,105**	33,131,156	**(62,792,288)**	(66,940,095)
Cash advances obtained	21.4	**-**	50,578,764	**(929,026)**	(85,759,255)
Acquisition of CSC's shares	21.6	**-**	-	**(500,000,000)**	(500,000,000)
Related party under common ownership:					
Rental income	21.3	**1,243,859**	2,318,352	**562,936**	1,600,540
Rental expense	21.3	**591,974**	589,157	**-**	-
Donation	21.7(b)	**90,000**	90,000	**-**	-
Cash advances granted	21.4	**-**	364,371,957	**-**	194,446,078
Key management personnel –					
Compensation and benefits		**12,665,037**	12,340,344	**-**	-

	Amount of Transactions			Outstanding Balances		
Related Party Category	**2016**	2015	2014	**2016**	2015	2014
Udenna Corporation:						
Cash advances granted	**P 10,000,000**	-	-	-	-	-
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI):						
Acquisition of CSC	**2,000,000,000**	-	-	**500,000,000**	-	-
Chartering services rendered	**954,615,182**	898,985,087	493,235,754	**460,059,177**	190,566,811	39,457,159
Cash advances obtained	**50,578,764**	65,981,213	76,847,227	**(85,759,255)**	(405,997,123)	(551,117,674)
Fuel purchases	**132,524,625**	100,084,126	45,094,426	**(66,940,095)**	(45,964,810)	(84,142,797)
Repayment of advances	**370,816,632**	211,101,764	9,283,497	-	-	-
Related party under common ownership:						
Cash advances granted	**364,371,957**	51,911,166	24,885,526	**194,446,078**	27,250,735	29,177,071
Rental income	**9,273,407**	4,268,187	3,578,529	**1,600,540**	-	3,839
Rental expense	**2,356,626**	2,106,308	1,144,676	-	-	-
Donation	**360,000**	30,000	30,000			
Port expenses	-	8,857,795	2,795,212	-	(5,054)	(115,403)
Key management personnel –						
Compensation and benefits	**14,039,205**	6,591,306	7,774,437	-	-	-

1. *Chartering Agreements* – CSC entered into chartering agreements (time charter and spot charter agreements) with PPPISE.

   For the year ended December 31, 2016, chartering services rendered to PPPI account for 65% of the Company's total revenues.

2. *Fuel Purchases* – In the same manner, the Company purchases fuel and lubes from PPPI. The Company sources approximately 90% of its fuel requirements from PPPI. Trans-Asia still has existing fuel supply agreements with

Petron Corporation until September 2017 and lubricant supply agreements with Chevron Philippines, Inc. until May 2017.

3. *Rental Income and Expenses* – CSC bills Calaca Industrial Seaport Corp. (formerly "Phoenix Petroterminals & Industrial Park Corp."), a related party under common ownership, for their corresponding share on the office space rent.

   CSC also entered into operating lease agreements with Valueleases, Inc., a related party under common ownership, covering various transportation equipment for a period of one year, subject to renewal upon mutual consent of both parties.

4. *Advances to/from Related Parties* – In the normal course of business, the Company grants to and obtains from related parties unsecured, noninterest-bearing cash advances for working capital requirements and other purposes. These advances are generally settled in cash or through offsetting arrangements with the related parties.

5. *Personal Guarantees of Interest-bearing Loans* – Certain bank loans and term loans obtained by the Company are secured by personal guarantees and/or continuing suretyship by the CLC's Chairman of the Board.

The terms are made on the same terms as those transactions with third parties; hence, are evaluated by management as arm's length transactions.

DESCRIPTION OF THE SHARES

The shares of CLC to be offered shall be 546,593,000 Offer Shares, consisting of common shares, with a par value of ₱1.00 per share, to be issued and offered by CLC.

Share Capital Information

As of the date of December 31, 2016, CLC's authorized capital stock is ₱2,000,000,000 divided into 2,000,000,000 common shares with a par value of ₱1.00. As of the date of this Prospectus, CLC's issued and outstanding share capital consisted of 1,275,384,615 common shares. See "*Business—Corporate Structure and Reorganization*" on page 81 of this Prospectus.

Objects and Purposes

Pursuant to CLC's Articles of Incorporation, its primary purpose is to act as a holding company.

Under Philippine law, a corporation may invest its funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized when approved by a majority of the board of directors and ratified by the shareholders representing at least two-thirds of the outstanding capital stock, at a shareholders' meeting duly called for the purpose; provided, however, that where the investment by the corporation is reasonably necessary to accomplish its primary purpose, the approval of the shareholders shall not be necessary.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its articles of incorporation and by-laws. A Philippine corporation may also increase or decrease its authorized capital stock, provided that the increase or decrease is approved by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose and is duly approved by the SEC.

All of CLC's shares that are currently issued or authorized to be issued are common shares and have a par value of ₱1.00 per share. If par value shares are issued at a price above par, whether for cash or otherwise, the amount by which the subscription price exceeds the par value is credited to an account designated as paid-in surplus.

A corporation may acquire its own shares for a legitimate corporate purpose as long as it has unrestricted retained earnings or surplus profits sufficient to pay for the shares to be acquired, such as in the following instances: (i) elimination of fractional shares arising out of stock dividends, (ii) the purchase of shares of dissenting shareholders exercising their appraisal right; and (iii) the collection or compromise of an indebtedness arising out of an unpaid subscription in a delinquency sale or to purchase delinquent shares during such sale. Upon repurchase of its own shares, the shares become treasury shares, which may be resold at a reasonable price fixed by the board of directors.

The Board is authorized to issue shares from the treasury from time to time.

Foreign Ownership Limits

The Philippine Constitution and other Philippine laws and regulations require that ownership of companies who own land and those who are engaged in the operation of public utilities be limited to citizens of the Philippines, or Philippine Nationals who are corporations or associations organized under the laws of the Philippines of which at least 60% of the capital stock outstanding is owned and held by citizens of the Philippines. Considering that the Company operates public utilities, and through Trans-Asia Shipping, owns land, it is subject to the said nationality restriction.

Rights Relating to Shares

Voting Rights

CLC's shares have full voting rights. Each common share entitles the holder to one vote. CLC's Directors are elected by the shareholders at the annual shareholders' meeting. Cumulative voting is allowed whereby a shareholder may cumulate his votes by giving one candidate as many votes as the number of directors to be elected multiplied by the number of his shares. Under Philippine law, voting rights cannot be exercised with respect to shares declared delinquent, treasury shares, or if the shareholder has elected to exercise his appraisal rights.

Dividend Rights

CLC's shares shall have full dividend rights. Dividends are payable to all shareholders on the basis of outstanding shares held by them, each share being entitled to the same unit of dividend as any other shares. Dividends are payable to shareholders whose names are recorded in the stock and transfer book as of the record date fixed by its directors. The PDTC has an established mechanism for distribution of dividends to beneficial owners of the shares which are traded through the PSE and lodged with the PDTC as required for scripless trading.

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. CLC may pay dividends in cash, property or by the issuance of shares. Dividends may be declared by the board of directors except for stock dividends, which may only be declared and paid with the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

The Philippine Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or, (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

Philippine corporations whose securities are listed on any stock exchange are required to maintain and distribute an equitable balance of cash and stock dividends, consistent with the needs of shareholders and the demands for growth or expansion of the business.

See "*Dividends and Dividend Policy*" on page 35.

Pre-emptive Rights

The Philippine Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation entitling such shareholders to subscribe for all issues or other dispositions of equity-related securities by the corporation in proportion to their respective shareholdings, regardless of whether the equity-related securities proposed to be issued or otherwise disposed of are identical to the shares held. A Philippine corporation may, however, provide for the denial of these pre-emptive rights in its articles of incorporation. Likewise, shareholders who are entitled to such pre-emptive rights may waive the same through a written instrument to that effect. CLC's Articles of Incorporation deny shareholders the pre-emptive right to subscribe to all classes of shares that it may issue in the future.

Derivative Rights

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

Appraisal Rights

Under the Philippine Corporation Code, a shareholder has the right to dissent and demand payment of the fair value of his shares in the following instances: (i) an amendment of the articles of incorporation which has the effect of changing or restricting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence; (ii) the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the corporate assets; (iii) in a merger or consolidation; and, (iv) investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

The payment to the dissenting stockholder of the fair value of his shares will only be available if the corporation has unrestricted retained earnings to cover such purchase. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

Right of Inspection

A shareholder has the right to inspect the records of all business transactions of the corporation and the minutes of any meeting of the board of directors and shareholders at reasonable hours on business days and may demand a copy of excerpts from such records or minutes at his or her expense. However, the corporation may refuse such inspection if the shareholder demanding to examine or copy the corporation's records has improperly used any information secured through any prior examination, or was not acting in good faith or for a legitimate purpose in making his demand.

Right to Financial Statements

A shareholder has a right to be furnished with the most recent financial statement of a Philippine corporation, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the results of its operations. At the meeting of shareholders, the board of directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements duly signed and certificate by an independent certified public accountant.

Provisions that Would Delay, Deter or Prevent a Change in Control

Article Seven of CLC's Articles of Incorporation provides that should CLC apply for, and qualify to list its shares in the PSE, it shall comply with the lock-up requirements of the PSE Listing Rules. See "*Security Ownership of Certain Record and Beneficial Owners"* on page 125 of this Prospectus.

Board of Directors

Unless otherwise provided by law, the corporate powers of CLC are exercised, its business is conducted, and its property is controlled, by the Board of Directors. Pursuant to CLC's Articles of Incorporation, as amended, the Company shall have nine (9) directors, three (3) of whom are Independent Directors within the meaning set forth in Section 38 of the SRC. Its Directors shall be elected during each regular meeting of shareholders, at which shareholders representing at least a majority of the issued and outstanding capital shares of CLC are present, either in person or by proxy. Directors may only act collectively; individual directors have no power as such. Five directors, which is a majority of the Directors, constitute a quorum for the transaction of corporate business. In general, every decision of a majority of the quorum duly assembled as a Board is valid as a corporate act. Any vacancy created by the death, resignation or removal of a director prior to expiration of such director's term shall be filled by a vote of at least a majority of the remaining directors, if still constituting a quorum, otherwise, the vacancy must be filled by the shareholders at a meeting duly called for the purpose. Any director elected in this manner by its board of directors shall serve only for the unexpired term of the director whom such director replaces and until his successor is duly elected and qualified.

Shareholders' Meetings

Annual or Regular Shareholders' Meetings

All Philippine corporations are required to hold an annual meeting of shareholders for corporate purposes including the election of directors. The by-laws of CLC provide for annual meetings on the last Monday of March of each year to be held at the principal office of CLC and at such hour as specified in the notice.

Special Shareholders' Meeting

Special meetings of shareholders, for any purpose or purposes, may at any time be called by either the President or our board of directors, at its own instance, or upon the written request of stockholders representing a majority of the Corporation's outstanding capital stock.

Notice of Shareholders' Meeting

Whenever shareholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and time of the meeting, and the purpose or purposes for which the meeting is called at least two (2) weeks prior to the date of such meeting. No notice of meeting need be published in any newspaper, except when necessary to comply with the special requirements of the Philippine Corporation Code. Shareholders entitled to vote may, by written consent, waive notice of the time, place and purpose of any meeting of shareholders and any action taken at such meeting pursuant to such waiver shall be valid and binding. When the meeting of the shareholders is adjourned to another time or place, notice of the adjourned meeting need not be provided so long as the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

Quorum

A quorum at any meeting of the shareholders shall consist of a majority of the outstanding voting stock of the Corporation represented in person or by proxy, and a majority of such quorum shall decide any question that may come before the meeting, save and except those several matters in which the laws of the Philippines require the affirmative vote of a greater proportion.

Voting

The shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy duly appointed as herein provided. The vote at election of Directors shall be by ballot unless all the shareholders, present in person or by proxy shall agree to *viva voce* vote.

Fixing Record Dates

Under existing Philippine SEC rules, cash dividends declared by corporations whose shares are listed on the PSE shall have a record date which shall not be less than ten (10) and not more than thirty (30) days from the date of declaration of cash dividends. With respect to stock dividends, the record date shall not be less than ten (10) nor more than thirty (30) days from the date of shareholder approval. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC and shall be indicated in the Philippine SEC order which shall not be less than ten (10) days nor more than thirty (30) days after all clearances and approvals by the Philippine SEC shall have been secured. Regardless of the kind of dividends, the record date set shall not be less than ten trading days from receipt by the PSE of the notice of declaration of the dividend.

Proxies

Shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy duly given in writing and duly presented to and received by the Corporate Secretary for inspection and recording at or prior to the opening of the meeting. No proxy bearing the signature that is not legally acknowledged, if unrecognized by the Corporate Secretary, shall be honored at the meetings. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Corporate Secretary. No proxy shall be valid and effective for a period longer than five years at any one time. No member of the PSE and no broker/dealer shall give any proxy, consent or authorization, in respect of any securities carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by the broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.

There shall be a presumption of regularity in the execution of proxies and proxies shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge. Proxies should comply with the relevant provisions of the Philippine Corporation Code, the SRC, the Implementing Rules and Regulations of the SRC (as amended), and Philippine SEC Memorandum Circular No. 5 (series of 1996) issued by the Philippine SEC.

Issues of Shares

Subject to otherwise applicable limitations, CLC may issue additional Shares to any person for consideration deemed fair by the Board, provided that such consideration shall not be less than the par value of the issued Shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent Shares) has been paid and proof of payment of the applicable taxes shall have been submitted to CLC's Corporate Secretary. Under the PSE Rules, only fully-paid shares may be listed on the PSE.

Transfer of Common Shares

All transfer of shares on the PSE shall be effected by means of a book-entry system. Under this system of trading and settlement, a registered shareholder transfers legal title over the shares to such nominee, but retains beneficial ownership over the shares. A shareholder transfers legal title by surrendering the stock certificate representing his shares to participants of the PDTC System (i.e., brokers and custodian banks) that, in turn, lodge the same with the PCD Nominee. A shareholder may request his shares to be uplifted from the PDTC, in which case a certificate of stock is issued to the shareholder and the shares are registered in the shareholder's name. See "*The Philippine Stock Market*" on page 136 of this Prospectus.

Philippine law does not require transfers of our Shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See "*Philippine Taxation*" on page 141 of this Prospectus. All transfers of Shares on the PSE must be effected through a licensed stockbroker in the Philippines.

Share Register

CLC's share register is maintained at the principal office of its share transfer agent, BDO Unibank, Inc. – Trust and Investments Group, Securities Service and Corporate Agencies Department located at the BDO Unibank, Inc. – Trust and Investments Group, Securities Service and Corporate Agencies Department, BDO Corporate Center, 7899 Makati Avenue, Makati City, the Philippines.

Share Certificates

Certificates representing the Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional Shares. Shareholders may request CLC's stock transfer agent to split their certificates. Shares may also be lodged and maintained under the book-entry system of the PDTC. See "*The Philippine Stock Market*" on page 136 of this Prospectus.

Mandatory Tender Offer

The rules on mandatory tender offers are provided in the Securities Regulation Code and the SRC Rules. Under the SRC Rules:

1. Any person or group of persons acting in concert, who intends to acquire 15% of equity securities in a public company in one or more transactions within a period of 12 months, shall file a declaration to that effect with the SEC.

2. Any person or group of persons acting in concert, who intends to acquire 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company in one or more transactions within a period of 12 months, shall disclose such intention and contemporaneously make a tender offer for the percentage sought to all holders of such securities within the said period

3. Any person or group of persons acting in concert, who intends to acquire 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company through the Exchange trading system shall not be required to make a tender offer even if such person or group of persons acting in concert acquire the remainder through a block sale if, after acquisition through the Exchange trading system, they fail to acquire their target of 35% or such outstanding voting shares that is sufficient to gain control of the board.

4. Any person or group of persons acting in concert, who intends to acquire 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company directly from one or more stockholders shall be required to make a tender offer for all the outstanding voting shares. The sale of shares pursuant to the private transaction or block sale shall not be completed prior to the closing and completion of the tender offer.

5. If any acquisition that would result in ownership of over 50% of the total outstanding equity securities of a public company, the acquirer shall be required to make a tender offer under the SRC Rules for all the outstanding equity securities to all remaining stockholders of said company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party. The acquirer in such a tender offer shall be required to accept all securities tendered.

The mandatory tender offer requirement shall not apply to the following:

1. Any purchase of securities from the unissued capital shares unless it will result in a 50% or more ownership of shares by the purchaser or such percentage that is sufficient to gain control of the board;

2. Any purchase of securities from an increase in the authorized capital stock of the target company;

3. Purchase in connection with foreclosure proceedings involving a duly constituted pledge or security arrangement where the acquisition is made by a debtor or creditor;

4. Purchases in connection with a privatization undertaken by the government of the Philippines;

5. Purchases in connection with corporate rehabilitation under court supervision;

6. Purchases in the open market at the prevailing market price; or

7. Merger or consolidation.

Fundamental Matters

The Philippine Corporation Code provides that the following acts of the corporation should have the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation: (i) amendment of the articles of incorporation; (ii) removal of directors; (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the assets of the corporation; (iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized; (v) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws; (vi) merger or consolidation; (vii) an increase or decrease in capital stock; (viii) dissolution; (ix) extension or shortening of the corporate term; (x) creation or increase of bonded indebtedness; (xi) declaration of stock dividends; (xii) management contracts with related parties; and (xiii) ratification of contracts between the corporation and a director or officer.

The approval of shareholders holding a majority of the outstanding capital shares of a Philippine corporation, including non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

Accounting and Auditing Requirements

Philippine stock corporations are required to file copies of their annual consolidated financial statements with the Philippine SEC. Corporations whose shares are listed on the PSE are also required to file quarterly consolidated financial statements for the first three quarters with the Philippine SEC and the PSE. The Board is required to present to shareholders at every annual meeting a financial report (including the financial statements) of the operations of the Company for the preceding year.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Issue Manager, Lead Underwriter and Sole Bookrunner, or any of their respective subsidiaries, affiliates or advisors in connection with the offer and sale of the Offer Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system, which integrates all bids, and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE had an authorized capital stock of ₱120,000,000.00, of which 61,258,733 shares were subscribed and fully paid-up as of June 30, 2013. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds ("**ETF**"), which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards. Previously, the PSE allowed listing on the First Board, Second Board or the Small, Medium and Enterprises Board. With the issuance by the PSE of Memorandum No. CN-No. 2013-0023 dated June 6, 2013, revisions to the PSE Listing Rules were made, among which changes are the removal of the Second Board listing and the requirement that lock-up rules be embodied in the articles of the incorporation of the issuer. Each index represents the numerical average of the prices of component shares. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected shares listed on the PSE, based on traded prices of shares from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006, simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE. On July 26, 2010, the PSE launched its current trading system, PSE Trade.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

In December 2013, the PSE replaced its online disclosure system ("**OdiSy**") with a new disclosure system, the PSE EDGE. PSE EDGE was acquired from the Korea Exchange and is a fully automated system equipped with a variety of feature to further standardize the disclosure reporting process of listed companies on the PSE, improve investors' disclosure searching and viewing experience, and enhance overall issuer transparency in the market.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices.

The table below sets out movements in the composite index as of the last business day of each calendar year from 1995 to 2017, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization	Combined Value of Turnover
			(in₱ billions)	(in₱ billions)
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.1	668.8
1997	1,869.2	221	1,251.3	586.2
1998	1,968.8	222	1,373.7	408.7
1999	2,142.9	225	1,936.5	781.0
2000	1,494.5	229	2,576.5	357.7
2001	1,168.1	231	2,141.4	159.6
2002	1,018.4	234	2,083.2	159.7
2003	1,442.4	236	2,973.8	145.4
2004	1,822.8	235	4,766.3	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	239	7,173.2	572.6
2007	3,621.6	244	7,977.6	1,338.3
2008	1,872.9	246	4,069.2	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	245	8,697.0	1,422.6
2012	5,812.7	254	10,952.7	1,771.7
2013	5,889.8	257	11,931.3	2,546.2
2014	7,230.6	263	14,251.7	2,130.1
2015	6,952.1	216	13,465.1	2,172.5
2016	7,796.2	264	15,253.5	931.7
As of March 2017	7,311.72	266	15,284.8	436.1

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. until 12:00 p.m., when there will be a one-and-a-half-hour lunch break. In the afternoon, trading resumes at 1:30 p.m. and ends at 3:30 p.m., with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from five to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for the CLC's Shares is 100 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50.0% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60.0%. All orders breaching the 60.0% static threshold will be rejected by the PSE.

In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20.0% for security cluster A and newly-listed securities; 15.0% for security cluster B; and 10.0% for security cluster C); otherwise, such order will be rejected by the PSE.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

1. Synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;

2. Guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and,

3. Performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three trading days after transaction date ("**T+3**"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the PDTC. Each PSE Broker maintains a Cash Settlement Account with one of the seven existing Settlement Banks of SCCP, which are BDO Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, DB, The Hong Kong Shanghai Banking Corporation Limited, Unionbank of the Philippines, and Maybank Philippines Inc. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, Inc.., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, DB, The Hong Kong Shanghai Banking Corporation Limited, Unionbank of the Philippines, and Maybank Philippines Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

1. For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.

2. On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

For listing applications, the amended rule on lodgment of securities is applicable to:

1. The offer shares/securities of the applicant company in the case of an initial public offering;

2. The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the PSE in the case of a listing by way of introduction;

3. New securities to be offered and applied for listing by an existing listed company; and,

4. Additional listing of securities of an existing listed company.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

PHILIPPINE TAXATION

The statements made regarding taxation in the Philippines are based on the laws in force at the date of this Prospectus and are subject to any changes in law occurring after such date. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates. Prospective purchasers of the Shares are advised to consult their own tax advisers concerning the tax consequences of their investment in the Shares.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines;" otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

The term "non-resident holder" means a holder of the CLC's Shares:

1. Who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a non-resident foreign corporation; and

2. Should a tax treaty be applicable, whose ownership of CLC's Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Corporate Income Tax

Republic Act No. 8424, as amended, or the National Internal Revenue Code, generally subjects a domestic corporation to a tax of 30% of its taxable income from all sources within and outside the Philippines except, among others: (i) gross interest income from currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; (ii) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax rate of 7.5% of such income; (iii) capital gains tax from sales of shares of stock not traded in the stock exchange, which are taxed at a rate of 5% on gains up to ₱100,000 and 10% on gains in excess of the first ₱100,000; and (iv) capital gains realized from the sale, exchange or disposition of lands and buildings, which is subject to a final tax of 6%.

A minimum corporate income tax of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three (3) immediately succeeding taxable years. Further, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure or legitimate business reasons.

Tax on Dividends

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10%, which shall be withheld by CLC. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are generally subject to a final withholding tax at the rate of 30%. The 30% rate for dividends paid to a non-resident foreign corporation may be reduced to a lower rate of 15% if (i) the country in which the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends, or (ii) if the country of domicile of the non-resident foreign corporation allows a 15% or greater credit equivalent for taxes deemed to have been paid in the Philippines. The withholding tax rate may likewise be reduced under an applicable tax treaty executed between the Philippines and the country of residence or domicile of such non-resident foreign corporation.

The Bureau of Internal Revenue ("**BIR**") has prescribed certain procedures, through administrative issuances, for the availment of preferential tax rates or tax treaty relief. CLC shall withhold taxes at a reduced rate on dividends to be paid to a non-resident holder, if such non-resident holder provides CLC with the tax exemption certificate, ruling or opinion issued by the Philippine BIR confirming the tax treaty relief or preferential rate, consularized proof of the non-resident holder's legal domicile or residence in the relevant treaty state, individual or corporate status 9 if applicable, and such other supporting documents as may be required by CLC.

Proof of legal domicile or residence for an individual consists of a certification from his embassy, consulate or other equivalent certifications issued by the proper government authority, or any other official document proving residence. If the non-resident shareholder is a juridical entity, an authenticated certificated true copy of its articles of incorporation or articles of association issued by the proper government authority should also be submitted to the BIR in addition to the foregoing.

If the regular tax rate is withheld by the company instead of the reduced rates applicable under a treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Stock dividends distributed pro rata to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to capital gains or stock transaction tax, and documentary stamp tax. The capital gains tax is based on gross selling price or fair market value, whichever is higher, less the adjusted basis (taking into account the stock dividends). The stock transaction tax of 0.5% is based on the gross selling price.

The current requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and in BIR Form No. 0901-C. These include proof of tax residence in the country that is a party to the tax treaty. Proof of tax residence consists of a consularized certification from the tax authority of the country of residence of the non-resident stockholder which states that the non-resident shareholder is a tax resident of such country under the applicable tax treaty. If the non-resident shareholder is a juridical entity, an authenticated certificated true copy of its articles of incorporation or articles of association issued by the proper government authority should also be submitted to the BIR in addition to the foregoing.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	Dividends (%)	Stock Transaction tax on sale or disposition effected through the PSE (%)	Capital gains tax due on disposition of shares outside the PSE (%)
Canada	25	0.5	May be exempt
China	15	0.5	May be exempt
France	15	0.5	May be exempt
Germany	15	0.5	5/10
Japan	15	0.5	May be exempt
Singapore	25	0.5	May be exempt
United Kingdom	25	0.5	Exempt
United States	25	0.5	May be exempt

(1) *15% if the recipient company controls at least 10% of the voting power of the company paying the dividends.*

(2) *10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.*

(3) *10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends.*

(4) *5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases.*

(5) *10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.*

(6) *15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company.*

(7) *15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.*

(8) *20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.*

(9) *Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.*

(10) *Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.*

(11) *Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.*

(12) *Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR Ruling No. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently, ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through the PSE.*

When availing of capital gains tax exemption on the sale of shares of stock under a tax treaty, a tax treaty exemption ruling shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a certificate authorizing registration (CAR) from the BIR is required before the transfer is registered in the stock and transfer book. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the tax treaty relief ruling should be submitted to the BIR office processing the CAR.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

Sale, Exchange or Disposition of Shares through an Initial Public Offering (IPO)

The sale, barter, exchange or other disposition through an IPO of shares of stock in closely held corporations is subject to an IPO Tax at the rates below based on the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed.

Up to 25%	4%
Above 25% up to $33^1/_3$%	2%
Above $33^1/_3$%	1%

A "closely held corporation" means any corporation at least 50% in value of outstanding capital stock or at least 50% of the total combined voting power of all classes of stock entitled to vote is owned directly or indirectly by or for not more than 20 individuals.

The total IPO Tax is arrived at after separately computing the IPO Tax for primary and secondary offerings. The IPO Tax for the Firm Offer Shares shall be paid by CLC.

Sale, Exchange or Disposition of Shares after the IPO

Capital Gains Tax, If Sale Was Made outside the PSE

Unless an applicable treaty exempts such gains from tax or provides for preferential rates, the net capital gains realized by a resident or non-resident (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax of 5% on gains up to ₱100,000 and 10% on gains in excess of ₱100,000. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption or preferential tax rate under a tax treaty.

The transfer of shares shall not be recorded in the books of a company, unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid, or where applicable, a tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR or other conditions have been met.

Taxes on Transfer of Shares Listed and Traded at the PSE

Unless an applicable treaty exempts the sale from income and/or percentage tax, a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident shareholder (other than a dealer in securities) is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, Value Added Tax (VAT) of 12% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

The PSE issued Memorandum CN-No. 2012-0046 dated August 22, 2012, which provides that immediately after December 31, 2012, the Philippine SEC shall impose a trading suspension for a period of not more than six (6) months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership ("**MPO**"), which requires listed companies to maintain a minimum percentage of listed securities held by the public at ten percent (10%) of the listed companies issued and outstanding shares at all times. Consequently, the sale of such listed company' shares during the trading suspension may be effected only outside the trading system of the Exchange and shall be subject to capital gains tax and documentary stamp tax. Furthermore, if the fair market value of the shares of stock sold is greater than the consideration or the selling price, the amount by which the fair market value of the shares exceeds the selling price shall be deemed a gift that is subject to donor's tax at the under Section 100 of the National Internal Revenue Code.

On November 7, 2012, the BIR issued Revenue Regulations No. 16-2012 ("**R.R. 16-12**"), which provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December

31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

Documentary Stamp Tax

The original issue of shares of stock is subject to documentary stamp tax of ₱1.00 for each ₱200 par value, or fraction thereof, of the shares of stock issued. The DST on the issuance of the Firm Offer shall be paid by CLC.

The transfer of shares of stock is subject to a documentary stamp tax of ₱0.75 for each ₱200 par value or a fractional part thereof of the share of stock transferred. The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by the vendor or the purchaser of the shares. However, the sale, barter or exchange of shares of stock listed and traded at the PSE is exempt from documentary stamp tax.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of shares of stock upon the death of a registered shareholder (whether such holder was a citizen of the Philippines or an alien, regardless of residence) to his heirs by way of succession is subject to Philippine taxes at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000.

Individual and corporate registered shareholders (whether or not citizens or residents of the Philippines), who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such transfer of shares ranging from 2% to 15% of the net gifts during the year exceeding ₱100,000. The rate of tax with respect to net gifts made by individual shareholder to a stranger (*i.e*., one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) or by a corporate shareholder is a flat rate of 30%.Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30.0%.

Estate and gift taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock: (a) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or, (b) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donor's or estate taxes stated above.

The tax treatment of a non-resident shareholder in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations of non-resident holders of shares of stock under laws other than those of the Philippines.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

PHILIPPINE FOREIGN OWNERSHIP AND FOREIGN EXCHANGE CONTROLS

Foreign Ownership Controls

Republic Act No. 7042, or the Foreign Investments Act of 1991 ("**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners may own as much as 100% equity except in areas specified in the Foreign Investment Negative List. The Foreign Investment Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

1. A citizen of the Philippines;

2. A domestic partnership or association wholly-owned by citizens of the Philippines;

3. A corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;

4. A corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or,

5. A trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation.

A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years. In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Land Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

The Company does not own any private land, except for Trans-Asia Shipping's ownership of a parcel of land located at M.J. Cuenco Ave. corner Osmeña Blvd, Brgy. San Nicholas, Cebu City consisting of 1,509.28 sq. m. and a building constructed thereon with a total floor area of 2,940 sq. m. which houses Trans-Asia Shipping's main office. Trans-Asia Shipping also owns three (3) container yards located at Quezon Blvd. within Pier 5, North Reclamation Area, Brgy. Cebu Port Center, Cebu City with an aggregate area of 7,889 sq. m. The title for a portion of such property, with an aggregate area of 1,989 sq.m., is currently in the process of being transferred from Mr. Arthur Kenneth Sy to Trans-Asia Shipping. The titles for the rest of the property is registered under the name of Trans-Asia Shipping.

Operation of Public Utilities

In relation thereto, Section 11 of Article XII of the Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens.

CLC, through its subsidiaries is engaged in passenger transport, which is a public utility subject to the nationality restriction discussed above.

Foreign Exchange Regulations

Under current BSP regulations, an investment in listed Philippine securities (such as the Shares) must be registered with the BSP thru a local custodian bank (authorized agent banks or an offshore banking unit) if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such Shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. BSP Circular No. 471 (Series of 2005), as amended, however, subjects foreign exchange dealers and money changers to Republic Act No. 9160, or the Anti-Money Laundering Act of 2001, as amended, and requires these nonbank sources of foreign exchange to require foreign exchange buyers to submit supporting documents in connection with their application to purchase foreign exchange for purposes of capital repatriation and remittance of dividends.

Registration of Philippine securities listed in the PSE may be done directly with the BSP or through an investor's designated custodian bank on behalf of the BSP. A custodian bank may be any authorized agent bank (as defined below) of the BSP or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. The term "authorized agent bank" refers to all categories of banks, except offshore banking units, duly licensed by the BSP. Applications for registration must be accompanied by: (i) a purchase invoice, subscription agreement and proof of listing on the PSE (either or both); and, (ii) the original Certificate of Inward Remittance of foreign exchange and its conversion to Pesos through an authorized agent bank of the BSP in the format prescribed by the BSP.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document from the registering custodian bank and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (i) the BSP registration document from the registering custodian bank; (ii) the cash dividends notice from the PSE and the PCD printout of cash dividend payment or computation of interest earned; (iii) copy of the secretary's sworn statement on the Board Resolution covering the dividend declaration; and, (iv) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of BSP, with the approval of the President of the Philippines, to restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

PLAN OF DISTRIBUTION

546,593,000 Offer Shares shall be offered by CLC to investors, through the Issue Manager, Lead Underwriter and Sole Bookrunner. 382,614,600 (or approximately 70% of the Offer Shares) shall be offered by CLC to QIBs and to the general public. 109,319,000 Offer Shares (or approximately 20% of the Offer Shares) are being offered to all of the PSE Trading Participants. The remaining 54,659,400 Offer Shares (or approximately 10% of the Offer Shares) are being offered to LSIs in the Philippines.

Prior to the closing of the Offer, any Offer Shares not taken up by the QIBs, PSE Trading Participants and the LSIs shall be subscribed and/or distributed by the Underwriters to its clients or the general public in the Philippines. In the event that there are Offer Shares that remain unsubscribed at the end of the Offer, the Underwriters shall subscribe to the balance on a firm commitment basis pursuant to the terms of the Underwriting Agreement between CLC and the Underwriters.

Underwriting Commitment

To facilitate the Offer, CLC has appointed BDO Capital & Investment Corporation as the Issue Manager, Lead Underwriter and Sole Bookrunner. BDO Capital & Investment Corporation is duly licensed by the SEC to engage in underwriting and distribution of the Offer Shares. CLC and the Issue Manager, Lead Underwriter and Sole Bookrunner entered into an Underwriting Agreement dated on July 20, 2017(the "**Underwriting Agreement**"), whereby the Underwriters agree to underwrite, on a firm commitment basis.

The Issue Manager, Lead Underwriter and Sole Bookrunner and its affiliates have engaged in transactions with, and have performed various investment banking, commercial banking and other services for CLC in the past, and may do so for CLC and its respective subsidiaries and affiliates from time to time in the future. However, all services provided by the Issue Manager, Lead Underwriter and Sole Bookrunner, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to CLC. The Issue Manager, Lead Underwriter and Sole Bookrunner do not have any right to designate or nominate a member of the Board. The Issue Manager, Lead Underwriter and Sole Bookrunner has no direct relationship with CLC in terms of share ownership and, other than as Issue Manager, Lead Underwriter and Sole Bookrunner for the Offer, does not have any material relationship with CLC.

The Issue Manager, Lead Underwriter and Sole Bookrunner shall receive from CLC a fee equivalent to 2.75% of the gross proceeds of the Offer, exclusive of the amounts to be paid to the PSE Trading Participants. The underwriting fees shall be withheld by the Issue Manager, Lead Underwriter and Sole Bookrunner from the proceeds of the Offer. PSE Trading Participants who take up Offer Shares shall be entitled to a selling fee of 1% of the Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less a withholding tax of 10%, will be paid by CLC to the PSE Trading Participants within ten banking days of the Listing Date.

Allocation to the Trading Participants of the PSE and Local Small Investor Program

Pursuant to the rules of the PSE, CLC will make available 109,319,000 Offer Shares comprising approximately 20% of the Offer for distribution to PSE Trading Participants. The total number of Offer Shares allocated to the 132 PSE Trading Participants will be distributed following the procedures indicated in the implementing guidelines for the Offer Shares to be announced in the PSE EDGE by the PSE. Each PSE Trading Participant will be allocated a total of 828,100 Offer Shares. The balance of 9,800 Offer Shares will be allocated by the Underwriters to the PSE Trading Participants.

PSE Trading Participants who take up the Offer Shares shall be entitled to a selling fee of 1% of the Offer Shares taken up and purchased by the relevant trading participant. The selling fee, less a withholding tax of 10%, will be paid to the PSE Trading Participants within ten (10) banking days after the Listing Date.

The PSE Trading Participants may be allowed to subscribe for their dealer accounts provided that, if they opt to sell the Offer Shares to the clients during the Offer period, it must be at a price not higher than the Offer Price per share. Likewise, the trading participants are prohibited from selling the Offer Shares during the period after the Offer period and prior to the Listing Date.

The balance of the Offer Shares allocated but not taken up by the PSE Trading Participants will be distributed by the Underwriters to its clients or to the general public.

A total of 54,659,400 Offer Shares, or approximately 10% of the Offer, shall be made available to LSIs. In the case of the Offer, the minimum subscription of LSIs shall be 1,000 shares or ₱10,680.00, while the maximum subscription shall be

9,300 or ₱ 99,324. There will be no discount on the Offer Price. The PSE approved the foregoing terms on July 19, 2017. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Underwriters shall allocate the Offer Shares by balloting.

The balance of the Offer Shares allocated but not taken up by the LSIs will be distributed by the Underwriters to its clients or to the general public.

All Offer Shares not taken up by the QIBs, the PSE Trading Participants, the LSIs, the general public and the Underwriters' clients shall be purchased by the Underwriters on a firm commitment basis pursuant to the terms and conditions of the Underwriting Agreement. Nothing herein or in the Underwriting Agreement shall limit the rights of the Underwriters from purchasing the Offer Shares for its own respective account.

BDO Capital & Investment Corporation

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc. It obtained its license from the Philippines SEC to operate as an investment house in 1998 and is licensed by the Philippine SEC to engage in the underwriting and distribution of securities to the public. As of December 31, 2016, BDO Capital & Investment Corporation has an authorized capital stock of ₱400,000,000 and paid up capital stock of ₱300,000,000.

Subscription Procedures

On or before July 26, 2017, the PSE Trading Participants shall submit to the Receiving Agent their respective firm orders and commitments to purchase Offer Shares. On or before July 26, 2017, the PSE Trading Participants shall submit their applications to purchase the Offer Shares evidenced by a duly accomplished and completed application form, together with the applicable supporting documents and payment. Offer Shares not taken up by the PSE Trading Participants will be distributed by the I Underwriters directly to its clients and the general public and whatever remains will be purchased by the Underwriters.

With respect to the LSIs, all applications to purchase or subscribe for the Domestic Offer Shares must be evidenced by a duly accomplished and completed application form. An application to purchase Domestic Offer Shares shall not be deemed as a duly accomplished and completed application unless submitted with all required relevant information and applicable supporting documents to the Receiving Agent, Underwriters, or such other institutions that may be invited to manage the LSI program. Payment for the Offer Shares must be made upon submission of the duly completed application form.

Lodgment of Shares

All of the Offer Shares are or shall be lodged with the PDTC and shall be issued to the PSE Trading Participants and LSIs in scripless form. They may maintain the Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Offer Shares from the PDTC's electronic system after the Listing Date.

Lock-up

The PSE rules require existing shareholders owning at least 10% of the outstanding shares of a company not to sell, assign or in any manner dispose of their shares for a period of 180 days after the listing of the shares subscribed in the transaction or 365 days after the Listing Date in case CLC is exempt from the track record and operating history requirements.

In addition, if there is any issuance or transfer of Shares (i.e., private placements, asset for shares swap or a similar transaction) or instruments which lead to issuance of Shares (i.e., convertible bonds, warrants or a similar instrument) done and fully paid for within 180 days prior to the start of the Offer, and the transaction price is lower than that of the Offer Price, all such Shares issued or transferred shall be subject to a lock-up period of at least 365 days from full payment of such Shares. A total of 1,275,384,606 Common Shares held by Udenna Corporation, and seven Common Shares held by directors of CLC will be subject to such 365-day lock-up.

The following stockholders of CLC are subject to the 365 days lock-up from the time of full payment of their Shares:

Shareholder	No. of Common Shares Covered by the 365 Days Lock-up	Ownership Percentage to Total Issued Shares Before the Offer
Udenna Corporation	1,275,384,606	99.99%
Cherylyn C. Uy	1	Nil
Arthur Kenneth L. Sy	1	Nil
Efren E. Uy	1	Nil
Eduardo A. Bangayan	1	Nil
Miguel Rene A. Dominguez	1	Nil
Jesus S. Guevara II	1	Nil
Gener T. Mendoza	1	Nil
Total	**1,275,384,613**	**99.99%**

In addition to the lock-up obligations required by the PSE, the Philippine SEC requires that any Offer Shares placed to Cornerstone Investors be subject to a 180-day lock-up period from the Listing Date. In this regard, there is no Cornerstone Investor who is subject of the lock-up obligation for this transaction.

SELLING RESTRICTIONS

No securities, except of a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the Philippine SEC on Form 12-1 and the registration statement has been declared effective by the Philippine SEC.

INTERESTS OF NAMED EXPERTS

The financial statements of the Company as of and for the years ended December 31, 2014, 2015 and 2016and the three months ended March 31, 2017 were audited by Punongbayan & Araullo. In addition, P&A also issued Independent Auditor's Assurance Report on the Pro Forma Condensed Consolidated Financial Information included in this Prospectus. P&A has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to securities of CLC, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

The validity of the Offer Shares and other matters concerning the Firm Offer and the tax matters were passed upon for CLC by Atty. Rolando S. Laurito, Jr., the independent legal and tax counsel of CLC. The independent counsel has no shareholdings or any interest, direct or indirect, in CLC, or any right, whether legally enforceable or not to nominate persons or to subscribe to the securities of CLC in accordance with the standards on independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The named external auditors and the independent legal and tax counsel have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of CLC.

LEGAL MATTERS

Certain legal matters as to Philippine law relating to the Offer will be passed upon by Romulo Mabanta Buenaventura Sayoc & De Los Angeles, CLC's legal counsel, Atty. Rolando S. Laurito, Jr., independent legal counsel to CLC and Martinez Vergara Gonzalez and Serrano, legal counsel to the Issue Manager, Lead Underwriter and Sole Bookrunner.

Each of the foregoing legal counsel has neither shareholdings in CLC nor any right, whether legally enforceable or not, to nominate persons or to subscribe for its securities. None of the legal counsels will receive any direct or indirect interest in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

REGULATORY FRAMEWORK

PHILIPPINE CONSTITUTION

The Philippine Constitution, specifically Section 10 of Article XII thereof, provides that the Congress shall, upon the recommendation of the economic and planning agency, when the national interests dictates, reserve to citizens of the Philippines or to corporations or associations at least sixty percent (60%) of whose capital is owned by such citizens, or such higher percentage as Congress may prescribe, certain areas of investments. The Congress shall enact measures that will encourage the formation and operation of enterprises whose capital is wholly owned by Filipinos. In the grant of rights, privileges, and concessions covering the national economy and patrimony, the State shall give preference to qualified Filipinos. The State shall regulate and exercise authority over foreign investments within its national jurisdiction and in accordance with its national goals and priorities.

Pursuant to Republic Act No. 9295, otherwise known as the *Domestic Shipping Act of 2004*, the State recognizes that shipping is a necessary infrastructure, which is vital to the economic development of our country. Said law further states that the Philippines needs a strong and competitive domestic merchant fleet owned and controlled by Filipinos or by corporations at least sixty percent (60%) of the capital of which is owned by Filipinos and manned by qualified Filipino officers and crew, which shall: (a) bridge the islands by ensuring safe, reliable, efficient, adequate and economic passenger and cargo service; (b) encourage the dispersal of industry and the economic development of the regional communities by ensuring the availability of regular, reliable and efficient shipping services; (c) ensure the growth of exports by providing necessary, competitive and economical domestic sea linkages, (d) serve as a naval and military auxiliary in times of war and other national emergencies; and, (e) function as an employment support base for our Filipino seafarers. To attain these objectives, it is the policy of the State to: (a) promote Filipino ownership of vessels operated under the Philippine flag; (b) attract private capital to invest in the shipping industry by creating a healthy and competitive investment and operating environment; (c) provide necessary assistance and incentives for the continued growth of the Philippine domestic merchant marine fleet; (d) encourage the improvement and upgrading of the existing domestic merchant marine fleet and Filipino crew to meet international standards; (e) ensure the continued viability of domestic shipping operations; and (f) encourage the development of a viable shipbuilding and ship repair industry to support the expansion and modernization of the Philippine domestic merchant marine fleet and its strict adherence to safety standards which will ensure the seaworthiness of all sea-borne structures.

The Revised Implementing Rules and Regulations of Republic Act No. 9295, in turn provides that owners/operators of ships engaged in other types of operations, for hire or compensation, such as, tug and barge operations, ferry operations/services, either offered by resort/hotel owners and/or catering to tourism and leisure/sports-related activities, as well as companies, associations or individuals who operate ships for their own use but offering their ships, for hire or compensation, whether permanent, occasional or incidental, with general or limited clientele, shall be required to secure CPC.

Under the 2014 Amendments to the Revised Implementing Rules and Regulations of Republic Act No. 9295, any person, natural or juridical, although not engaged in domestic shipping, owns or operates ships in the transport of passengers or cargoes, or both, for hire or compensation must likewise secure a CPC.

In relation thereto, Section 11 of Article XII of the Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty percent (60.0%) of whose capital is owned by such citizens; nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. Neither shall any such franchise or right be granted except under the condition that it shall be subject to amendment, alteration, or repeal by the Congress when the common good so requires. The State shall encourage equity participation in public utilities by the general public. The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines.

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities, among them, the ownership of Filipino vessels operated under the Philippine flag. Moreover, as a company that engages in tug and barge operations, the company is required to secure a CPC. In securing a CPC, the company is subject to foreign ownership restrictions under the Constitution.

In light of Republic Act No. 10668, or *An Act Allowing Foreign Vessels to Transport and Co-load Foreign Cargoes for Domestic Transshipment and for Other Purposes*, foreign vessels carrying foreign container vans or foreign cargoes are now allowed to engage in the transportation and co-loading of foreign cargoes, and domestic transshipment.

A foreign vessel is defined as a ship registered or documented in a flag registry other than that of the Philippines, while a foreign cargo refers to import or export cargo carried by a foreign vessel. Under R.A. No. 10668, a foreign vessel:

1. Arriving from a foreign port, shall be allowed to carry a foreign cargo to its Philippine port of final destination, after being cleared at its port of entry;

2. Arriving from a foreign port, shall be allowed to carry a foreign cargo by another foreign vessel calling at the same port of entry to the Philippine port of final destination of such foreign cargo;

3. Departing from a Philippine port of origin through another Philippine port to its foreign port of final destination, shall be allowed to carry a foreign cargo intended for export; and,

4. Departing from a Philippine port of origin, shall be allowed to carry a foreign cargo by another foreign vessel through a domestic transshipment port and transferred at such domestic transshipment port to its foreign port of final destination.

For purposes of R.A. No. 10668, an empty foreign container van going to or coming from any Philippine port, or going to or coming from a foreign port, and being transshipped between two (2) Philippine ports shall be allowed.

Such law further provides that foreign vessels shall not be considered as offering a public service and thus shall fall outside the coverage of R.A. No. 9295.

MARITIME INDUSTRY AUTHORITY

Pursuant to Republic Act No. 9295, the MARINA shall have the power and authority to:

1. Register vessels;

2. Issue certificates of public convenience, or any extensions or amendments thereto, authorizing the operation of all kinds, classes and types of vessels in domestic shipping*: Provided*, that no such certificate shall be valid for a period of more than twenty-five (25) years;

3. Modify, suspend or revoke at any time, upon notice and hearing, any certificate, license or accreditation it may have issued to any domestic ship operator;

4. Establish and prescribe routes, zones or areas of operations of domestic ship operators;

5. Require any domestic ship operator to provide shipping services to any coastal area, island or region in the country where such services are necessary for the development of the area, to meet emergency sealift requirements, or when public interest so requires;

6. Set safety standards for vessels in accordance with applicable conventions and regulations;

7. Require all domestic ship operators to comply with operational and safety standards for vessels set by applicable conventions and regulations, maintain its vessels in safe and serviceable condition, meet the standards of safety of life at sea and safe manning requirements, and furnish safe, adequate, efficient, reliable and proper service at all times;

8. Inspect all vessels to ensure and enforce compliance with safety standards and other regulations;

9. Ensure that all domestic ship operators shall have the financial capacity to provide and sustain safe, reliable, efficient and economic passenger or cargo service, or both;

10. Determine the impact which any new service shall have to the locality it will serve;

11. Adopt and enforce such rules and regulations which will ensure compliance by every domestic ship operator with required safety standards and other rules and regulations on vessel safety;

12. Adopt such rules and regulations which ensure the reasonable stability of passengers and freight rates and, if necessary, to intervene in order to protect public interest;

13. Hear and adjudicate any compliant made in writing involving any violation of this law or the rules and regulations of the Authority;

14. Impose such fines and penalties on, including the revocation of licenses of, any domestic ship operator who shall fail to maintain its vessels in safe and serviceable condition, or who shall violate or fail to comply with safety regulations;

15. Investigate any complaint made in writing against any domestic ship operator, or any shipper, or any group of shippers regarding any matter involving violations of the relevant provisions of law;

16. Upon notice and hearing, impose such fines, suspend or revoke certificates of public convenience or other license issued, or otherwise penalize any shipper or group of shippers found violating the provisions of relevant law; and

17. Issue such rules and regulations necessary to implement the provisions of Republic Act No. 9295: Provided, that such rules and regulations cannot change or in any way amend or be contrary to the intent and purpose of said law.

Authority to Operate

The authorization for a domestic ship owner/operator to engage in domestic shipping shall be in the form of a CPC. Such authorization shall only be granted to a qualified domestic ship owner or operator engaged in domestic shipping covering all the ships in its fleet.

Domestic ship owners or operators refer to: (a) citizens of the Philippines; or, (b) Commercial partnership wholly owned by Filipinos; or (c) corporations at least sixty (60%) of the capital of which is owned by Filipinos.

The following elements shall be satisfied for a domestic ship owner or operator to be considered as engaged in "domestic shipping": (a) transports passengers or cargoes, or both; (b) owns or operates ships duly registered and licensed under Philippine law; (c) engages in trade and commerce between and among Philippine ports and within Philippine territorial or internal waters; (d) provides services for hire or compensation, to a general or limited clientele, whether permanent, occasional or incidental, with or without fixed routes; and (e) offers services for contractual or commercial purposes.

Owners/operators of ships engaged in other types of operations, for hire or compensation, such as, tug and barge operations, ferry operations/services, either offered by resort/hotel owners and/or catering to tourism and leisure/sports-related activities, as well as companies, associations or individuals who operate ships for their own use but offering their ships, for hire or compensation, whether permanent, occasional or incidental, with general or limited clientele, shall be required to secure CPC.

Under the 2014 Amendments to the Revised Implementing Rules and Regulations of Republic Act No. 9295 and MARINA Circular No. 2011-04, foreign-registered ships may be temporarily used within the national territory upon the issuance by MARINA of a Special Permit. Such issuance is primarily predicated on the objective of insuring the provision of required shipping services where such is not readily available and suitable from the domestic fleet, so as not to prejudice efficient trade and commerce, delivery of critical services/commodities, and infrastructure and development projects. Cognizance is specifically given to oil exploration projects contracted by the government which requires specialized ships not normally available from the domestic fleet.

There is no age requirement for ships to be temporarily used within the national territory, except for tankers carrying oil in bulk which should not be more than fifteen (15) years old.

All foreign ships covered under this Circular shall be classed by an international organization recognized by their Flag Administration. Further, such foreign ships shall have the Mandatory Marine Insurance to Cover Liabilities Arising from Pollution and Wreck Removal from recognized International Protection and Indemnity Club. The issuance of a Special Permit under this Circular for the carriage of passenger or cargo shall be for a maximum validity period of six (6) months per issuance, but not to exceed one (1) year. Special Permit for other types of foreign ships shall be granted a longer period based on MARINA's evaluation of the temporary character of the need/demand to utilize foreign-registered ships, with a maximum validity period of six (6) months per issuance, but not to exceed two (2) years, beyond which, the foreign ship will be required to be registered under the Philippine flag. Foreign vessels are likewise allowed under R.A. 10668 to engage in the transportation and co-loading of foreign cargoes, and domestic transshipment. Co-loading refers to agreements between two (2) or more international or domestic sea carriers whereby a sea carrier bound for a specified destination agrees to load, transport, and unload the container van or cargo of another carrier bound for the same destination, while transshipment refers to the transfer of cargo from one (1) vessel or conveyance to another vessel for further transit to complete the voyage and carry the cargo to its final destination. Such foreign vessels are not governed by R.A. No. 9295, and thus do not fall under the jurisdiction of MARINA.

Certificate of Public Convenience

The MARINA shall issue CPC and any amendment or extension thereof to domestic ship owners or operators who shall be required to file an Application for issuance of CPC at the Central Office or MARINA Regional Offices.

Every domestic ship owner or operator shall state in its application the service it proposes to offer, whether liner or tramping or both. The domestic ship owner or operator shall indicate in its routes the exact location of the ports of origin and destination. In case there is no port, the applicant shall indicate the barangay, town, beach, sitio in the application. The CPC shall be issued upon compliance with the qualification, jurisdictional and documentary requirements of the MARINA.

The CPC shall be valid for a period of not more than twenty-five (25) years. Chartered ships shall be issued an individual CPC wherein the validity shall be based on the length of the charter agreement or co-terminus with the same. For owned ship, validity of the CPC shall be the validity of the company's CPC but shall be issued based on ship categorization or grouping.

The CPC shall be amended under the following instances: (a) Permanent Addition or Deletion of a route/port/link; or, (b) Permanent Addition/Reduction or Dropping/Replacement of Ship/Fleet or (c) Change in Ship's Name; or (d) Change in the Name of Entity; or (e) Conversion in the type of operation/service; or (f) Change in the type of cargo to be carried; or (g) Change in the hull of the ship and other ship particulars; or (h) Change in Sailing Frequencies/Schedule of Trips; or (i) Change in the Contract Period of Bareboat Chartered Ships; and (j) other analogous instances as may be determined by the MARINA.

A change in the legal personality of the CPC grantee shall require the filing of a new application for CPC. The grantee of a CPC shall ensure the public of regular service in its authorized route or link. Stoppage of operations in a route or link shall not be allowed except under the following grounds: (a) maintenance or drydocking/lay-up; (b) machine or engine trouble; (c) maritime accident/incident; (d) emergency sea lift operation; (e) peace and security problems in the route; (f) port repairs; (g) fortuitous event or force majeure; (h) market forces; and (i) sale of existing ship/fleet. If the stoppage is expected or mandatory, a notice of temporary stoppage of operations shall be filed with the MARINA Office, which issued the CPC, at least fifteen (15) days prior to its effectivity and posting at conspicuous places at the ports, terminals and ships. If the stoppage is unexpected or unscheduled, the notice shall be filed within two (2) days after the stoppage of operation. The notice shall likewise indicate the schedule of resumption of service in the route or link. In both cases, an authorization shall be issued allowing the temporary stoppage of the operation of a particular ship for a specified period. Any unauthorized stoppage of operations for a period of three (3) months shall be considered abandonment of service which shall result to imposition of fines and penalties, without prejudice to cancellation/revocation of its authority to operate subject to due process. An authorized stoppage of operations shall not exceed six (6) months, otherwise, the same shall be considered as abandonment of the authorized route or portions thereof.

Deregulation of the Domestic Shipping Industry

Existing and prospective domestic shipping operators are encouraged to have new investments in the domestic shipping industry, and are authorized to establish their own domestic shipping rates, provided that effective competition is fostered and public interest is served. In fostering a free market shipping environment, the MARINA shall exercise its power to intervene, where it is established after due process that competition is compromised and public interest is threatened.

The MARINA shall, after due notice and hearing as provided in the existing MARINA Rules of Procedure and its subsequent amendments, intervene under any of the following circumstances: (a) If there's a complaint filed against the ship owner relative to rates charged and/or services rendered; and/or (b) The rates charged are excessive or unreasonable.

The MARINA shall determine the validity and veracity of the complaint, through the conduct of, but not limited to the following activities: (a) Evaluation of rates charged; (b) Financial evaluation; (c) Assessment of the quality of service provided; and (d) Market survey.

Appropriate measures may be prescribed to address the complaint and correct such concerns and deficiency/ies which will be beneficial to both operator and the public. The MARINA shall monitor all shipping operations to ensure that public interest is protected and safeguarded.

Safety Standards

All vessels operated by domestic ship operators shall at all times be in seaworthy condition, properly equipped with adequate life-saving, communication, safety and other equipment, operated and maintained in accordance with the standards set by MARINA. All ships must be manned by duly licensed and competent vessel crew and shall comply with qualification standards set by MARINA for seafarers onboard its registered ships. In the exercise of its power to inspect all ships and all equipment on board vessels, the MARINA shall undertake inspections in conformity with the Ship Safety Inspection System ("**SSIS**"), and ensure that all ship owners or operators shall maintain their ships in accordance with operational and safety standards required by existing laws and/or applicable international conventions, codes, rules and regulations for the duration of the ship's operational life.

All ships are required to carry on board the relevant or applicable ship safety certificates issued by MARINA.

MARINA CIRCULARS AND ORDERS

Register of Philippine Vessels

A certificate of Philippine registry confers upon the vessel the right to engage, consistently with law, in the Philippine coastwise trade and entitles it to the protection of the authorities and the flag of the Philippines in all ports and on the high seas, and at the same time secures to it the same privileges and subjects it to the same disabilities as, under the laws of the Philippines, pertain to foreign-built vessels transferred abroad to citizens of the Philippines.

The MARINA is the exclusive authority in matters of registration and documentation of Philippine vessels including, but not limited to, the issuance of certificates, licenses, or other documents incident thereto.

The following vessels are required to register with the MARINA to entitle it to the protection of Philippine laws and the right to fly the Philippine flag subject to the obligations and disabilities under the laws of the Philippines: (a) all types of vessels of domestic ownership and of more than 15 GRT; (b) all vessels engaged in towing/pushing or carrying goods and/or passengers for hire regardless of tonnage; and (c) all vessels acquired under Presidential Decree Nos. 760, 866 and 1711.

Registration of vessels 15 GRT and below shall be optional, provided that such vessels as are not entered in the Philippine register of ships shall be required to secure a vessel identity certificate (Certificate of Number).

The MARINA shall maintain a registry of vessels to be known as "REGISTER OF PHILIPPINEVESSELS", which shall be kept open to free inspection by the public during regular office hours or when the exigency of the service so requires. Separate registers shall be maintained for overseas and domestic vessels.

The Register of Philippine Vessels shall contain the following particulars in such form and detail as the MARINA may prescribe: (a) Name of vessel; (b) Former names and registry (if applicable); (c) Type of vessel; (d) Call sign; (e) Official Number; (f) Material of Hull; (g) Principal Dimensions; (h) Tonnage (Gross/Net/Deadweight); (i) Classification; (j) Speed; (k) Main engine; (l) Builders/Place of Built; (m) Year built; (n) Name, nationality and business address/residency of owner/operator; (o) Date of issuance of Certificate or Vessel Registry; and (p) Any material change of condition in respect to any of the preceding items including records of encumbrances.

The registration of a vessel for domestic trade shall be effected at its homeport while registration of a vessel for overseas trade shall be effected only at the MARINA Central Office.

The following requirements shall have been complied with prior to registration of a vessel, if applicable:

1. Existing Vessels

b. Plans approval;
c. Admeasurement; and,
d. Presentation of photocopies of valid trading certificates.

2. New buildings
    a. MARINA approval to acquire vessel;
    b. Approval of complete plans of hull and machineries; and,
    c. Authority issued to a classification society to inspect/supervise the construction of the vessel.

Existing Vessels

Any rights affecting the vessel or the ownership thereof shall be registered in the Book of Transfer and Encumbrances provided the same is annotated in the Certificate of Vessel Registry of Philippine Vessels.

Vessels registered under the Philippine flag shall be deleted from the Register of Philippine vessels under any of the following circumstances:

1. Bareboat chartering out to foreign nationals, unless the charterer opts to fly the Philippine flag;
2. Pre-termination/termination of charter agreement under PDs 760/866/1711;
3. Sale to foreign buyers;
4. Scrapping/Decommissioning of vessel; and
5. Constructive or total loss of vessel.

Certificate of Vessel Registry

Upon registration of a vessel of domestic ownership, and of more than fifteen (15) GRT, Certificate of Philippine registry shall be issued for it. If the vessel is of domestic ownership, and of fifteen (15) GRT or less, the taking of the certificate of Philippine registry shall be optional with the owner.

Only vessels of domestic ownership are entitled to a Certificate of Philippine Registry.

"Domestic ownership" means ownership vested in citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least sixty per centum (60%) of the capital stock or capital of which is wholly owned by citizens of the Philippines, and, in the case of corporations or associations which will engage in coastwise trade the president or managing directors thereof shall be such citizens, provided, that the members of the crew of the vessel, except specialized fishing vessels, shall all be citizens of the Philippines.

Certificate of Ownership

A Certificate of Ownership refers to a certificate issued by the MARINA as evidence of permanent registration of a vessel.

Coastwise License

No vessel shall be allowed to engage in the coastwise trade unless a coastwise license ("**CWL**") is secured from and issued by the MARINA. The coastwise license shall be valid for a period of one (1) year from its issuance, and shall be separate and distinct from any other certificate issued by the MARINA relative to the vessel's operation. Temporary CWL may be issued pending approval of the certificate of Philippine registry; provided, that its validity cannot be longer than thirty (30) days unless the Administrator grants otherwise.

The right to engage in the Philippine coastwise trade is limited to vessels carrying a certificate of Philippine registry.

All ports and places in the Philippines shall be opened to vessels lawfully engaged in coastwise trade subject to the provisions of law applicable in particular cases.

All vessels engaged in the coastwise trade shall fly at the main mast the Philippine coastwise emblem, while entering, leaving and in ports during daytime. The emblem shall consist of a rectangular white flag with one blue and red stars ranged from staff to tip in the horizontal median line.

The CWL shall be presented for renewal at the MARINA Central Office or Maritime Regional Office where the owner/ operator resides or home ported on or before the expiration date thereof. In case the CWL of a vessel expires while underway on the return voyage to the homeport, the owner, master or agent of the vessel shall present said expired licenses for renewal upon arrival. The owner, master or agent of vessel not in operation for any cause shall surrender the license on or before its expiration with the request for deferment or renewal.

Whenever the owner, master or agent of a licensed vessel applies for a transfer of license from one class to another, the corresponding license shall be issued, subject to the submission or compliance with the necessary documentary requirements relevant to the change.

Minimum Safe Manning Certificate

Philippine-registered ships shall be manned by a sufficient number of qualified, competent and certificated officers and ratings who can safely operate the ships at all times. The MARINA shall issue a Minimum Safe Manning Certificate indicating the numbers and licenses/qualifications of the personnel required to be carried, together with any special conditions or other remarks. The Minimum Safe Manning Certificate shall be valid for a period of not more than one (1) year or co-terminus with the safety certificate.

A Certified True Copy of the Minimum Safe Manning Certificate shall be onboard and displayed in a conspicuous place including therein the minimum safe manning complement and their corresponding licenses and qualification requirements. In addition, a Crew List, indicating the Officer’s and/or Crew’s positions and licenses/qualifications, must be attached to the Minimum Safe Manning Certificate.

Masters, officers and ratings performing watch keeping shall meet the certification requirements of MARINA.

Mandatory Carriage of Ship and Crew Documents and Certificates Onboard Ships Engaged in Domestic Voyages / Operations

The following are the mandatory carriage of ship and crew documents and certificates onboard ships engaged in passenger transportation:

1. Certificate of Public Convenience of the Company under R.A. No. 9295;
2. Certificate of Vessel Registry/Ownership;
3. Passenger Ship Safety Certificate;
4. Minimum Safe Manning Certificate;
5. Document of Compliance;
6. Safety Management Certificate;
7. Class Certificate;
8. Load Line Certificate;
9. Stability Certificate;
10. Coastwise License/Bay and River License;
11. Ship Station License;
12. International Oil Pollution Prevention Certificate;
13. National Ship Security Certificate/Exception Certificate;
14. Passenger Insurance Cover;
15. Certificate of Compliance;
16. Approved Ship Plans;
17. Registered Deck Logbook;
18. Registered Engine Logbook;
19. Approved Cargo Securing Manual, as required;
20. Registered Oil Record Book;

21. Registered Waste and Garbage Record Book;
22. Seafarer's Identification and Record Book; and
23. Qualification Document Certificate.

The following are the mandatory carriage of ship and crew documents and certificates onboard ships engaged in tugs, barge and dredger operations:

1. Exemption Certificate or CPC;
2. Certificate of Vessel Registry/Ownership;
3. Cargo Ship Safety Certificate;
4. Minimum Safe Manning Certificate;
5. Document of Compliance;
6. Safety Management Certificate;
7. Class Certificate;
8. Load Line Certificate;
9. Stability Certificate;
10. Coastwise License/Bay and River License;
11. Ship Station License;
12. International Oil Pollution Prevention Certificate;
13. National Ship Security Certificate/Exemption Certificate;
14. Approved Ship Plans;
15. Registered Deck Logbook;
16. Registered Engine Logbook;
17. Registered Oil Record Logbook;
18. Registered Waste and Garbage Record Book;
19. Seafarer's Identification and Record Book; and
20. Qualification Document Certificate.

The following are the mandatory carriage of ship and crew documents and certificates onboard ships engaged in tanker operations:

1. Certificate of Public Convenience of the Company under R.A. No. 9295;
2. Certificate of Vessel Registry/Ownership;
3. Cargo Ship Safety Certificate;
4. Cargo Ship Safety Construction Certificate;
5. Certificate of Fitness, as required;
6. Minimum Safe Manning Certificate;
7. Civil Liability Convention Certificate;
8. Document of Compliance;
9. Safety Management Certificate;
10. Class Certificate;
11. Load Line Certificate;
12. Stability Certificate;
13. Coastwise License/ Bay and River License;
14. Ship Station License; and
15. International Oil Pollution Prevention Certificate.

PHILIPPINE PORTS AUTHORITY

The PPA has been duly empowered to have police authority within the ports administered by it as may be necessary to carry out its powers and functions and attain its purposes and objectives, without prejudice to the exercise of the functions of the Bureau of Customs and other law enforcement bodies within the area. Such police authority shall include the following:

1. To provide security to cargoes, port equipment, structure, facilities, personnel and documents: Provided, however, that in ports of entry, physical security to import and export cargoes shall be exercised jointly with the Bureau of Customs;

2. To regulate the entry to, exit from, and movement within the port, of persons and vehicles, as wells movement within the port of watercraft;

3. To maintain peace and order inside the port, in coordination with local police authorities;

4. To supervise private security agencies operating within the port area; and

5. To enforce rules and regulations promulgated by the Authority pursuant to law.

The PPA likewise has authority to collect all dues, fees and rates collectible on vessels and cargoes under Title VII but excluding Part VII of the Tariff and Customs Code, regardless of the port or place of call of the vessel, whether on government or private port. It also has the authority to exact reasonable administrative fines in such specific amounts and for such specific violations arising out of the use of the port, as shall be prescribed by its rules and regulations.

Port Ancillary Services

The terms ancillary services shall mean those services other than cargo handling, porter age services and pilotage services performed inside the port, including its harbors/fairways and extensions, involving provision/application/use of equipment, facility, utility, manpower/expertise, and goods.

Port ancillary services include the following:

Port Ancillary Services I:

1. Cargo checking service;
2. Equipment/appliance hire;
3. Vessel maintenance/repair service; and
4. Water disposal services.

Port Ancillary Services II:

1. Bunkering;
2. Canteen service;
3. Cargo surveying service;
4. Chandling;
5. Cleaning service;
6. Container repair;
7. Communication service;
8. Fumigation;
9. Laundering;
10. Lighterage/barging service;
11. Parking/garage services;
12. Reproduction service;
13. Security service;
14. Shops/stores;
15. Transport service;
16. Towing/tugging service;
17. Water suppliers;

18. Water taxi; and
19. Weighbridge/truck scale.

The government's share for the Port Ancillary Services I is not less than ten percent (10.0%) of the gross income derived from the operation of the service, while an annual regulatory fee shall be collected in consideration of the permit to operate granted to a business operator for the Port Ancillary Services II.

Any person, natural or juridical, who is qualified under existing laws to engage in business and existing operators who are not yet holders of PPA permits or those operating on a "holdover capacity", shall apply for a permit to operate ancillary services from the local Port Management Office of the authority where the applicant intends to operate.

The Permit to Operate is generally valid for a period of one (1) year. Renewal applications shall be filed within thirty (30) days before the expiration of the permit. Failure to file within the prescribed period without justifiable reason constitutes a ground for non-extension of the permit to operate ancillary services.

PHILIPPINE COAST GUARD

Pursuant to Republic Act No. 9993, the PCG shall have the following powers and functions:

1. To enforce regulations in accordance with all relevant maritime international conventions, treaties or instruments and national laws for the promotion of safety of life and property at sea within the maritime jurisdiction of the Philippines and conduct port state control implementation;

2. To conduct inspections on all merchant ships and vessels, including but shall not be limited to inspections prior to departure, to ensure and enforce compliance with safety standards, rules and regulations;

3. To detain, stop or prevent a ship or vessel which does not comply with safety standards, rules and regulations from sailing or leaving port;

4. To conduct emergency readiness evaluation on merchant marine vessels; Subject to the approval of the Secretary of the DOTr, to issue and enforce rules and regulations for the promotion of safety and life and property at sea on all maritime-related activities;

5. To coordinate, develop, establish, maintain and operate aids to navigation, vessel traffic system, maritime communications and search and rescue facilities within the maritime jurisdiction of the Philippines;

6. To remove, destroy or tow to port, sunken or floating hazards to navigation, including illegal fish traps and vessels, at or close to sea lanes which may cause hazards to the marine environment;

7. To issue permits for the salvage of vessels and to supervise all marine salvage operations, as wells prescribe and enforce rules and regulations governing the same;

8. To render aid to persons and vessels in distress and conduct search and rescue in marine accidents within the maritime jurisdiction of the Philippines, including the high seas, in accordance with applicable international conventions. In the performance of this function, the PCG may enlist the services of other government agencies and the merchant marine fleet;

9. To investigate the inquire into the causes of all maritime accidents involving death, casualties and damage to properties;

10. To assist in the enforcement of laws on fisheries, immigration, tariff and customs, forestry, firearms and explosives, human trafficking, dangerous drugs and controlled chemicals, transnational crimes and other applicable laws within the maritime jurisdiction of the Philippines;

11. To board and inspect all types of merchant ships and watercrafts in the performance of its functions;

12. To enforce laws and promulgate and administer rules and regulations for the protection of marine environment and resources from offshore sources of pollution within the maritime jurisdiction of the Philippines;

13. To develop oil spill response, containment and recovery capabilities against ship-based pollution;

14. To grant, within its capabilities and consistent with its mandate, requests for assistance of other government agencies in the performance of their functions;

15. To organize, train and supervise the PCG Auxiliary (PCGA) for the purpose of assisting the PCG in carrying out its mandated functions; and

16. To perform such other functions that may be necessary in the attainment of the objectives of Republic Act No. 9993.90.

Salvage

The PCG has the power to issue permits for the salvage of vessels and to supervise all marine salvage operations, as well as prescribe and enforce rules and regulations governing the same.

The PCG shall regulate, supervise and monitor the conduct of all maritime salvage operations, offshore ship breaking, or vessel scrapping within the waters subject to the jurisdiction of the Philippines.

The PCG shall issue the necessary permits or clearances for the proper conduct of marine salvage operations, offshore ship breaking or scrapping.

Only duly registered salvors by the PCG shall be issued a Survey Permit and Salvage Permit. No registered salvor may conduct salvage operations without prior issuance of a Salvage Permit or an emergency Salvage Permit.

DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

Under PD 1586, the Philippine Environmental Impact Statement ("**EIS**") system was established to reconcile the exigencies of socio-economic undertakings with requirement of environmental quality in order to achieve an orderly balance between socio-economic growth and environmental protection.

The EIS system requires that an Environmental Impact System be filed with the Environmental Management Bureau ("**EMB**") for every proposed project or undertaking which significantly affects the quality of the environment. For this purpose, the President of the Republic of the Philippines was authorized to declare certain projects, undertakings or areas in the country as environmentally critical. Under Section 4 of PD 1586, no person, partnership or corporation shall undertake any environmentally critical project ("**ECP**") or implement a project within an environmentally critical area ("**ECA**") without first securing an Environmental Compliance Certificate ("**ECC**") from the EMB.

The ECC is a government certification that (i) the proposed project or undertaking will not cause a significant negative environmental impact; (ii) that the proponent has complied with all the requirements of the EIS system and; (iii) that the proponent is committed to implement its approved environmental management plan in the EIS or, if an IEE was required, that it will comply with the mitigation measures suggested therein. The ECC contains specific means and conditions that the project proponent has to undertake before and during the operation of a project and in some cases, during the project's abandonment phase to mitigate identified environmental impacts.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("**EGF**") when the ECC is issued to projects determined by the DENR to pose significant public risks to life, health, property and the environment. The EGF is intended to answer for damages caused by such projects as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("**EMF**") when an ECC is eventually issued. The EMF shall be used to support activities of a multi-partite monitoring team that will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

On the other hand, if the project does not pose significant impact to the environment or is unlikely to cause adverse environmental impacts, an ECC is not required to be secured. In lieu of an ECC, what may be secured is a Certificate of Non-Coverage ("**CNC**") that is a certification issued by the EMB certifying that based on the submitted project description, the project is not covered by the EIS System and is not required to secure an ECC.

LABOR CODE

The Philippine Labor Code and other statutory enactments provide the minimum benefits that employers must grant to their employees, which include certain social security benefits, such as benefits mandated by the Social Security Act of 1997 (R.A. No. 8282), the National Health Insurance Act of 1995 (R.A. No. 7875), as amended, and the Home Development Fund Law of 2009 (R.A. No. 9679).

Under the Social Security Act of 1997, social security coverage is compulsory for all employees under 60 years of age. An employer is obligated to deduct and withhold from each employee's monthly salary, wage, compensation or earnings, the employee's contribution, and the employer, for its part, makes a counterpart contribution for the employee, and remits both amounts to the Social Security System ("**SSS**"). This enables the employees to claim their pension, death benefits, permanent disability benefits, funeral benefits, sickness benefits and maternity-leave benefits. The Social Security Act of 1997 imposes penal sanctions if an employer fails to remit the contributions to the SSS. For corporate employers, the penalty is imposed on its president and members of the board of directors.

The National Health Insurance Act created the National Health Insurance Program ("**NHIP**") to provide health insurance coverage and ensure affordable and accessible health care services to all Filipino citizens. Under the law, all members of the SSS are automatically members of the NHIP. The Philippine Health Insurance Corporation ("**PhilHealth**") administers the NHIP, and an employer is required to deduct and withhold the contributions from the employee's salary, wage or earnings, make a counterpart contribution for the employee, and remit both amounts to PhilHealth. The NHIP will then subsidize personal health services required by the employee subject to certain terms and conditions under the law. The National Health Insurance Act likewise imposes penal sanctions if an employer does not remit the contributions to PhilHealth. For corporate employers, the penalty is imposed on its president and members of the board of directors.

The Home Development Fund Law (R.A. No. 9679) or the Pag-ibig Fund Law created the Home Development Mutual Fund ("**HDMF**"), national savings program as well as a fund to provide for affordable shelter financing to Filipino workers. Coverage under the HDMF is compulsory for all SSS members and their employers. Under the law, an employer must deduct and withhold up to 2% of the employee's monthly compensation, up to a maximum of ₱5,000.00, and likewise make a counterpart contribution of 2% of the employee's monthly compensation, and remit the contributions to the HDMF. The Pag-ibig Fund Law also imposes penal sanctions if the employer does not remit the contributions to the HDMF.

SECURITIES AND EXCHANGE COMMISSION

The Constitution of the Philippines provides that Congress shall not, except by general law, provide for the formation, organization, or regulation of private corporations. Private corporations are incorporated under the Corporation Code of the Philippines and acquire their juridical personality when the SEC issues a certificate of incorporation. As a private corporation, the Company is mandated by law to file its yearly General Information Sheet and Audited Financial Statements with the SEC.

BOARD OF INVESTMENTS

The Philippine Board of Investments ("**BOI**"), an attached agency of Department of Trade and Industry ("**DTI**"), is the lead government agency responsible for the promotion of investments in the Philippines. Taking the lead in the promotion of investments, BOI assists Filipino and foreign investors to venture and prosper in desirable areas of economic activities. Based on 2014 Investment Priority Plan ("**IPP**"), Shipbuilding and Water Transport are considered preferred investment activities.

Shipbuilding covers the construction of ships that are at least 500 GT including the manufacture of parts and components. Moreover, registered enterprises must comply with Department of Labor and Employment ("**DOLE**") Department Circular No. 1 series of 2009 on the Guidelines on Occupational Safety and Health in Shipbuilding, Ship Repair and Shipbreaking Industry. Furthermore, prior to start of commercial operation, the registered enterprise must submit a copy of its License to Operate or its equivalent from the MARINA or other concerned agency

On the other hand, Water Transport covers the following:

1. Domestic/inter-island shipping, i.e. pure cargo, passenger, and passenger-cargo vessel operations including RORO Terminal System operations.

2. Tankers, High-speed Craft, RORO Vessels serving primary routes and Passenger/Cargo vessels having gross weight of 150 GT and above may qualify for registration.

Application for registration must be accompanied by an endorsement of the project and proof of accreditation of the shipping enterprise by MARINA. Prior to start of commercial operation, the registered enterprise must submit proof that the vessel is registered with MARINA and a copy of the vessel's Class and Statutory Certificate as required by MARINA. Moreover, RORO operator/ enterprise serving missionary routes, as indicated in the Certificate of Public Convenience (CPC) issued by MARINA, may qualify for pioneer status.

Water Transport and Shipbuilding activities are entitled to the following incentives as covered under the preferred activity under E.O. 226:

New Project

Project to be established by an existing enterprise along the same line of business as any of its existing operations is considered new.

In addition to income tax holiday, exemption from import duties and taxes for vessels, machineries, spare parts and cargo handling equipment has been extended to the domestic shipping industry under the Investment Priorities Plan ("**IPP**").

Modernization Project

Projects registered under the modernization program shall be considered as expansion projects and may be entitled to three (3) years income tax holiday and other incentives under E.O. 226 applicable to the modernization program.

The general policy on the brand new equipment also applies to modernization program. However, only the incremental income resulting from modernization shall be entitled to income tax holiday subject to a base figure equivalent to the current operating capacity or sales of the firm at the time of filing of application for registration.

Integrated Logistics

This project will be covered under Shipping/ Shipbuilding activity due to the acquisition of Dry-bulk carriers as long as the vessels are less than 10 years old. The heavy equipment and trucks forms an integral part of the total activity necessary to transport the product from the mine site to the ocean going vessels.

The general policy on the brand new equipment shall apply to this project. There can be no assurance that laws and regulations applicable to the Company will not increase the operating cost of its facilities above currently projected levels or require future capital expenditures. Although the Company endeavors to maintain compliance with applicable laws and regulations, the introduction or inconsistent applications or, or changes in laws and regulations applicable to the Company's business could have material adverse effect on its business, financial conditions and results of operations.

LOCAL GOVERNMENTS

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

An ordinance may be repealed by a subsequent ordinance expressly repealing or declaring it as invalid. An ordinance may also be repealed by implication by a subsequent ordinance that is inconsistent or contrary, in whole or in part, to the previous ordinance. Under the LGC, the *Sangguniang Panlalawigan* (provincial council) has the power to review ordinances passed by a city or municipality council and can declare ordinances invalid, in whole or in part, if it finds that the lower council exceeded its authority in enacting the ordinance.

MATERIAL CONTRACTS

The Company's principal contracts consist of contracts with client-companies for ship management services, charter party agreements, and loan agreements with creditor banks. Besides these, the Company is not part of any other contracts of material importance and outside the normal course of the Company's, including its subsidiaries' business.

I. Credit Line and Surety Agreements

(a) On 16 August 2011, CSC entered into an Omnibus Loan and Security Agreement with BDO Unibank, Inc. as lender, amounting to US$14,500,000.00 for the purpose of partly financing the purchase of a vessel to be registered as "Chelsea Thelma" with a total purchase price of US$19.8 million. The loan is payable in 27 consecutive equal quarterly principal installments starting in August 2012. The loan is subject to quarterly repricing of interest computed at one-year LIBOR plus applicable margin of 3.5% per annum. The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P958.8 million and P989.6 million as of March 31, 2017 and December 31, 2016, respectively, and by a collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group.

(b) On 23 March 2013, PNX-Chelsea entered into an Omnibus Loan and Security Agreement with BDO Unibank, Inc. as lender, amounting to US$14,000,000.00 for the purpose of partly financing the purchase of a vessel to be registered as "Chelsea Donatela". CSCserved as corporate surety for the said transaction.

(c) On 27 February 2015, PNX-Chelsea entered into an Omnibus Loan and Security Agreement with BDO Unibank, Inc. as lender, amounting to PHP300,000,000.00 for the purpose of partly financing the purchase of a vessel to be registered as "Chelsea Denise II". Udenna Corporation served as corporate surety for the said transaction while spouses Dennis A. Uy and Cherylyn C. Uy as individual sureties.

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

    The loan is secured by a chattel mortgage on MTkr Chelsea Charlize with net carrying amount of P456.9 million and P460.8 million as of March 31, 2017 and December 31, 2016, respectively.

(e) On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into loan agreements with PBB amounting to US$6.5 million and US$7.6 million to finance the acquisition of MTkr Chelsea Endurance and MTkr Chelsea Dominance, respectively. The loans are subject to annual effective interest rate of 4.32% for MTkr Chelsea Endurance and 4.5% for MTkr Chelsea Dominance and is payable in 24 equal monthly installments with one-year grace period from date of each release.

    The loans are secured by a chattel mortgage on MTkr Chelsea Endurance and MTkr Chelsea Dominance with net carrying amounts totaling P750.3 million and P763.8 million, respectively, as of March 31, 2017 and December 31, 2016.

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

    Certain trade receivables amounting to P22.2 million and P25.2 million as of March 31, 2017 and December 31, 2016, respectively, were assigned to secure the payment of these interest-bearing loans. Moreover, certain tugboats of FTC with net carrying amounts of P152.2 million and P155.6 million as of March 31, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of these loans.

(g) On October 30, 2014, CSC entered into loan agreement with DBP amounting to P140.0 million to finance the drydocking and repairs and maintenance expenses of MTkr Chelsea Resolute, MTkr Chelsea Cherylyn and

MTkr Chelsea Denise. The loan is subject to annual interest rate of 5.00% and is payable in eight equal quarterly installments commencing on the first quarter from the initial drawdown.

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

The loans are secured by a chattel mortgage on MTkr Chelsea Cherylyn with net carrying amount of P1,163.8 million and P1,177.8 million as of March 31, 2017 and December 31, 2016, respectively. The loans are also secured by a collateral on certain receivables of the Group and guaranteed by certain stockholders of the Group.

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

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

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

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

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

II. Standard Ship Management Services Agreement

(a) On 1 January 2017, Fortis Tugs Corporation signed a one-year ship management agreement with Chelsea Ship Management & Marine Services Corp. with a monthly management fee amounting to PHP 201,507.33.

(b) On 1 January 2017, Chelsea Shipping Corp signed a one-month ship management agreement with Chelsea Ship Management & Marine Services Corp. with a monthly management fee amounting to PHP 1,538,445.30.

(c) On 1 January 2017, Michael Inc. signed a one-month ship management agreement with Chelsea Ship Management & Marine Services Corp. with a monthly management fee amounting to PHP 201,507.33.

(d) On 1 January 2017, PNX Chelsea Shipping Corp. signed a one-month ship management agreement with Chelsea Ship Management & Marine Services Corp. with a monthly management fee amounting to PHP 1,509,834.00.

III. Time Charter Party

(a) On 18 March 2016, Chelsea Shipping Corp. as Owner, entered into a Time Charter Party Agreement with Phoenix Petroleum Philippines Inc. as charterer, for the vessel M/T Chelsea Resolute with a rate of PHP 8,500,000.00 per month, valid for 6 years plus or minus 30 days at Charterer's option.

(b) On 1 January 2016, PNX Chelsea Shipping Corp. as Owner, entered into a Time Charter Party Agreement with Phoenix Petroleum Philippines Inc. as charterer, for the vessel M/T Chelsea Donatela with a rate of PHP 352,500.00 per day hire, valid for 6 years plus or minus 30 days at Charterer's option.

(c) On 1 January 2016, Chelsea Shipping Corp. as Owner, entered into a Time Charter Party Agreement with Phoenix Petroleum Philippines Inc. as charterer, for the vessel M/T Chelsea Denise with a rate of PHP 5,500.00 per month, valid for 6 years plus or minus 30 days at Charterer's option.

IV. Standard Bareboat Charter

(a) On 5 September 2016, StarAsia Shipbroking Ltd. as Shipbroker, Chelsea Shipping Corp. as Owner, and Seagull Marine – Petroleum Corporation as Bareboat Charterer, entered into a BIMCO Standard Bareboat Charter Agreement for the bareboat charter of M/T Chelsea Thelma with a rate of US$4,100.00 per day, rate valid for the first 5 years.

V. Supply Equipment Lease Agreement

(a) On 1 October 2015, Trans Asia Shipping Lines Inc. as Buyer entered into a Supply Equipment Lease Agreement with Phoenix Petroleum Philippines Inc. as Supplier for SFO 60 and SFO 100 requirements with a term of 2 years, renewable upon mutual agreement by the parties.

INDEPENDENT AUDITORS

Punongbayan & Araullo, a member firm of Grant Thornton International Ltd., independent auditors, has audited our financial statements as at and for the years ended December 31, 2014, 2015 and 2016 and the three months ended March 31, 2017 in accordance with the Philippine Standards on Auditing.

P&A has acted as our external auditor since incorporation. Ramilito L. Nanola is our current audit partner and has served as such since 2016. We have not had any material disagreements on accounting and financial disclosures with our current external auditors for the same periods or any subsequent interim period. P&A has neither shareholdings in us nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in us. P&A will not receive any direct or indirect interest in us or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

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

	2014	**2015**	**2016**
Audit and audit related fees	1,664,971	1,778,500	2,487,000

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

In relation to the audit of our combined financial statements, our Manual provides that the Audit and Risk Committee shall, among other activities: (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of our Company; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; and (iii) ensure our compliance with acceptable auditing and accounting standards and regulations.

Tax and Other Fees

There have been no professional fees related to services rendered by the external auditors for tax accounting, compliance, advice, planning and other form of services during the last two fiscal years.

INDEX TO FINANCIAL STATEMENTS

CHELSEA LOGISTICS CORP.
A UDENNA Company

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Chelsea Logistics Corp. & Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

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

Dennis A. Uy
Chairman of the Board and
President & CEO

Ignacia S. Braga IV
VP – Finance / Chief Financial Officer

Chryss Alfonsus V. Damuy
Chief Operating Officer

Signed this 24th day of February, 2017.

Republic of the Philippines)
Pasig City) S.S

ACKNOWLEDGMENT

BEFORE ME, a Notary Public for and in Pasig City on this APR 0 3 2017, personally appeared the following, to wit:

Name	Valid ID	Valid until
Dennis A. Uy	Passport I.D No. EC1641601	Valid until 14 Jul 19
Ignacia S. Braga IV	Passport I.D No. EC8035770	Valid until 12 Jun 21
Chryss Alfonsus V. Damuy	Passport I.D No. EC1771808	Valid until 30 Jul 19

Known to me and me known to be the same person who executed the foregoing Financial Statement and they acknowledged to me that they voluntary affixed his/her signature/s for the purpose/s stated in the foregoing instruments and that the same are his/her true and voluntary acts and deeds as well as of the corporation they present.

WITNESS MY HAND AND AFFIXED MY NOTARIAL SEAL on the date and place first written above.

Doc. No. 480;
Page No. 97;
Book No. II;
Series of 2017.

KRISTINE [illegible] ARON
Appointment No. 140 (2016-2017)
Notary Public for Pasig City
Until December 31, 2017
Attorney's Roll No. 60559
33rd Floor The Orient Square Bldg.
F. Ortigas Jr. Road Ortigas Center Pasig City
PTR No. 2514665; 01.04.17 Pasig City
IBP No. 1057591; 01.05.17; RSM
MCLE Compliance # V-0007240 [illegible]

P&A
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6766 Ayala Avenue
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Philippines

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F +63 2 886 5506
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Report of Independent Auditors

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of
Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

Opinion

We have audited the combined financial statements of Chelsea Logistics Corp., Chelsea Shipping Corp. and its subsidiaries, Trans-Asia Shipping Lines, Inc. and its subsidiaries (collectively referred to herein as the "Reporting Entities"), which comprise the combined statements of financial position as at December 31, 2016, 2015 and 2014, and the combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Reporting Entities as at December 31, 2016, 2015 and 2014, and their combined financial performance and their combined 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 (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Reporting Entities in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the combined financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the combined financial statements, which explains the basis of presentation and disclosure, and principles of combination, including the approach to and the purpose for preparing them. The combined financial statements were prepared for the purpose of a planned initial public offering of common shares by Chelsea Logistics Corp. and listing on the Philippine Stock Exchange. In addition, the combined financial statements as of and for the years ended December 31, 2015 and 2014 include the historical financial information of Trans-Asia Shipping Lines, Inc. and its subsidiaries and Davao Gulf Marine Services, Inc., which were acquired by Chelsea Logistics Corp. in 2016.

Other Matter

The combined financial statements are derived from the audited historical financial information of the Reporting Entities. Except for the historical financial statements of Chelsea Shipping Corp. and its subsidiaries, which were audited by us, the historical financial statements of other components, which comprise 23.65% and 27.16% of the combined assets of the Reporting Entities as of December 31, 2015 and 2014, respectively, were audited by other independent accountants, appearing elsewhere in the combined financial statements.

As a part of our audit of the combined financial statements for 2015 and 2014, we also extended our audit procedures on the financial statements of Trans-Asia Shipping Lines, Inc. and its subsidiaries and Davao Gulf Marine Services, Inc., and we did not note any material misstatements except for certain prior period adjustments and reclassifications, including an adjustment for the change in accounting policy in the method of valuation for vessels and vessel equipment under Property and Equipment account, as more fully discussed in the separate financial statements of the said companies.

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

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

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

Those charged with governance are responsible for overseeing the Reporting Entities' financial reporting process.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

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

- Identify and assess the risks of material misstatement of the combined 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 Reporting Entities' 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 Reporting Entities' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reporting Entities to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Reporting Entities to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

Report of Independent Auditors

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

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We have audited the combined financial statements of Chelsea Logistics Corp., Chelsea Shipping Corp. and its subsidiaries, Trans-Asia Shipping Lines, Inc. and its subsidiaries (collectively referred to herein as the "Reporting Entities"), which comprise the combined statements of financial position as at December 31, 2016, 2015 and 2014, and the combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Reporting Entities as at December 31, 2016, 2015 and 2014, and their combined financial performance and their combined 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 (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Reporting Entities in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the combined financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

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

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

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

Those charged with governance are responsible for overseeing the Reporting Entities' financial reporting process.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

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

- Identify and assess the risks of material misstatement of the combined 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 Reporting Entities' 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 Reporting Entities' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reporting Entities to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Reporting Entities to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Combined Financial Statements

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(A Wholly Owned Subsidiary of
Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited, in accordance with Philippine Standards on Auditing, the combined financial statements of Chelsea Logistics Corp. and Subsidiaries (the Group) for the year ended December 31, 2016, on which we have rendered our report dated February 24, 2017. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic combined financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
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February 24, 2017

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	P 508,940,431	P 360,061,760	P 181,394,033
Trade and other receivables - net	5	944,516,250	539,429,957	281,409,983
Subscription receivable	22	350,000,000	-	-
Financial assets at fair value through profit or loss	6	11,279,636	748,000	-
Available-for-sale financial assets	9	3,065,089	1,876,430	-
Inventories	7	78,874,626	103,829,523	206,036,820
Advances to related parties	21	194,446,078	27,250,735	29,177,071
Other current assets	8	542,685,688	156,419,671	239,950,162
Total Current Assets		2,633,807,798	1,189,616,076	937,968,069
NON-CURRENT ASSETS				
Property and equipment - net	10	7,818,568,442	5,787,574,289	5,277,454,015
Investment in an associate and joint venture	11	45,560,925	-	2,250,000
Goodwill	24	74,294,814	74,294,814	74,294,814
Post-employment benefit asset	18	4,873,519	-	-
Deferred tax assets	20	7,300,178	-	-
Other non-current assets - net	12	175,499,300	192,146,571	104,767,110
Total Non-current Assets		8,126,097,178	6,054,015,674	5,458,765,939
TOTAL ASSETS		P 10,759,904,976	P 7,243,631,750	P 6,396,734,008

	Notes	2016	2015	2014
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade and other payables	14	**P 1,358,754,469**	P 1,005,181,963	P 772,987,301
Interest-bearing loans	13	**5,029,479,642**	1,485,271,677	869,614,891
Advances from related parties	21	**85,759,255**	405,997,123	551,117,674
Advances from customers		**14,484,000**	5,108,491	19,003,143
Deposits for future stock subscription	15	**50,000,000**	98,644,899	98,644,899
Income tax payable		**75,923,029**	932,896	1,562,111
Total Current Liabilities		**6,614,400,395**	3,001,137,049	2,312,930,019
NON-CURRENT LIABILITIES				
Interest-bearing loans	13	**2,343,302,536**	1,467,831,220	1,583,774,842
Post-employment benefit obligation	18	**4,046,544**	27,308,960	53,169,042
Deferred tax liabilities - net	20	**223,354,572**	196,020,759	187,381,227
Other non-current liabilities		**14,131,942**	12,835,884	11,796,441
Total Non-current Liabilities		**2,584,835,594**	1,703,996,823	1,836,121,552
Total Liabilities		**9,199,235,989**	4,705,133,872	4,149,051,571
EQUITY	22			
Capital stock		**500,000,000**	1,117,600,000	1,117,600,000
Additional paid-in capital		**-**	48,146,450	48,146,450
Revaluation reserves		**1,370,998,267**	766,554,286	613,923,675
Other reserves		**(1,058,033,280)**	(58,033,280)	(58,033,280)
Retained earnings		**747,704,000**	664,230,422	526,045,592
Total Equity		**1,560,668,987**	2,538,497,878	2,247,682,437
TOTAL LIABILITIES AND EQUITY		**P 10,759,904,976**	P 7,243,631,750	P 6,396,734,008

See Notes to Combined Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
COMBINED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
REVENUES	2			
Charter fees	21	P 1,422,433,646	P 1,316,049,775	P 764,922,294
Freight		680,073,129	498,902,335	509,475,821
Passage		458,595,630	383,032,124	367,646,762
Tugboat fees		228,370,995	194,230,491	134,663,315
Standby charges	21	94,295,146	68,960,728	59,457,441
Sale of goods		14,630,412	22,484,257	9,434,045
Rendering of services		1,682,388	1,339,694	2,174,659
		2,900,081,346	2,484,999,404	1,847,774,337
COST OF SALES AND SERVICES	16	2,154,496,763	1,979,818,922	1,428,103,882
GROSS PROFIT		745,584,583	505,180,482	419,670,455
OTHER OPERATING EXPENSES	17	264,858,347	170,575,270	151,942,303
OPERATING INCOME		480,726,236	334,605,212	267,728,152
OTHER INCOME (CHARGES) - Net				
Finance costs	19	(314,173,326)	(228,754,845)	(160,308,054)
Finance income	19	3,241,816	1,787,947	1,273,487
Loss on sale of investment in an associate	11	-	(2,250,000)	-
Other income	5, 10, 21	37,847,133	7,430,321	6,374,993
		(273,084,377)	(221,786,577)	(152,659,574)
PROFIT BEFORE TAX		207,641,859	112,818,635	115,068,578
TAX EXPENSE (INCOME)	20	75,962,051	14,210,320	(24,019,791)
NET PROFIT		P 131,679,808	P 98,608,315	P 139,088,369

See Notes to Combined Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
COMBINED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
NET PROFIT		**P 131,679,808**	P 98,608,315	P 139,088,369
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified subsequently through profit or loss:				
Fair value gain (loss) on available-for-sale financial assets - net	9	**244,177**	(194,570)	-
Tax income (expense)	20	**(73,253)**	58,371	-
		170,924	(136,199)	-
Items that will not be reclassified subsequently through profit or loss:				
Revaluation of vessels	10	**865,452,258**	196,829,342	180,637,551
Remeasurement of post-employment benefit obligation	18	**28,326,702**	2,512,587	(12,213,866)
Tax expense	20	**(51,272,797)**	(6,998,604)	(35,035,416)
		842,506,163	192,343,325	133,388,269
		842,677,087	192,207,126	133,388,269
TOTAL COMPREHENSIVE INCOME		**P 974,356,895**	P 290,815,441	P 272,476,638

See Notes to Combined Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Note	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2016		P 1,117,600,000	P 48,146,450	P 766,554,286	(P 58,033,280)	P 664,230,422	P 2,538,497,878
Subscription of shares	22	500,000,000	-	-	-	-	500,000,000
Effect of business combination		(1,117,600,000)	(48,146,450)	(184,142,520)	(1,000,000,000)	(102,296,816)	(2,452,185,786)
Total comprehensive income for the year		-		842,677,087	-	131,679,808	974,356,895
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(54,090,586)	-	54,090,586	-
Balance at December 31, 2016		**P 500,000,000**	**P -**	**P 1,370,998,267**	**(P 1,058,033,280)**	**P 747,704,000**	**P 1,560,668,987**
Balance at January 1, 2015		P 1,117,600,000	P 48,146,450	P 613,923,675	(P 58,033,280)	P 526,045,592	P 2,247,682,437
Total comprehensive income for the year		-	-	192,207,126	-	98,608,315	290,815,441
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(39,576,515)	-	39,576,515	-
Balance at December 31, 2015		P 1,117,600,000	P 48,146,450	P 766,554,286	(P 58,033,280)	P 664,230,422	P 2,538,497,878
Balance at January 1, 2014		P 1,104,400,000	P 48,146,450	P 517,131,691	(P 58,033,280)	P 363,560,938	P 1,975,205,799
Stock dividends declared	22	13,200,000	-	-	-	(13,200,000)	-
Total comprehensive income for the year		-	-	133,388,269	-	139,088,369	272,476,638
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(36,596,285)	-	36,596,285	-
Balance at December 31, 2014		P 1,117,600,000	P 48,146,450	P 613,923,675	(P 58,033,280)	P 526,045,592	P 2,247,682,437

See Notes to Combined Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 207,641,859	P 112,818,635	P 115,068,578
Adjustments for:				
Depreciation and amortization	10, 12	609,090,468	453,905,523	331,487,613
Interest expense	19	202,915,217	170,100,108	135,352,565
Unrealized foreign currency losses - net		75,771,709	16,037,699	19,143,508
Loss (gain) on sale of property and equipment	10	(19,650,437)	-	6,314,987
Impairment loss on trade and other receivables		12,303,319	-	6,936,716
Provision	23	8,865,400	-	-
Impairment losses on property and equipment	10	2,214,621	-	-
Interest income	19	(1,931,140)	(1,640,445)	(1,273,487)
Fair value gains on financial assets at fair value through profit or loss	6	(973,829)	(147,502)	-
Loss on sale of investment in an associate		-	2,250,000	-
Operating profit before working capital changes		1,096,247,187	753,324,018	613,030,480
Increase in trade and other receivables		(417,389,612)	(258,019,975)	(42,101,152)
Decrease in inventories		24,643,156	120,174,678	6,262,509
Increase in advances to related parties		(364,371,957)	(51,911,166)	(24,885,526)
Decrease (increase) in prepayments and other current assets		(409,892,165)	54,853,922	(162,091,254)
Decrease (increase) in other non-current assets		58,650,571	1,845,849	(3,383,514)
Increase (decrease) in trade and other payables		(187,063,357)	267,406,397	74,018,472
Increase (decrease) in advances from customers		9,375,509	(13,894,652)	820,607
Increase (decrease) in post-employment benefit obligation		(1,165,655)	(25,889,365)	2,233,700
Cash generated from (used in) operations		(190,966,323)	847,889,706	463,904,322
Interest received		1,840,417	1,640,445	1,273,487
Cash paid for income taxes		(5,877,791)	(1,502,159)	(14,536,846)
Net Cash From (Used in) Operating Activities		(195,003,697)	848,027,992	450,640,963
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	10	(1,660,051,211)	(788,655,332)	(1,306,970,797)
Additions to drydocking costs	12	(118,926,046)	(68,568,219)	(59,900,420)
Acquisition of interest in a joint venture		(45,560,925)	-	-
Proceeds from disposal of property and equipment	10	38,516,084	801,786	24,388,026
Acquisitions of financial assets at fair value through profit or loss	6	(9,557,807)	(600,498)	-
Acquisitions of available-for-sale financial assets	9	(944,482)	(2,071,000)	-
Net Cash Used in Investing Activities		(1,796,524,387)	(859,093,263)	(1,342,483,191)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from interest-bearing loans	13	3,778,664,036	3,038,323,172	1,211,180,361
Repayments of interest-bearing loans	13	(1,262,619,243)	(2,555,042,553)	(322,182,757)
Repayments of advances from related parties	21	(383,316,531)	(192,823,238)	(9,283,497)
Interest paid	19	(197,687,024)	(166,535,907)	(134,624,893)
Proceeds from issuance of shares of stock	22	150,000,000	-	-
Proceeds from advances from related parties	21	50,578,764	65,981,213	76,847,227
Net Cash From Financing Activities		2,135,620,002	189,902,687	821,936,441
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		4,786,753	(169,689)	89,237
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		148,878,671	178,667,727	(69,816,550)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		360,061,760	181,394,033	251,210,583
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 508,940,431	P 360,061,760	P 181,394,033

Supplemental Information for Non-cash Investing and Financing Activities

1) The Group recognized increase in revaluation surplus, gross of tax, amounting to P865.5 million, P196.8 million and P180.6 million in 2016, 2015 and 2014, respectively (see Notes 10 and 22).

2) In 2016, 2015 and 2014, the Group reclassified certain amount from Contruction-in-progress under Property and Equipment to Drydocking cost under Other Non-current Assets (see Notes 10 and 12).

3) In 2016, the Group incurred drydocking costs which remain unpaid as at December 31,2016 amounting to P56,312,696.

4) Subscribed capital stock amounting to P350.0 million has not been collected as of December 31, 2016 and is presented as Subscription Receivable under current assets in the combined statement of financial position (see Note 22).

See Notes to Combined Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

These combined financial statements are presented in the context of a planned initial public offering of common shares by Chelsea Logistics Corp. (CLC or the Company) and listing on the Philippine Stock Exchange (PSE). CLC was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to act as manager or managing agent of persons, associations, corporations, partnerships and other entities providing management, investment and technical advice; and to undertake, carry on, assist or participate in the organization, management, operation of corporations, partnerships and other entities engaged in commercial, industrial, manufacturing, shipping and other kinds of enterprises, except the management of funds, securities, portfolio or similar assets of the managed entities or corporation. On November 28, 2016, the Company's Board of Directors (BOD) approved the change in corporate name to Chelsea Logistics Corp.

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

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

1.2 Subsidiaries and their Operations

As of December 31, 2016, the Company holds 100% ownership interests in Chelsea Shipping Corp. (CSC) and Trans-Asia Shipping Lines, Inc. (TASLI). The Group acquired CSC and TASLI through the purchase of said companies' outstanding shares of stock from their registered owners. The respective acquisitions of CSC and TASLI were completed by the Company in the last quarter of 2016.

CSC was incorporated on July 17, 2006 primarily to engage in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. As of December 31, 2016, CSC holds 100% ownership interests in the following subsidiaries:

(a) *Bunkers Manila, Inc.* – established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(b) *Michael, Inc. (MI)* – engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(c) *PNX-Chelsea Shipping Corp. (PNX)* – engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(d) *Chelsea Ship Management & Marine Services Corp. (CSMMSC)* – engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(e) *Fortis Tugs Corporation (FTC)* – engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors, and other waterways between the various ports of the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of Davao Gulf Marine Services Inc. (DGMSI), a Davao-based tug service provider.

(f) *Chelsea Marine Manpower Resources, Inc. (CMMRI)* – engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

On the other hand, TASLI was incorporated on March 25, 1974 to engage in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. TASLI holds direct ownership interest in the following subsidiaries as of December 31, 2016:

(a) *Quality Metals & Shipworks, Inc. (QMSI)* – engaged in machining and mechanical works on ship machineries and industrial plants.

(b) *Oceanstar Shipping, Inc. (Oceanstar)* – engaged in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas.

(c) *Dynamic Cuisine, Inc. (DCI)* – engaged in operating restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in cooking and catering foods, drinks, refreshments and other foods or commodities.

(d) *Starsy Shoppe, Inc. (SSI)* – engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

CLC, together with CSC, TASLI and their respective subsidiaries, are collectively referred herein as the Group.

1.3 Approval of Combined Financial Statements

The combined financial statements of the Group as of and for the year ended December 31, 2016 (including the comparative combined financial statements as of and for the years ended December 31, 2015 and 2014) were authorized for issue by the Company's BOD on February 24, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Combined Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

For purposes of these combined financial statements, all applicable PFRS that became effective as of January 1, 2016 were adopted and applied consistently to all years presented in these combined financial statements. The combined financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Combined Financial Statements

The combined financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents combined statement of comprehensive income separate from the combined statement of profit or loss.

For the purpose of a planned initial public offering of common shares by the Company and listing on the PSE, the combined financial statements as of and for the years ended December 31, 2015 and 2014 includes the historical financial information of TASLI and its subsidiaries and DGMSI, which were acquired by the Company in 2016.

The Group presents a third combined statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the combined statement of financial position at the beginning of the preceding period. The related notes to the third combined statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

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

Items included in the combined financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 *Principles of Combination*

The accompanying combined financial statements include the horizontal sum of all accounts and transactions of the entities described in Note 1.2 wherein all material transactions, balances and investments between the combined entities have been eliminated in combination. The balance of the stockholders' equity presented in the combined statements of financial position as of December 31, 2015 and 2014 includes the equity interest of CSC and its subsidiaries and TASLI and its subsidiaries. The aforementioned equity interest was acquired by CLC in 2016. Each entity is a separate legal entity, which is responsible in maintaining custody of its financial resources.

The combination was performed for purposes of giving investors a view of the financial position and historical performance of the combined entities that form part of CLC's combined group expected to be publicly listed. As to the basis of the principles, the consolidation standard under PFRS was used in taking consideration the ultimate full control of CLC over the combined entities.

2.3 *Segment Reporting*

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 25, which represent the main products and services provided by the Group.

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

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

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

2.4 *Financial Assets*

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

(a) Classification and Measurement of Financial Assets

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

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

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

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

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

(iii) AFS Financial Assets

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

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

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

(b) Impairment of Financial Assets

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

(i) Carried at Amortized Cost – Loans and Receivables

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

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

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

(ii) Carried at Fair Value –AFS Financial Assets

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

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

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

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

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

(iv) Derecognition of Financial Assets

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

2.5 Inventories

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

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

2.6 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel which are capitalized (see Note 2.7).

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

Revalued amounts represent fair values determined based on appraisals by external professional appraiser once every two years unless more frequently if market factors indicate a material change in fair value (see Note 28.4).

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

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

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

Leasehold improvements are amortized over the estimated useful lives of the assets of five years or the lease term, whichever is shorter.

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

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

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

2.7 Drydocking Costs

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

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Assets account in the combined statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.6).

2.8 Other Assets

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

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

2.9 Financial Liabilities

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

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

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.20). All other interest-related charges incurred on a financial liability are recognized as an expense in the combined statement of comprehensive income under the caption Finance costs under the Other Income (Charges) account in the combined statement of profit or loss.

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

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

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

2.10 Deposits for Future Stock Subscriptions

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

(i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;

(ii) The Group's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,

(iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

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

2.11 Offsetting Financial Instruments

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

2.12 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.13 Advances from Customers

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

2.14 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.15 Revenue and Expense Recognition

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

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

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

(b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.

(c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.

(d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.

(e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.

(f) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(g) *Rendering of services* – Revenue is recognized when contractually-agreed tasks have been substantially performed.

(h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term (see Note 2.16).

(i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term [see Note 2.15(h)].

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

2.17 Foreign Currency Transactions and Translation

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss section of the combined statement of profit and loss.

2.18 Impairment of Non-financial Assets

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

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

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

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

2.19 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability or asset recognized in the combined statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Profit-sharing and Bonus Plans

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

(e) Compensated Absences

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

2.20 Borrowing Costs

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

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

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

2.21 Income Taxes

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

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

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

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.22 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.23 Equity

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

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

Revaluation reserves comprise of gains and losses arising from the revaluation of the Group's vessels and certain financial assets, and remeasurements of post-employment defined benefit plan, net of applicable taxes.

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

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

2.24 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's combined financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the combined financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Revenue Recognition for Charter Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB agreements, management considers the following criteria: (1) whether the fulfillment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract [see Note 2.15(a)].

(b) Distinction Between Operating and Finance Leases

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

As of December 31, 2016, 2015 and 2014, management has determined that its current lease agreements are all operating leases.

(c) Capitalization of Borrowing Costs

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

The amount of capitalized borrowing costs and information on the capitalization rate used for the year ended December 31, 2016 and 2014 is disclosed in Note 10. There are no capitalized borrowing costs in 2015.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

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

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

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. Meanwhile, based on management assessment, no impairment loss on subscription receivable, advances to related parties and security deposits is required to be recognized in 2016, 2015 and 2014 (see Notes 8, 21.4 and 22.1).

(b) Estimation of Useful Lives of Property and Equipment and Drydocking Costs

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

The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 10 and 12, respectively. Based on management's assessment as at December 31, 2016, 2015 and 2014, there is no change in the estimated useful lives of property and equipment and drydocking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) Fair Value Measurement of Vessels

The Group's vessels, included as part of Property and Equipment, are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant methodologies as discussed in Note 28.4.

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

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

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2016, 2015 and 2014 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2016, 2015 and 2014 is disclosed in Note 20.1.

(e) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the combined financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2016, 2015 and 2014.

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

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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2016	2015	2014
Cash on hand and in banks	P 468,448,292	P 289,262,094	P 138,308,980
Short-term placements	40,492,139	70,799,666	43,085,053
	P 508,940,431	P 360,061,760	P 181,394,033

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

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of December 31:

	Notes	2016	2015	2014
Trade receivables	21.1, 21.3	P 740,293,250	P 482,389,042	P 171,449,678
Due from agencies		190,407,635	36,642,909	49,407,357
Claims receivables		12,794,398	12,662,929	35,123,892
Advances to officers and employees		10,374,828	8,408,206	8,336,913
Others		5,212,452	16,907,043	34,988,851
		959,082,563	557,010,129	299,306,691
Allowance for doubtful accounts		(14,566,313)	(17,580,172)	(17,896,708)
		P 944,516,250	P 539,429,957	P 281,409,983

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

A reconciliation of the allowance for impairment at the beginning and end of 2016, 2015 and 2014 is shown below.

	Note	2016	2015	2014
Balance at beginning of year		P 17,580,172	P 17,896,708	P 10,959,992
Impairment losses during the year	19.1	12,303,319	-	6,936,716
Write-off of receivables		(15,317,178)	-	-
Reversal of impairment losses		-	(316,536)	-
		P 14,566,313	P 17,580,172	P 17,896,708

Trade and other receivables are unsecured and do not bear any interest. All receivables, except for advances to officers and employees, are subject to credit risk exposure (see Note 26.2).

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

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

Other receivables as of December 31, 2014 include reimbursable charges relating to the Group's TC agreement with a third party amounting to P12.9 million. There were no similar balances as of December 31, 2016 and 2015.

In 2016, the Group wrote off uncollectible receivables which were previously provided with allowance for doubtful accounts amounting to P15.3 million.

The gain on reversal of impairment losses in 2015 is included as part of Other Income account under the Other Income (Charges) – net section of the 2015 combined statement of profit and loss.

Certain trade receivables amounting to P32.6 million, P33.1 million and P53.8 million as of December 31, 2016, 2015 and 2014, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 13.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The reconciliation of the carrying amounts of these financial assets at the beginning and end of 2016 and 2015 follows:

	Note	**2016**	2015
Balance at the beginning of year		**P 748,000**	P -
Additions		**9,557,807**	600,498
Fair value gains	19.2	**973,829**	147,502
Balance at end of year		**P 11,279,636**	P 748,000

There were no financial assets at FVTPL in 2014.

The fair values of equity securities presented above have been determined directly by reference to quoted bid prices in active markets (see Note 28.2). The carrying amounts of the above financial assets are designated as at fair value through profit or loss on initial recognition.

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

The Group recognized the increase in value of financial assets at FVTPL of P973,829 in 2016 and P147,502 in 2015 as part of Finance Income in the combined statements of profit or loss (see Note 19.2).

7. INVENTORIES

This account includes the following:

	Note		2016		2015		2014
Fuel and lubricants	21.2	P	**38,901,683**	P	60,523,876	P	156,247,165
Spare parts			**36,185,728**		37,432,353		43,780,851
Food supplies			**1,421,117**		4,642,925		4,660,030
Electrical parts			**1,275,178**		-		-
Shipping supplies			**1,090,920**		1,230,369		1,348,774
		P	**78,874,626**	P	103,829,523	P	206,036,820

An analysis of the cost of inventories included in Cost of Sales and Services for the years ended December 31, 2016, 2015 and 2014 is presented in Note 16. As of December 31, 2016, 2015 and 2014, the total net realizable value of inventories is higher than its cost.

8. OTHER CURRENT ASSETS

The breakdown of this account as of December 31 follows:

	Notes		2016		2015		2014
Advances to suppliers	10	**P**	**268,962,167**	P	10,283,942	P	107,222,093
Deferred input VAT			**82,322,433**		10,953,751		15,017,018
Creditable withholding taxes			**65,785,594**		59,497,762		42,827,760
Input VAT			**55,181,622**		39,482,303		41,296,249
Restricted cash	4		**34,388,529**		-		-
Prepayments			**30,759,478**		30,265,070		33,015,104
Security deposits	23.3		**4,600,998**		2,603,021		-
Others			**684,867**		3,333,822		571,938
		P	**542,685,688**	P	156,419,671	P	239,950,162

Advances to suppliers represent downpayments made to suppliers for the acquisition of vessels, supply of spare parts, parcels of land and other services (see Note 10). It includes advances for land acquisitions pertaining to TASLI's advance payments for the purchase of certain parcels of land, which are bought for use in operations.

Prepayments primarily include prepaid insurance, prepaid rent and supplies.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

On June 11, 2015, the Group obtained a life insurance policy from Insular Life (policy provider) with an investment component linked to it. The net amount of premium paid of P2,071,000, after deducting the fund administration and management fees of P3,240,000 and insurance charges of P89,000, was invested in the equity fund to be managed and administered by the policy provider. The investment is to be held indefinitely and may be sold in response to the liquidity requirements or changes in market condition.

As at December 31, 2016 and 2015, the fair value of the equity fund is P3,065,089 and P1,876,430, composed of 436,633 unit shares and 656,408 unit shares, respectively. There were no AFS financial assets in 2014.

A reconciliation of the carrying amounts of the Group's AFS financial assets is presented below.

	Note	2016	2015
Balance at the beginning of year		P 1,876,430	P -
Additions		944,482	2,071,000
Unrealized fair value gains (losses) - net	22.2	244,177	(194,570)
Balance at end of year		P 3,065,089	P 1,876,430

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2016, 2015 and 2014 are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
December 31, 2016							
Cost or valuation	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	(2,053,621,702)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,147,680,516)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
Net carrying amount	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442
December 31, 2015							
Cost or valuation	P 106,032,337	P 7,093,694,746	P 26,080,384	P 29,139,193	P 63,849,028	P 136,384,805	P 7,455,180,493
Accumulated depreciation and amortization	-	(1,572,458,063)	(18,413,204)	(25,881,003)	(50,853,934)	-	(1,667,606,204)
Net carrying amount	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289
December 31, 2014							
Cost or valuation	P 106,032,337	P 6,311,736,214	P 25,128,292	P 28,453,898	P 59,499,485	P 74,629,179	P 6,605,479,405
Accumulated depreciation and amortization	-	(1,234,043,733)	(20,528,647)	(25,165,846)	(48,287,164)	-	(1,328,025,390)
Net carrying amount	P 106,032,337	P 5,077,692,481	P 4,599,645	P 3,288,052	P 11,212,321	P 74,629,179	P 5,277,454,015
January 1, 2014							
Cost or valuation	P 47,858,587	P 4,711,000,303	P 23,176,314	P 26,763,806	P 54,796,659	P 430,918,948	P 5,294,514,617
Accumulated depreciation and amortization	-	(1,064,578,300)	(18,507,833)	(22,155,436)	(45,572,788)	-	(1,150,814,357)
Net carrying amount	P 47,858,587	P 3,646,422,003	P 4,668,481	P 4,608,370	P 9,223,871	P 430,918,948	P 4,143,700,260

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2016, 2015 and 2014 is shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289
Additions	-	1,270,926,225	34,563,773	15,955,985	5,077,732	333,527,496	1,660,051,211
Revaluation increment	-	865,452,258	-	-	-	-	865,452,258
Reclassification	-	79,645,606	-	-	-	(133,704,659)	(54,059,053)
Disposal	(1,782,324)	(14,967,997)	(1,082,142)	(450,631)	(32,162)	(550,391)	(18,865,647)
Depreciation and amortization charges for the year	-	(408,946,661)	(5,274,285)	(674,831)	(4,474,218)	-	(419,369,995)
Impairment losses	-	(2,214,621)	-	-	-	-	(2,214,621)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 104,250,013**	**P 7,311,131,493**	**P 35,874,526**	**P 18,088,713**	**P 13,566,446**	**P 335,657,251**	**P 7,818,568,442**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 106,032,337	P 5,077,692,481	P 4,599,645	P 3,288,052	P 11,212,321	P 74,629,179	P 5,277,454,015
Additions	-	114,077,977	6,003,750	685,295	4,349,542	663,538,768	788,655,332
Revaluation increment	-	196,829,342	-	-	-	-	196,829,342
Reclassification	-	455,478,296	-	-	-	(601,783,142)	(146,304,846)
Disposal	-	-	(801,786)	-	-	-	(801,786)
Depreciation and amortization charges for the year	-	(322,841,413)	(2,134,429)	(715,157)	(2,566,769)	-	(328,257,768)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 47,858,587	P 3,646,422,003	P 4,668,481	P 4,608,370	P 9,223,871	P 430,918,948	P 4,143,700,260
Additions	62,173,750	466,081,400	3,068,049	1,690,092	4,676,061	769,281,445	1,306,970,797
Revaluation increment	-	180,637,551	-	-	-	-	180,637,551
Reclassification	-	1,072,243,171	-	-	26,763	(1,125,571,214)	(53,301,280)
Disposal	(4,000,000)	(26,312,388)	(390,625)	-	-	-	(30,703,013)
Depreciation and amortization charges for the year	-	(261,379,256)	(2,746,260)	(3,010,410)	(2,714,374)	-	(269,850,300)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 106,032,337	P 5,077,692,481	P 4,599,645	P 3,288,052	P 11,212,321	P 74,629,179	P 5,277,454,015

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

Name of Vessel	Effective Date		Net Appraised Values
MV Trans-Asia 3	February 11, 2017	P	207,385,000
MV Trans-Asia 8	January 6, 2017		40,419,000
M/Tug Samal	January 6, 2017		33,451,000
M/Tug Sigaboy	January 6, 2017		28,880,000
M/Tug Fortis II	November 11, 2016		80,090,000
MT Chelsea Charlize	June 27, 2016		470,000,000
MT Chelsea Endurance	June 8, 2016		347,422,000
MT Chelsea Donatela	May 31, 2016		1,450,000,000
MV Trans-Asia 5	May 17, 2016		114,000,000
MV Asia Philippines	May 17, 2016		71,000,000
MV Trans-Asia 8	April 28, 2016		90,000,000
MV Trans-Asia 10	April 27, 2016		85,500,000
MV Asia Pacific	April 27, 2016		71,000,000
MV Trans-Asia 9	April 25, 2016		86,000,000
MT Chelsea Resolute	March 28, 2016		242,000,000
MT Chelsea Intrepid	March 17, 2016		120,000,000
MT Chelsea Enterprise	March 4, 2016		135,000,000
MT Chelsea Denise II	December 23, 2015		487,000,000
M/Tug Fortis I	November 17, 2015		85,000,000
MT Chelsea Denise	November 4, 2015		180,000,000
MT Chelsea Thelma	August 5, 2015		1,021,886,700
MV Trans-Asia 2	May 28, 2015		60,000,000
MT Chelsea Cherylyn	December 29, 2014		880,000,000
MT Excellence	February 10, 2014		145,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of last appraisal. Further, no appraisal report was obtained for MT Chelsea Dominance as the Group has newly-acquired the tanker towards the end of 2016; hence, management believes that the acquisition cost approximates its fair value.

In 2013, PNX entered into a memorandum of agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Chelsea Donatela) from China for US$21.2 million [see Note 13.1(a)]. The construction of the vessel was completed in 2014 and had its first voyage on July 15, 2014. Upon completion in 2014, the whole amount of the vessel, which comprises its contract price, costs incurred for the major improvements made to the vessel, capitalized borrowing costs and other incidental costs totaling P418.6 million, was reclassified to Vessels and vessel equipment under Property and Equipment in the 2014 combined statement of financial position.

In 2014, PNX entered into another MOA for the importation of one unit of oil tank vessel (MT Chelsea Denise II) for a total cost of $7.3 million [see Note 13.1(a)]. PNX made advance payments amounting to P89.6 million and is presented as part of Advances to suppliers under the Other Current Assets account in the 2014 combined statement of financial position (see Note 8). The vessel was delivered in 2015; hence, the amount of advance payments was reclassified as part of the cost of the vessel.

One of TASLI's vessels, MV Trans-Asia 2, was purchased in 2015 and was available for use in August 2016; hence, management has assessed that the carrying value approximates its fair value as at December 31, 2016.

In 2016, CSC acquired new vessels namely, MT Chelsea Charlize, MT Chelsea Endurance and MT Chelsea Dominance, which commenced operations in March 2016, August 2016 and November 2016, respectively. Total capitalized borrowing costs for these tankers amounted to P6,060,494 for the year ended December 31, 2016. The capitalization rates used range from 4.32% to 4.50% per annum.

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Cost	**P 6,378,900,455**	P 5,202,558,885	P 4,556,145,324
Accumulated depreciation	**(1,196,043,233)**	(1,003,641,690)	(795,375,389)
Net carrying amount	**P 5,182,857,222**	P 4,198,917,195	P 3,760,769,935

In 2016, TASLI recognized gain on disposal of land totaling P8.0 million presented as part of Other Income account under Other Income (Charges) – net section of the 2016 combined statement of profit or loss. Further, a loss on disposal was recognized in 2014 amounting to P6.3 million presented as part of Miscellaneous account under Other Operating Expenses in the 2014 combined statement of profit or loss. There was no similar transaction that occurred in 2015.

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

	Notes	**2016**	2015	2014
Cost of sales	16	**P 409,441,549**	P 318,885,286	P 261,574,023
Other operating expenses		**9,928,446**	9,372,482	8,276,277
	17	**P 419,369,995**	P 328,257,768	P 269,850,300

In July and August 2016, DGMSI sold two of its tugboats with a total carrying amount of P15.0 million as of the dates of disposal. Total gain from the disposal of the tugboats amounted to P11.6 million and is presented as part of Other Income account under Other Income (Charges) – net section of the 2016 combined statement of profit and loss.

In 2016, DGMSI recognized impairment losses of P2.2 million to write down the value of certain vessels to their recoverable amount based on their fair value as determined by an independent appraiser. The impairment loss was charged to Other Operating Expenses in the 2016 combined statement of profit or loss (see Note 17).

The Group's vessels with a net carrying amount of P4,034.1 million, P3,926.5 million and P3,332.5 million as of December 31, 2016, 2015 and 2014, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

11. INVESTMENT IN AN ASSOCIATE AND JOINT VENTURE

The carrying value of the Group's investment in an associate and joint venture as of December 31, 2016 and 2014 (nil as of December 31, 2015) is as follows:

	2016	2014
Jointly controlled entity –		
Meridian Maritime Training Center Center (Meridian)	P 45,560,925	P -
Associate –		
Norse/Phil Marine Services Corp. (NPMSC)	-	2,250,000
	P 45,560,925	P 2,250,000

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agree to establish and operate a training facility on a parcel of land at the Phoenix Petroterminals Industrial Park in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which includes the acquisition of the site, construction costs of the structures of the facility and government taxes, assessments and fees related thereto. As of December 31, 2016, the Group's investment in the joint venture amounted to P45.6 million.

In 2015, CSC disposed of its investment in NPMSC. The related loss is presented as Loss on Sale of Investment in an Associate under the Other Income (Charges) section of the 2015 combined statement of profit or loss.

As of December 31, 2016 and 2014, management believes that the investment in an associate and joint venture are not impaired.

12. OTHER NON-CURRENT ASSETS

This account is composed of the following as of December 31:

	Note	2016	2015	2014
Drydocking costs - net	4	P 169,125,830	P 187,304,642	P 98,079,332
Restricted cash		5,000,000	-	-
Security deposits	23.3	1,114,347	4,211,075	5,262,599
Others		259,123	630,854	1,425,179
		P 175,499,300	P 192,146,571	P 104,767,110

A reconciliation of the net carrying amount of drydocking costs at the beginning and end of 2016, 2015 and 2014 is shown below.

	2016	2015	2014
Balance at beginning of year	P 187,304,642	P 98,079,332	P 46,588,245
Additions	118,926,046	68,568,219	59,900,420
Reclassification from CIP	54,059,053	146,304,846	53,328,043
Disposals	(1,443,438)	-	(100,063)
Amortization charges for the year	(189,720,473)	(125,647,755)	(61,637,313)
	P 169,125,830	P 187,304,642	P 98,079,332

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

13. INTEREST-BEARING LOANS

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

	Notes	2016	2015	2014
Current:				
Bank loans	13.2	P 4,576,345,754	P 1,015,847,384	P 482,860,854
Term loans	13.1	445,149,306	467,157,610	385,283,218
Mortgage loans	13.3	7,984,582	2,266,683	1,470,819
		P 5,029,479,642	P 1,485,271,677	P 869,614,891
Non-current:				
Term loans	13.1	P 2,151,830,061	P 1,269,175,186	P 1,382,368,143
Mortgage loans	13.3	191,472,475	198,656,034	201,406,699
		P 2,343,302,536	P 1,467,831,220	P 1,583,774,842

13.1 Term Loans

The details of the Group's term loans as of December 31 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance 2016	2015	2014
BDO Unibank, Inc. (BDO)	MT Chelsea Donatela	5 years	5.54%	P 441,680,061	P 525,256,362	P 595,063,873
China Banking Corporation (CBC)	MT Chelsea Charlize	7 years	3.25%	397,760,000	-	-
Philippine Business Bank (PBB)	MT Chelsea Dominance	7 years	4.50%	375,883,200	-	-
	Trans-Asia 1	10 years	4.25%	70,125,000	-	-
	Trans-Asia 1	10 years	4.25%	70,125,000	-	-
	Trans-Asia 10	10 years	4.25%	64,730,768	73,557,692	76,500,000
	Trans-Asia 1	10 years	4.25%	56,200,000	-	-
	Trans-Asia 1	10 years	4.25%	47,000,000	-	-
	Trans-Asia 8 and 9	3.50 years	4.25%	18,978,175	41,751,984	64,525,794
	Trans-Asia 10	9.38 years	4.25%	45,833	33,600,000	38,500,000
BDO	Trans-Asia 10	10 years	5.00%	-	-	5,000,000
PBB	MT Chelsea Endurance	7 years	4.32%	323,180,000	-	-
BDO	MT Chelsea Denise II	5 years	6.46%	242,300,000	288,460,000	-
BDO	MT Chelsea Thelma, MT Chelsea Excellence	7 years	one year LIBOR plus 3.50%	239,376,297	327,791,111	394,457,331
	Trans-Asia 12	8 years	4.25%	71,100,000	71,100,000	-
CBC	Trans-Asia 5	10 years	5.00%	61,759,197	79,404,683	97,050,167
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal, Mtug Sigaboy	5 years	6.00% to 6.50%	45,948,735	66,200,625	91,746,774
Asia United Bank	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	44,444,444	66,666,666	88,888,889
Development Bank of the Philippines (DBP)	MT Chelsea Cherylyn	2 years	5.00%	28,000,000	164,000,000	300,000,000
PBComm	MT Chelsea Resolute, MT Ernesto Uno	3 years	9.50%	-	-	17,939,394
				2,598,636,710	1,737,789,123	1,769,672,222
Discount on loans payable				(1,657,343)	(1,456,327)	(2,020,861)
				P 2,596,979,367	P 1,736,332,796	P 1,767,651,361

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

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

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

Interest incurred on these loans, excluding capitalized borrowing costs, amounted to P44.8 million, P48.4 million and P29.2 million in 2016, 2015 and 2014, respectively, and are presented as part of Finance costs under the Other Income (Charges) account in the combined statements of profit or loss (see Note 19.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P1.5 million, P1.6 million and P1.5 million, were amortized in 2016, 2015 and 2014, respectively, using the effective interest rates of 5.54%, 5.58% and 5.60% for each tranche, respectively. Amortized debt issuance costs were recognized as part of the Finance Costs under the Other Income (Charges) account in the combined statements of profit or loss. Unamortized debt issuance costs are included as part of the current and non-current portion of interest-bearing loans.

The loans are secured by a chattel mortgage of MT Chelsea Donatela and MT Chelsea Denise II, respectively (see Note 10). The carrying amounts of these vessels, presented as part of the Property and Equipment account, amounted to P2,002.4 million, P1,820.2 million and P1,093.9 million as of December 31, 2016, 2015 and 2014, respectively.

The OLSA requires CSC to maintain debt to equity ratio of not more than 2.00:1.00 and debt service coverage ratio (DSCR) of at least 1.20, except on drydocking year where minimum DSCR shall be 1.00. As of December 31, 2016, the CSC has breached these covenants; management; however, believes that the non-current classification of term loans is appropriate considering CSC's relationship with BDO and its history of prompt payment. Furthermore, CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

(b) *OLSA with BDO – MT Chelsea Thelma*

On April 26, 2011, CSC entered into a MOA with China Shipbuilding & Exports Corporation for the acquisition of one unit of oil tank (MT Chelsea Thelma) in the amount of US$19.8 million.

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

Related debt issuance costs amounted to P8.2 million, of which P0.9 million, P1.1 million and P1.4 million was amortized in 2016, 2015 and 2014, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Finance Costs under the Other Income (Charges) income in the combined statements of comprehensive income (see Note 19.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P989.6 million, P1,001.4 million and P1,108.1 million as of December 31, 2016 and 2015, respectively (see Note 10). The loan is also secured by collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

The OLSA requires CSC to maintain debt-to-equity ratio of not more than 1.5:1 and debt service coverage ratio of at least 2.5. As of December 31, 2016, CSC has breached these covenants. CSC's management, however, believes that the non-current classification of term loans is appropriate considering the CSC's relationship with BDO and its history of prompt payment. Furthermore, the CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

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

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

Interest incurred on this loan amounted to P7.8 million and is included as part of Finance costs under the Other Income (Charges) account in the 2016 combined statement of comprehensive income. The related unpaid interest as of December 31, 2016 amounted to P1.4 million and is presented as part of Accrued expenses under the Trade and Other Payables account in the 2016 combined statement of financial position (see Note 14).

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

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

On July 25, 2016 and August 18, 2016, PNX entered into loan agreements with PBB amounting to US$6.5 million and US$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. The loans are subject to annual effective interest rate of 4.32% for MT Chelsea Endurance and 4.5% for MT Chelsea Dominance and is payable in 24 equal monthly installments with one-year grace period from date of each release.

Interest incurred on these loans amounted to P6.3 million, excluding capitalized borrowing costs, and is included as part of Finance costs under the Other Income (Charges) account in the 2016 combined statement of profit or loss. The related unpaid interest as of December 31, 2016 amounted to P4.6 million and is presented as part of Accrued expenses under the Trade and Other Payables account in the 2016 combined statement of financial position (see Note 14).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts of P344.1 million and P419.7 million, respectively, as of December 31, 2016 (see Note 10).

(e) TLA with AUB – MTug Fortis I and MTug Fortis II

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

Interest expense related to the loans amounted to P4.7 million, P5.6 million and P7.3 million for the years ended December 31, 2016, 2015 and 2014, respectively, and is presented as part of Finance costs under the Other Income (Charges) account in the combined statements of profit or loss (see Note 19.1).

Certain trade receivables amounting to P20.5 million, P25.2 million and P53.8 million as of December 31, 2016, 2015 and 2015, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P155.6 million, P167.7 million and P154.9 million as of December 31, 2016, 2015 and 2014, respectively, were used as collateral to secure the payment of these loans (see Note 10).

(f) TLA with DBP

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

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

The loans are secured by a chattel mortgage on MT Chelsea Cherylyn with net carrying amount of P886.5 million, P937.2 million and P975.6 million as of December 31, 2016, 2015 and 2014, respectively (see Note 10). The loans are also secured by a collateral on certain receivables of the Group and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

(g) OLSA with PBComm

On February 10, 2012, CSC entered into a loan agreement with PBComm amounting to P107.0 million to partly finance the double hulling and drydocking of a vessel owned by CSC. In February and May 2012, PBComm released the loan amounting to P65.0 million and P42.0 million, respectively. The loan is subject to annual interest rate of 9.5% and is payable in 36 equal monthly installments with one quarter grace period from date of each release. The loan was fully settled in 2015.

(h) TLA with BDO – TA 10, 8 and 9

In 2014, TASLI availed loans from BDO for the acquisition of Trans-Asia 10 totaling to P120,000,000 at an interest rate of 4.5% per annum. Also, a loan amounting to P79,708,333 was obtained from BDO to provide financing to Oceanstar for the purchase of Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly.

TASLI made additional loans from BDO totaling to P263,458,000 in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

(i) TLA with CBC – TASLI

TASLI secured borrowings from CBC in 2010 in the amount of P135,000,000. This loan is payable for a term of ten years inclusive of two years grace period at 5.00% per annum. Interest is to be paid quarterly in arrears based on diminishing balance.

In addition, a loan from CBC amounting to P71,100,000 was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two years and interest is payable monthly in arrears based on diminishing balance. This loan is to partially finance the purchase of Trans-Asia 12, a vessel owned by one of its subsidiaries, Oceanstar.

(j) TLA with UCPB and PBComm – DGMSI

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

13.2 Bank Loans

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

	Security	Terms	Interest Rates	Outstanding Balance 2016	2015	2014
CBC	Mortgage	181 days	4.50%	P 1,800,000,000	P -	P -
CTBC Bank (Phils) Inc.	Continuing Suretyship	180 days	4.00%	700,000,000	-	-
Maybank Philippines, Inc.	Unsecured	90 days	5.50%	592,000,000	508,000,000	100,000,000
DBP	MT Chelsea Cherylyn	180 days	4.25%	200,000,000	-	-
Multinational Investment Bancorporation (MIB)	Unsecured	22 to 39 days	5.00%	174,921,426	100,861,429	119,731,730
PBComm	MT Ernesto Uno	180 to 270 days	4.75%	158,000,000	99,363,636	-
	Real Estate Mortgage	120 days	4.00%	49,000,000	-	-
	Chattel Mortage	5 years	6.50%	35,476,703	60,519,081	85,561,459
Security Bank Corporation (SBC)	Real Estate Mortgage	180 days	4.50%	-	34,000,000	-
Robinsons Bank Corporation	MT Chelsea Resolute, MT Chelsea Denise	180 days	5.75%	54,100,000	44,800,000	56,800,000
United Coconut Planters Bank (UCPB)	MT Chelsea Intrepid, MT BMI Patricia	90 days	5.75%	40,700,000	18,800,000	30,600,000
	Unsecured	120 days	4.00%	37,000,000	-	-
	Unsecured	120 days	4.50%	-	10,700,000	-
	Unsecured	120 days	4.50%	-	7,750,000	-
	Unsecured	120 days	5.50%	-	-	2,505,920
Metropolitan Bank and	Unsecured	1 year	5.50%	-	-	18,500,000
Trust Corporation (MBTC)	Unsecured	1 year	5.50%	-	-	12,000,000
BDO	Real Estate Mortgage	180 days	4.00%	19,500,000	-	-
UCPB	Restricted Time Deposit	1 year	6.00%	5,000,000	4,600,000	-
Others – MIB-arranged	Unsecured	30 to 96 days	4.25% to 5.00%	710,647,625	126,453,238	57,161,745
				P 4,576,345,754	P 1,015,847,384	P 482,860,854

The bank loans were obtained to finance the acquisition and drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P513.3 million, P620.1 million and P251.8 million as of December 31, 2016, 2015 and 2014, respectively (see Note 10), and by certain stockholders.

Interest expense on these bank loans amounted to P122.0 million, P98.1 million and P55.6 million in 2016, 2015 and 2014, respectively, and is presented as part of Finance Costs in the combined statements of profit and loss (see Note 19.1).

13.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance 2016	2015	2014
BDO	Real Estate Mortgage	10 years	4.25%	**P 130,000,000**	P 140,000,000	P 140,000,000
CBC	Real Estate Mortgage	10 years	6.00%	**49,375,000**	56,875,000	60,000,000
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.20% to 11.40%	**20,082,057**	4,047,717	2,877,518
				P 199,457,057	P 200,922,717	P 202,877,518

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rate ranging from 4.3% to 11.4% in 2016, 2015 and 2014. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) – net section of the combined statements of profit or loss (see Note 19.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P700.6 million, P490.7 million and P517.0 million as of December 31, 2016, 2015 and 2014, respectively (see Note 10).

14. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2016	2015	2014
Trade payables	21.2, 21.6	**P 1,029,988,283**	P 727,057,408	P 657,145,706
Accrued expenses	13, 21.3	**173,269,627**	178,752,792	28,805,617
Deferred output VAT		**86,646,995**	30,372,244	-
Output VAT		**21,269,557**	7,388,280	33,804,625
Provisions	23.4	**8,865,400**	-	-
Others		**38,714,607**	61,611,239	53,231,353
		P 1,358,754,469	P 1,005,181,963	P 772,987,301

Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans, and professional fees rendered to the Group during the year.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered which remained uncollected as of the end of the reporting periods.

15. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

The account represents cash infusion from stockholders to cushion the accumulated deficiency last December 31, 2011. An analysis of the movements in the balance of deposits on future stock subscription is presented below.

	2016	2015	2014
Balance at the beginning of year	**P 98,644,899**	P 98,644,899	P 98,644,899
Conversion to capital stock	**(36,145,000)**	-	-
Repayments to related parties	**(12,499,899)**	-	-
	P 50,000,000	P 98,644,899	P 98,644,899

In 2016, DGMSI's deposits for future stock subscriptions amounting to P36,145,000 was converted to capital stock through issuance of 36,145 shares amounting to P36,145,000.

The above balances as at December 31, 2016, 2015 and 2014 are presented as current liability in the combined statements of financial position as management has not complied with the requirements under SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity.

16. COST OF SALES AND SERVICES

The details of this account for the years ended December 31, 2016, 2015 and 2014 are shown below.

	Notes	2016	2015	2014
Depreciation and amortization	10, 12	**P 599,162,022**	P 444,533,041	P 323,211,336
Bunkering	21.2	**493,818,207**	672,271,123	578,769,102
Salaries and employee benefits	18	**318,086,648**	164,020,499	123,566,119
Charter hire fees		**226,994,803**	348,469,905	69,693,786
Repairs and maintenance		**136,963,281**	75,903,822	66,981,078
Insurance		**97,082,473**	91,240,556	78,032,715
Port expenses		**75,085,697**	11,194,467	45,780,817
Supplies		**61,223,753**	16,213,007	12,365,610
Voyage expenses		**47,524,201**	65,984,359	19,658,081
Transportation and travel		**26,425,527**	1,469,373	827,299
Taxes and licenses		**13,212,174**	9,306,881	10,457,172
Outside services		**10,759,356**	51,483,388	79,048,894
Utilities and communication		**8,184,748**	2,376,739	3,954,396
Cost of inventories sold	7	**7,779,886**	6,782,909	4,885,388
Professional fees		**6,134,546**	-	-
Miscellaneous		**26,059,441**	18,568,853	10,872,089
	17	**P 2,154,496,763**	P 1,979,818,922	P 1,428,103,882

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are presented below.

	Notes	2016	2015	2014
Depreciation and amortization	10, 12	P 609,090,468	P 453,905,523	P 331,487,613
Bunkering	21.2	493,957,216	672,484,169	578,963,883
Salaries and employee benefits	18.1	402,938,012	229,201,538	185,000,292
Charter hire fees		226,994,803	348,608,405	69,693,786
Repairs and maintenance		141,485,335	79,045,784	69,317,757
Insurance		102,735,850	92,825,235	78,947,072
Port expenses		75,085,697	66,188,347	45,644,274
Supplies		73,800,792	27,126,884	21,629,445
Taxes and licenses		64,426,782	28,711,174	27,437,378
Voyage expenses		47,524,201	10,990,479	19,658,081
Transportation and travel		35,588,685	8,082,040	5,963,178
Professional fees		33,534,461	9,536,722	12,979,654
Commission		17,664,328	10,694,485	6,651,688
Outside services		17,492,943	54,017,089	72,710,637
Rentals	21.3, 23.3	16,550,631	15,090,467	11,899,945
Utilities and communication		15,144,343	8,664,466	9,849,854
Representation and entertainment		12,288,291	3,103,432	8,918,930
Honorarium		4,188,564	2,969,016	1,595,279
Impairment losses on property and equipment	10	2,214,621	-	-
Miscellaneous	21.7(b)	26,649,087	29,148,937	21,697,439
		P 2,419,355,110	P 2,150,394,192	P 1,580,046,185

These expenses are classified in the combined statements of profit or loss as follows:

	Note	2016	2015	2014
Cost of sales and services	16	P 2,154,496,763	P 1,979,818,922	P 1,428,103,882
Other operating expenses		264,858,347	170,575,270	151,942,303
		P 2,419,355,110	P 2,150,394,192	P 1,580,046,185

18. SALARIES AND EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

The details of salaries and employee benefits are presented below.

	Notes	2016	2015	2014
Short-term employee benefits		P 373,567,012	P 218,243,797	P 178,484,361
Post-employment benefits	18.2(b)	7,462,552	5,616,284	5,565,571
Bonus and incentives		4,687,313	-	-
Separation pay		-	2,646,478	-
Other employee benefits		17,221,135	2,694,979	950,360
	17	P 402,938,012	P 229,201,538	P 185,000,292

These expenses are classified in the combined statements of profit or loss as follows:

	Notes	2016	2015	2014
Cost of sales and services	16	P 318,086,648	P 164,020,499	P 123,566,119
Other operating expenses		84,851,364	65,181,039	61,434,173
	17	P 402,938,012	P 229,201,538	P 185,000,292

18.2 Post-employment Defined Benefits

(a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The plan of TASLI also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

(i) For regular employees who were hired before December 1, 2006
- more than two years to five years – 7.5 days per year of service
- five years and six months to ten years – 15 days per year of service
- ten years and six months to 15 years – 22.5 days per year of service
- 15 years and six months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006
- five years and six months to nine years – 7.5 days per year of service
- nine years and six months to 15 years – 15 days per year of service
- 15 years and five months to 20 years – 22.5 days per year of service
- 20 years and six months and above – 30 days per year of service

Further, the Group has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two years of service to the Group and by employees who has been hired starting December 31, 2006 and has rendered at least five years and six months of service to the Group. The total number of years of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of years he/she availed as advance retirement.

(b) Explanation of Amounts Presented in the Combined Financial Statements

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary.

(i) Post-employment benefit asset

The amounts of post-employment defined benefit asset of TASLI as of December 31, 2016 (nil as of December 31, 2015 and 2014), which is recognized in the combined statements of financial position are determined as follows:

Fair value of plan assets	P	39,693,662
Present value of the obligation	(	34,820,143)
	P	**4,873,519**

The movements in the present value of post-employment defined benefit obligation recognized in the 2016 books are as follows:

Balance at beginning of year	P	55,993,052
Current service cost		5,717,725
Interest cost		2,851,356
Remeasurements		
Actuarial gains arising from:		
Experience adjustments	(	28,775,839)
Changes in financial assumptions	(	966,151)
Balance at end of year	**P**	**34,820,143**

The movements in the fair value of plan assets in 2016 are presented below.

Balance at beginning of year	P	34,839,020
Interest income		1,804,232
Return on plan assets (excluding amounts included in net interest)	(	1,367,294)
Contributions to the plan		4,417,694
Balance at end of year	**P**	**39,693,662**

The composition of the fair value of plan assets as at December 31, 2016 by category and risk characteristics is shown below.

Cash and cash equivalents	P	24,287,260
Debt securities:		
Philippine government bonds		15,057,197
Corporate bonds		349,205
	P	**39,693,662**

(ii) Post-employment benefit obligation

The amounts of post-employment defined benefit obligation recognized in the combined statements of financial position are determined as follows:

	2016	2015	2014
Present value of the obligation	**P 11,078,452**	P 65,923,531	P 60,674,560
Fair value of plan assets	**(7,031,908)**	(38,614,571)	(7,505,518)
	P 4,046,544	P 27,308,960	P 53,169,042

The movements in the present value of post-employment defined benefit obligation recognized in the books are as follows:

	2016	2015	2014
Balance at beginning of year	**P 9,930,479**	P 60,674,560	P 41,632,991
Current service cost	**1,744,827**	5,616,284	5,565,571
Interest cost	**502,961**	2,944,771	1,920,288
Benefits paid	**(1,099,815)**	(745,335)	(533,789)*
Remeasurements			
Actuarial gains arising from:			
Experience adjustments	**-**	(2,203,659)	12,684,616
Changes in financial assumptions	**-**	(363,090)	(595,117)
Balance at end of year	**P 11,078,452**	P 65,923,531	P 60,674,560

***This amount relates to benefits paid directly by CSC.*

The movements in the fair value of plan assets are presented below.

	2016	2015	2014
Balance at beginning of period	**P 3,775,541**	P 7,505,518	P 4,567,773
Interest income	**193,665**	402,901	264,030
Return on plan assets (excluding amounts included in net interest)	**(47,994)**	(54,162)	(124,367)
Benefits paid	**(1,099,816)**	(745,335)	-
Contributions to the plan	**4,210,512**	31,505,649	2,798,082
Balance at end of year	**P 7,031,908**	P 38,614,571	P 7,505,518

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

		2016		2015		2014
Cash and cash equivalents	P	2,310,013	P	35,258,867	P	938,219
Equity securities		1,675,037		-		746,881
Debt securities:						
Philippine government bonds		1,575,737		914,353		3,494,527
Corporate bonds		-		204,624		204,035
Unit investment trust funds (UITF)		978,370		2,236,727		2,121,856
Short-term commercial papers (STCP)		481,170		-		-
Others		11,581		-		-
	P	7,031,908	P	38,614,571	P	7,505,518

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P0.14 million, P0.35 million and P0.14 million in 2016, 2015 and 2014, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The amounts of post-employment benefit expense recognized in the combined statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

		2016		2015		2014
Recognized in profit or loss:						
Current service cost	P	7,462,552	P	5,616,284	P	5,565,571
Net interest expense		1,356,420		2,541,869		1,665,258
	P	8,818,972	P	8,158,153	P	7,230,829

	2016	2015	2014
Recognized in other comprehensive income (loss):			
Actuarial gains arising from changes in:			
Experience adjustments	**(P 28,775,839)**	(P 2,203,659)	P 12,684,616
Financial assumptions	**(966,151)**	(363,090)	(595,117)
Return on plan assets (excluding amounts included in net interest expense	**1,415,288**	54,162	124,367
	(P 28,326,702)	(P 2,512,587)	P 12,213,866

Current service cost is allocated and presented in the combined statements of profit or loss under the following accounts:

	Notes	2016	2015	2014
Cost of sales and services	16	**P 4,344,284**	P 3,310,398	P 3,587,536
Other operating expenses		**3,118,268**	2,305,886	1,978,035
	17	**P 7,462,552**	P 5,616,284	P 5,565,571

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) account in the combined statements of profit or loss (see Note 19.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	2016	2015	2014
Discount rates	**5.34%**	5.20%	4.78%
Expected rate of salary increase	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities, STCP and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2016, 2015 and 2014.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2016			
Discount rate	**+/- 1.0%**	**(P 2,684,155)**	**P 3,000,038**
Salary growth rate	**+/- 1.0%**	**2,660,712**	**(2,408,560)**
December 31, 2015			
Discount rate	+/- 1.0%	(P 412,381)	P 455,465
Salary growth rate	+/- 1.0%	393,916	(369,396)
December 31, 2014			
Discount rate	+/- 1.0%	(P 2,139,052)	P 2,518,444
Salary growth rate	+/- 1.0%	2,139,495	(1,959,515)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the combined statements of financial position.

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2016, 2015 and 2014 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in STCP and UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2016, the plan is overfunded by P0.8 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

CSC expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten years follows:

	2016	2015	2014
Within one year	P 3,936,306	P 2,346,972	P 651,191
More than one year but not more than five years	9,836,624	11,140,051	6,901,410
More than five years but not more than ten years	11,709,576	13,574,563	3,745,790
	P 25,482,506	P 27,061,586	P 11,298,391

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years.

19. OTHER INCOME (CHARGES)

19.1 Finance Costs

The details of this account follow:

	Notes	2016	2015	2014
Interest expense on:				
Interest-bearing loans	13	P 195,783,592	P 160,363,243	P 133,687,307
Advances from previous stockholders of DGMSI		3,775,770	3,150,106	-
Deficiency taxes		1,196,935	2,664,889	-
Post-employment benefits	18.2(b)	1,356,420	2,541,869	1,665,258
Other payables		802,500	1,380,001	-
		202,915,217	170,100,108	135,352,565
Foreign currency exchange losses – net		85,419,316	57,142,469	11,157,968
Impairment loss on receivables	5	12,303,319	-	6,936,716
Bank charges		3,931,845	735,361	2,962,364
Others		9,603,629	776,907	3,898,441
		P 314,173,326	P 228,754,845	P 160,308,054

19.2 Finance Income

The breakdown of this account is shown below.

	Note	2016	2015	2014
Interest income		P 1,931,140	P 1,640,445	P 1,273,487
Fair value change on financial asset at FVTPL	6	973,829	147,502	-
Foreign currency exchange gains		336,847	-	-
		P 3,241,816	P 1,787,947	P 1,273,487

20. TAXES

20.1 Current and Deferred Taxes

The components of tax expense (income) as reported in the combined statements of profit and loss are shown below.

	2016	2015	2014
Reported in profit and loss:			
Regular corporate income tax (RCIT)	**P 102,980,749**	P 9,129,985	P 15,172,251
Minimum corporate income tax (MCIT)	**3,904,564**	3,357,615	796,956
Final tax at 20% and 7.5%	**389,151**	23,423	15,856
	107,274,464	12,511,023	15,985,063
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(31,312,413)**	1,699,297	(40,004,854)
	P 75,962,051	P 14,210,320	(P 24,019,791)
Reported in other comprehensive income:			
Deferred tax expense relating to origination and reversal of temporary difference	**P 51,346,050**	P 6,940,233	P 35,035,416

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense (income) reported in the combined statements of profit or loss is as follows:

	2016	2015	2014
Tax on pretax profit at 30%	**P 62,292,558**	P 33,845,591	P 34,520,573
Adjustments for income subjected to lower tax rates	**(196,690)**	(465,653)	(366,195)
Tax effects of:			
Nondeductible expenses	**11,608,152**	5,645,740	2,336,501
Net profit on BOI-registered activities	**(5,844,379)**	(23,818,151)	(51,901,638)
Derecognition of unutilized DTA	**4,595,154**	-	-
Unrecognized DTA on NOLCO	**3,191,646**	65,992	2,812,324
MCIT	**2,984,363**	(1,455,533)	519,510
Benefit from previously unrecognized DTA	**(2,812,324)**	-	-
Nondeductible interest expense	**143,571**	395,395	-
Nontaxable income	**-**	(3,061)	(11,940,866)
	P 75,962,051	P 14,210,320	(24,019,791)

The net deferred tax assets of the Company and certain subsidiaries as of December 31 pertain to the following:

	2016	2015	2014
NOLCO	P 6,273,377	P -	P -
Impairment losses on trade and other receivables	969,728	-	-
Impairment losses on property and equipment	664,386	-	-
Revaluation reserves on property and equipment	(607,313)	-	-
	P 7,300,178	P -	P -

The net deferred tax liabilities of certain subsidiaries as of December 31 are as follows:

	2016	2015	2014
Revaluation reserves on property and equipment	(P 244,406,814)	(P 228,464,249)	(P 236,586,309)
NOLCO	9,745,600	12,686,612	32,905,746
MCIT	8,040,180	7,119,979	2,520,386
Capitalized borrowing costs	(7,261,261)	(7,581,604)	(7,901,949)
Unrealized foreign currency loss – net	6,233,047	4,822,061	(1,474,136)
Revaluation surplus on disposed vessel	(3,036,983)	-	-
Impairment losses on long-term financial assets	2,721,268	-	-
Provision on estimated liability	2,659,620	-	-
Loss on contamination	2,057,831	2,057,830	2,057,830
Impairment losses on trade and other receivables	678,898	5,274,051	5,369,012
Post-employment benefit obligation	(248,092)	8,192,688	15,947,953
Others	(537,866)	(128,127)	(219,760)
	(P 223,354,572)	(P 196,020,759)	(P 187,381,227)

The deferred tax expense (income) reported in the combined statements of profit or loss and combined statements of comprehensive income is shown below.

	Combined Profit or Loss			Combined Other Comprehensive Income		
	2016	2015	2014	2016	2015	2014
Deferred tax expense (income):						
Revaluation reserves of vessels	(P 23,187,918)	(P 14,366,888)	(P 13,909,374)	P 42,774,786	P 6,244,827	P 38,699,576
Impairment loss on trade and other receivables	3,625,427	94,961	(2,081,014)	-	-	-
NOLCO	(3,332,371)	20,219,134	(25,625,549)	-	-	-
Impairment loss on long-term financial assets	(2,721,268)	-	-	-	-	-
Provision on estimated liability	(2,659,620)	-	-	-	-	-
Unrealized foreign currency loss – net	(1,410,986)	(6,296,198)	3,417,792	-	-	-
MCIT	(920,201)	(4,599,593)	(277,446)	-	-	-
Impairment loss on property and equipment	(664,386)	-	-	-	-	-
Capitalized borrowing costs	(320,344)	(320,345)	(320,345)	-	-	-
Post-employment benefit Obligation	(57,231)	7,001,488	(1,169,688)	8,498,011	753,777	(3,664,160)
Others	336,485	(33,262)	(39,230)	73,253	(58,371)	-
Deferred tax expense (income)	(P 31,312,413)	P 1,699,297	(P 40,004,854)	P 51,346,050	P 6,940,233	P 35,035,416

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or regular corporate income tax, whichever is higher. The Group reported MCIT in 2016, 2015 and 2014.

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2016	P 19,383,563	P -	P -	P -	P 19,383,563	2019
2015	2,897,303	-	-	-	2,897,303	2018
2014	102,860,292	63,468,905	8,275,663	-	31,115,724	2017
2013	15,346,632	5,972,219	9,374,413	-	-	
	P 140,487,790	P 69,441,124	P 17,650,076	P -	P 53,396,590	
MCIT:						
2016	P 4,099,164	P -	P -	P -	P 4,099,164	2019
2015	3,357,615	-	-	-	3,357,615	2018
2014	583,401	-	-	-	583,401	2017
2013	1,723,430	-	-	1,723,430	-	
	P 9,763,610	P -	P -	P 1,723,430	P 8,040,180	

In 2016, 2015 and 2014, the Group opted to claim itemized deductions in computing for its income tax due.

20.2 Registration with the BOI

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Chelsea Thelma and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). For MT Chelsea Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Chelsea Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2016, the BOI registration of MT Chelsea Charlize, which commenced in September 2015 for a period of four years was transferred to the Company following its acquisition. The tax and non-tax incentives of MT Chelsea Charlize are similar to that of MT Chelsea Donatela and MT Chelsea Denise II.

21. RELATED PARTY TRANSACTIONS

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

A summary of the Group's transactions with its related parties for the years ended December 31, 2016, 2015 and 2014 and the related outstanding balances as of those dates is presented in the succeeding page.

Related Party Category	Notes	Amount of Transactions 2016	2015	2014	Outstanding Balances 2016	2015	2014
Udenna –							
Cash advances granted	21.4	P 10,000,000	P -	P -	P -	P -	P -
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI):							
Acquisition of CSC's shares	21.6	2,000,000,000	-	-	(500,000,000)	-	-
Chartering services rendered	21.1	954,615,182	898,985,087	493,235,754	460,059,177	190,566,811	39,457,159
Cash advances obtained	21.4	50,578,764	65,981,213	76,847,227	(85,759,255)	(405,997,123)	(551,117,674)
Fuel purchases	21.2	132,524,625	100,084,126	45,094,426	(66,940,095)	(45,964,810)	(84,142,797)
Repayment of advances	21.4	370,816,632	211,101,764	9,283,497	-	-	-
Related party under common ownership:							
Cash advances granted	21.4	364,371,957	51,911,166	24,885,526	194,446,078	27,250,735	29,177,071
Rental income	21.3	9,273,407	4,268,187	3,578,529	1,600,540	-	3,839
Rental expense	21.3	2,356,626	2,106,308	1,144,676	-	-	-
Donation	21.7	360,000	30,000	30,000			
Port expenses	21.7	-	8,857,795	2,795,212	-	(5,054)	(115,403)
Key management personnel –							
Compensation and benefits		14,039,205	6,591,306	7,774,437	-	-	-

21.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the combined statements of profit or loss. The related outstanding receivable as of December 31, 2016, 2015 and 2014, is presented as part of Trade receivables under the Trade and Other Receivables account in the combined statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties in 2016, 2015 and 2014 based on management's assessment.

21.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the combined statements of profit and loss (see Note 16) while the remaining fuel inventory amounting to P38.9 million, P60.5 million and P156.2 million as of December 31, 2016, 2015 and 2014, respectively, are included as part of Inventories account in the combined statements of financial position (see Note 7). The outstanding liability arising from these transactions as of December 31, 2016, 2015 and 2014 is presented as part of Trade payables under the Trade and Other Payables account in the combined statements of financial position (see Note 14).

21.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related rent expense in 2016, 2015 and 2014 is presented as part of Other Operating Expenses in the combined statements of profit or loss (see Note 17). The outstanding security deposit arising from this transaction is presented as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the combined statements of financial position (see Notes 8 and 12).

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the combined statements of profit or loss. The related receivable as of December 31, 2016, 2015 and 2014 is presented as part of Trade receivables under the Trade and Other Receivables account in the combined statements of financial position (see Note 5).

No impairment loss was recognized on the outstanding receivables from this transaction as management has determined that such financial assets are fully collectible.

21.4 Advances to and from Related Parties

In the normal course of business, the Group grants to and obtains unsecured, noninterest-bearing cash advances from its related parties mainly for working capital requirements and other purposes. As of December 31, 2016, 2015 and 2014, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the combined statements of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2016, 2015 and 2014 follows:

	2016	2015	2014
Balance at beginning of year	**P 27,250,735**	P 29,177,071	P 4,291,545
Additions	**364,371,957**	51,911,166	24,885,526
Repayments	**(197,176,614)**	(53,837,502)	-
	P 194,446,078	P 27,250,735	P 29,177,071

Based on management's assessment, no impairment loss is recognized in 2016, 2015 and 2014 related to the advances to related parties.

The movement in the Advances from Related Parties account in 2016, 2015 and 2014 follows:

	2016	2015	2014
Balance at beginning of year	**P 405,997,123**	P 551,117,674	P 614,195,368
Additions	**50,578,764**	65,981,213	2,243,018
Repayments	**(370,816,632)**	(211,101,764)	(65,320,712)
	P 85,759,255	P 405,997,123	P 551,117,674

21.5 Transactions with the Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, STCP and UITF with fair value totaling P46.7 million, P38.6 million and P7.5 million as of December 31, 2016, 2015 and 2014, respectively.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 18.2.

21.6 Acquisition of CSC's Shares

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion. As of December 31, 2016, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the 2016 combined statement of financial position (see Note 14).

21.7 Others

(a) The OLSA with BDO, TLA with DBP and certain bank loans of the Group were guaranteed by certain stockholders through a continuing surety agreement with the respective banks (see Notes 13.1 and 13.2). The vessels owned by the Group and certain receivables of the subsidiaries were also used as security on such loans (see Notes 5, 8 and 10).

(b) The Group granted donations amounting to P0.36 million, P0.03 million and P0.2 million in 2016, 2015 and 2014, respectively, to Udenna Foundation, Inc., a non-stock, non-profit organization, established by the ultimate parent company. This is presented as part of Miscellaneous under the Other Operating Expenses account in the combined statements of profit and loss (see Note 17).

22. EQUITY

22.1 Capital Stock

The Company has authorized capital stock of 2,000,000,000, P1 par value shares for a total authorized capital stock of P2.0 billion. As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 is presented under current assets in the 2016 combined statement of financial position as the amount is expected to be collectible within 12 months after the end of the reporting period.

In 2015 and 2014, the Group's capital stock is composed of CSC, TASLI and DGMSI's capital stock amounting to P1,000,000,000, P100,000,000 and P17,600,000, respectively.

As of December 31, 2016, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

22.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the combined statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown in the succeeding page.

	Property and Equipment (see Note 10)	AFS Financial Assets (see Note 9)	Post-employment Benefit Obligation (see Note 17.2)	Total
Balance as of January 1, 2016	P 750,787,751	(P 136,199)	P 15,902,734	P 766,554,286
Remeasurements of post-employment benefit obligation	-	-	28,326,702	28,326,702
Fair value gains on AFS financial assets	-	244,177	-	244,177
Gain on revaluation of tankers	865,452,258	-	-	865,452,258
Effect of business combination	(184,142,520)	-	-	(184,142,520)
Depreciation transferred to retained earnings - revalued tankers	(73,463,526)	-	-	(73,463,526)
Other comprehensive income before tax	607,846,212	244,177	28,326,702	636,417,091
Tax income (expense)	(23,401,846)	(73,253)	(8,498,011)	(31,973,110)
Other comprehensive income after tax	584,444,366	170,924	19,828,691	604,443,981
Balance as of December 31, 2016	**P 1,335,232,117**	**P 34,725**	**P 35,731,425**	**P 1,370,998,267**
Balance as of January 1, 2015	P 599,779,751	-	P 14,143,924	P 613,923,675
Remeasurements of post-employment benefit obligation	-	-	2,512,587	2,512,587
Fair value gains on AFS financial assets	-	(194,570)	-	(194,570)
Gain on revaluation of tankers	196,829,342	-	-	196,829,342
Depreciation transferred to retained earnings - revalued tankers	(53,663,736)	-	-	(53,663,736)
Other comprehensive income before tax	143,165,606	(194,570)	2,512,587	145,483,623
Tax income (expense)	7,842,394	58,371	(753,777)	7,146,988
Other comprehensive income after tax	151,008,000	(136,199)	1,758,810	152,630,611
Balance as of December 31, 2015	P 750,787,751	(P 136,199)	P 15,902,734	P 766,554,286
Balance as of January 1, 2014	P 494,438,061	P -	P 22,693,630	P 517,131,691
Remeasurements of post-employment benefit obligation	-	-	(12,213,866)	(12,213,866)
Gain on revaluation of tankers	180,637,551	-	-	180,637,551
Depreciation transferred to retained earnings - revalued tankers	(52,280,407)	-	-	(52,280,407)
Other comprehensive income before tax	128,357,144	-	(12,213,866)	116,143,278
Tax income (expense)	(23,015,454)	-	3,664,160	(19,351,294)
Other comprehensive income after tax	105,341,690	-	(8,549,706)	96,791,984
Balance as of December 31, 2014	P 599,779,751	P -	P 14,143,924	P 613,923,675

22.3 Other Reserves

Other reserves pertain to the difference between the Group's consideration for the purchase of its subsidiaries and capital stock of the acquired entities. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method.

23. COMMITMENTS AND CONTINGENCIES

23.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

23.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering property and equipment. The leases have terms ranging from one to five years, with renewal options, and include annual escalation from 5.00% to 10.00%. The future minimum lease receivables under these agreements are presented below.

	2016	2015	2014
Within one year	**P 817,966**	P 940,024	P 648,897
After one year but not more than five years	**1,109,347**	1,758,243	2,407,140
	P 1,927,313	P 2,698,267	P 3,056,037

Rent income amounted to P2.1 million, P2.1 million and P1.9 million in December 31, 2016, 2015 and 2014, respectively, and is presented as part of Other Income account under Other Income (Charges) – net section of the combined statements of profit and loss.

23.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under an operating lease covering its office space. The lease has a term of five years commencing on June 10, 2009, with renewal options, and includes annual escalation rate of 3.0% on the second year and 6.0% from third to fifth year. The lease period was subsequently renewed on September 30, 2014 for a term of three years. The future minimum lease payables under this operating lease are as follows as of December 31:

	2016	2015	2014
Within one year	**P 8,023,352**	P 10,703,922	P 10,498,673
After one year but not more than five years	**1,680,000**	9,250,119	18,085,779
More than five years	**1,260,000**	1,680,000	-
	P 10,963,352	P 21,634,041	P 28,584,452

Total rentals from these operating leases amounted to P9.7 million, P10.9 million and P8.2 million in 2016, 2015 and 2014, respectively, and are included as part of Rentals under the Other Operating Expenses account in the combined statements of profit or loss (see Note 17).

The related security deposit on this operating lease amounted to P2.4 million, P5.9 million and P4.4 million as of December 31, 2016, 2015 and 2014, respectively, and is shown as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the combined statements of financial position (see Notes 8 and 12).

23.4 Legal Claims

TASLI is a defendant in an ongoing litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that TASLI will be found liable; hence, a provision for the claim has been made in the combined financial statements as of December 31, 2016 which is presented as part of Litigation expenses under Operating Expenses in the combined statements of profit or loss (see Note 17). The related liability is presented as part of Provisions under Trade and Other Payables account in the 2016 combined statements of financial position (see Note 14).

Various legal and labor claims were brought against the TASLI during the year. Management considers these claims to be unjustified and the probability that these will require settlement at the TASLI's expense is remote.

23.5 Unused Lines of Credit

As of December 31, 2016, 2015 and 2014, the Group has unused lines of credit totaling P64.8 million, P544.0 million, and P927.6 million, respectively.

23.6 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's combined financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's combined financial statements.

24. GOODWILL

The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P1.1 million, respectively. As such, goodwill, which comprises the value of expected synergies arising from the acquisition of subsidiaries, amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets was recognized in the combined statements of financial position.

25. SEGMENT INFORMATION

25.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;

(b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;

(c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas; and,

(d) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels.

Segment accounting policies are the same as the policies described in Note 2.3.

25.2 Segment Assets and Segment Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

25.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in combination in 2016.

25.4 Analysis of Segment Information

The tables presented in the succeeding page present revenue and profit information regarding business segments for the years ended December 31, 2016, 2015 and 2014 and certain asset and liability information regarding segments as at December 31, 2016, 2015 and 2014.

	Shipping	Tugboats	Roll-on/ Roll-off Passenger	Ship Management and Crewing	Elimination	Combined
2016						
SEGMENT RESULTS						
Sales to external customers	P 1,496,184,843	P 228,370,995	P 1,151,525,508	P -	P -	P 2,876,081,346
Intersegment sales	24,000,000	-	-	-	(24,000,000)	-
Total revenues	1,520,184,843	228,370,995	1,151,525,508	-	(24,000,000)	2,876,081,346
Cost of sales and services	1,205,457,401	98,483,808	850,555,554	-	-	2,154,496,763
Other operating expenses	133,968,166	25,202,680	116,597,789	13,089,712	(24,000,000)	264,858,347
Operating profit (loss)	180,759,276	104,684,507	184,372,165	(13,089,712)	-	456,726,236
Finance costs	(245,980,471)	(26,523,705)	(41,230,294)	(438,856)	-	(314,173,326)
Finance income	614,745	108,499	2,511,015	7,557	-	3,241,816
Other income	38,126,377	13,043,544	10,506,035	171,177	-	61,847,133
Profit (loss) before tax	(26,480,073)	91,312,845	156,158,921	(13,349,834)	-	207,641,859
Tax expense (income)	(5,960,942)	25,641,548	56,682,216	(400,771)	-	75,962,051
Net profit (loss)	(P 20,519,131)	P 65,671,297	P 99,476,705	(P 12,949,063)	P -	P 131,679,808
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 10,622,126,534	P 661,507,522	P 2,039,746,696	P 26,855,008	(P 2,590,330,784)	P 10,759,904,976
Total liabilities	P 7,603,873,350	P 184,811,264	P 1,504,934,459	P 7,616,916	(P 102,000,000)	P 9,199,235,989
2015						
SEGMENT RESULTS						
Sales to external customers	P 1,399,154,801	P 194,230,491	P 891,614,112	P -	P -	P 2,484,999,404
Cost of sales and services	1,009,955,208	152,782,674	817,081,040	-	-	1,979,818,922
Other operating expenses	100,743,846	14,054,623	52,431,407	3,345,394	-	170,575,270
Operating profit (loss)	288,455,747	27,393,194	22,101,665	(3,345,394)	-	334,605,212
Finance costs	(177,441,903)	(16,613,585)	(34,526,723)	(172,634)	-	(228,754,845)
Finance income	100,841	29,142	1,657,964	-	-	1,787,947
Loss on sale of investment in an associate	(2,250,000)	-	-	-	-	(2,250,000)
Other income	5,213,687	-	2,119,031	97,603	-	7,430,321
Profit (loss) before tax	114,078,372	10,808,751	(8,648,063)	(3,420,425)	-	112,818,635
Tax expense (income)	8,269,547	3,239,536	(817,612)	3,518,849	-	14,210,320
Net profit (loss)	P 105,808,825	P 7,569,215	(P 7,830,451)	(P 6,939,274)	P -	P 98,608,315
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 5,286,289,595	P 391,843,316	P 1,551,927,818	P 13,571,021	P -	P 7,243,631,750
Total liabilities	P 3,255,808,464	P 262,920,816	P 1,179,704,444	P 6,700,148	P -	P 4,705,133,872
2014						
SEGMENT RESULTS						
Sales to external customers	P 827,354,646	P 134,663,315	P 885,756,376	P -	P -	P 1,847,774,337
Cost of sales and services	567,811,075	97,685,016	762,607,791	-	-	1,428,103,882
Other operating expenses	90,258,972	5,935,792	51,864,252	3,883,287	-	151,942,303
Operating profit (loss)	169,284,599	31,042,507	71,284,333	(3,883,287)	-	267,728,152
Finance costs	(110,766,865)	(16,410,177)	(33,131,012)	-	-	(160,308,054)
Finance income	79,432	31,017	1,162,307	731	-	1,273,487
Other income	4,450,428	-	1,924,565	-	-	6,374,993
Profit (loss) before tax	63,047,594	14,663,347	41,240,193	(3,882,556)	-	115,068,578
Tax expense (income)	(29,023,245)	4,389,516	817,742	(203,804)	-	(24,019,791)
Net profit (loss)	P 92,070,839	P 10,273,831	P 40,422,451	(P 3,678,752)	P -	P 139,088,369
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 4,435,512,312	P 393,589,245	P 1,562,501,887	P 5,130,564	P -	P 6,396,734,008
Total liabilities	P 2,643,394,743	P 321,144,184	P 1,178,514,309	P 5,998,335	P -	P 4,149,051,571

26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 27. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Group, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described in the succeeding paragraphs.

26.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are primarily denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the December 31, 2016, 2015 and 2014 closing rate follow:

	2016	2015	2014
Financial assets	**P 158,797,465**	P 1,861,248	P 4,516,725
Financial liabilities	**(1,780,781,091)**	(856,050,311)	(1,002,400,565)
Net exposure	**(P 1,621,983,626)**	(P 854,189,063)	(P 997,883,840)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P209.7 million, P89.0 million and P115.4 million in 2016, 2015 and 2014, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2016 and 2015 by the same amount. This sensitivity of the net result for the year assumes a +/- 12.93%, +/- 10.42% and +/- 11.56% change of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2016, 2015 and 2014, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2016 and 2015 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2016, 2015 and 2014, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 13). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.45% in 2016 and +/- 0.60% both in 2015 and 2014. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.58%, +/- 0.89% and +/- 0.31% in 2016, 2015 and 2014, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P19.5 million, +/- P12.5 million and +/- P10.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

26.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the combined statements of financial position as of December 31 as summarized below.

		2016		2015		2014
Cash and cash equivalents	P	**508,940,431**	P	360,061,760	P	181,394,033
Trade and other receivables – net (excluding advances for liquidation)		**934,141,422**		531,021,751		273,073,070
Subscription receivable		**350,000,000**		-		-
Restricted cash		**39,388,529**		-		-
Security deposits		**4,600,998**		5,856,189		4,363,877
Advances to related parties		**194,446,078**		27,250,735		29,177,071
Other non-current assets (except drydocking costs)		**1,373,471**		1,588,761		1,360,710
	P	**2,032,890,929**	P	925,779,196	P	489,368,761

None of the financial assets are secured by collateral or other credit enhancements, except for cash as described in the below.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

In respect of trade and other receivables, 46.04%, 35.33% and 14.03% of the Group's outstanding receivables as of December 31, 2016, 2015 and 2014, respectively, represent claims from related parties. Based on historical information about default rates, management considers the credit quality of trade and other receivables that are not past due or impaired to be good.

Financial assets that are past due but not impaired pertain only to trade and other receivables as detailed below.

		2016		2015		2014
Not more than three months	**P**	**388,227,653**	P	177,108,062	P	47,545,744
More than three months but not more than one year		**238,062,334**		101,781,132		18,875,334
More than one year		**118,924,564**		42,839,032		34,403,351
	P	**745,214,551**	P	321,728,226	P	100,824,429

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.

26.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2016, the Group's financial liabilities have contractual maturities which are presented below.

		Current				Non-current			
	Notes		Within Six Months		Six to 12 Months		One to Five Years		More than Five Years
Interest-bearing loans	12	P	4,914,912,928	P	346,581,267	P	2,149,517,592	P	471,995,901
Trade and other payables (except for government-related obligations)	13		1,250,837,917		-		-		-
Advances from related parties	20		42,879,628		42,879,627		-		-
		P	**6,208,630,473**	**P**	**389,460,894**	**P**	**2,149,517,592**	**P**	**471,995,901**

This compares to the maturity of the Group's financial liabilities as of December 31, 2015 as follows:

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 1,178,663,190	P 413,830,964	P 1,430,802,233	P 227,093,876
Trade and other payables (except for government-related obligations)	13	967,421,439	-	-	12,835,884
Advances from related parties	20	202,998,562	202,998,561	-	-
		P 2,349,083,191	P 616,829,525	P 1,430,802,233	P 239,929,760

This compares to the maturity of the Group's financial liabilities as of December 31, 2014 as follows:

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 600,650,134	P 273,945,502	P 1,485,540,051	P 239,924,977
Trade and other payables (except for government-related obligations)	13	739,182,676	-	-	11,796,441
Advances from related parties	20	275,558,837	275,558,837	-	-
		P 1,615,391,647	P 549,504,339	P 1,485,540,051	P 251,721,418

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

27.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the combined statements of financial position are shown below.

		2016		2015		2014	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets:							
Loans and Receivables:							
Cash and cash equivalents	4	**P 508,940,431**	**P 508,940,431**	P 360,061,760	P 360,061,760	P 181,394,033	P 181,394,033
Trade and other receivables - net	5	**934,141,422**	**934,141,422**	531,021,751	531,021,751	273,073,070	273,073,070
Restricted cash		**39,388,529**	**39,388,529**	-	-	-	-
Rental deposits	11	**4,600,998**	**4,600,998**	5,856,189	5,856,189	4,363,877	4,363,877
Subscription receivable		**350,000,000**	**350,000,000**	-	-	-	-
Advances to related parties	20	**194,446,078**	**194,446,078**	27,250,735	27,250,735	29,177,071	29,177,071
Other non-current assets (except for drydocking costs)	11	**1,373,471**	**1,373,471**	1,588,761	1,588,761	1,360,710	1,360,710
		P 2,032,890,929	**P 2,032,890,929**	P 925,779,196	P 925,779,196	P 489,368,761	P 489,368,761
Financial Liabilities:							
At amortized cost:							
Trade and other payables	13	**P 1,250,837,917**	**P 1,250,837,917**	P 967,421,439	P 967,421,439	P 739,182,676	P 739,182,676
Interest-bearing loans	12	**7,505,864,384**	**7,505,864,384**	3,074,237,773	3,074,237,773	2,576,378,287	2,576,378,287
Advances from related parties	20	**85,759,255**	**85,759,255**	405,997,123	405,997,123	551,117,674	551,117,674
		P 8,842,461,556	**P 8,842,461,556**	P 4,447,656,335	P 4,447,656,335	P 3,866,678,637	P 3,866,678,637

See Notes 2.4 and 2.9 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

27.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2016, 2015 and 2014 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by the parent company. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set off to the extent of the Group's outstanding cash deposited in the same banks.

28. FAIR VALUE MEASUREMENTS AND DISCLOSURES

28.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

28.2 Financial Instruments Measured at Fair Value

The table below shows the classes of financial assets measured at fair value in the combined statements of financial position on a recurring basis.

	Notes		2016		2015
Financial assets at FVTPL	6	**P**	**11,279,636**	P	748,000
AFS financial assets	9		**3,065,089**		1,876,430
		P	**14,344,725**	P	2,624,430

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the Philippines and U.S. stock exchanges at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 2016, 2015 and 2014.

28.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed

The tables below and in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of December 31, 2016, 2015 and 2014, which are not measured at fair value in the combined statements of financial position but for which fair value is disclosed.

	2016			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	P 508,940,431	P -	-	P 508,940,431
Trade and other receivables - net	-	-	934,141,422	934,141,422
Restricted cash	39,388,529	-	-	39,388,529
Security deposits	-	-	4,600,998	4,600,998
Subscription receivable	-	-	350,000,000	350,000,000
Advances to related parties	-	-	194,446,078	194,446,078
Other non-current assets (except for drydocking costs)	-	-	1,373,471	1,373,471
	P 548,328,960	**P -**	**P 1,484,561,969**	**P 2,032,890,929**
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	1,250,837,917	1,250,837,917
Interest-bearing loans	-	-	7,372,782,178	7,372,782,178
Advances from related parties	-	-	85,759,255	85,759,255
	P -	**P -**	**P 8,709,379,350**	**P 8,709,379,350**

		2015						
		Level 1		Level 2		Level 3		Total
Financial Assets:								
Loans and Receivables:								
Cash and cash equivalents	P	360,061,760	P	-		-	P	360,061,760
Trade and other receivables - net		-		-		531,021,751		531,021,751
Security deposits		-		-		5,856,189		5,856,189
Advances to related parties		-		-		27,250,735		27,250,735
Other non-current assets (except for drydocking costs)		-		-		1,588,761		1,588,761
	P	360,061,760	P	-	P	565,717,436	P	925,779,196
Financial Liabilities:								
At amortized cost:								
Trade and other payables	P	-	P	-		967,421,439		967,421,439
Interest-bearing loans		-		-		2,953,102,897		2,953,102,897
Advances from related parties		-		-		405,997,123		405,997,123
	P	-	P	-	P	4,326,521,459	P	4,326,521,459

		2014						
		Level 1		Level 2		Level 3		Total
Financial Assets:								
Loans and Receivables:								
Cash and cash equivalents	P	181,394,033	P	-		-	P	181,394,033
Trade and other receivables - net		-		-		273,073,070		273,073,070
Security deposits		-		-		4,363,877		4,363,877
Advances to related parties		-		-		29,177,071		29,177,071
Other non-current assets (except for drydocking costs)		-		-		1,360,710		1,360,710
	P	181,394,033	P	-	P	307,974,728	P	489,368,761
Financial Liabilities:								
At amortized cost:								
Trade and other payables	P	-	P	-		739,182,676		739,182,676
Interest-bearing loans		-		-		2,453,389,733		2,453,389,733
Advances from related parties		-		-		551,117,674		551,117,674
	P	-	P	-	P	3,743,690,083	P	3,743,690,083

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

28.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 10). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2016, 2015 and 2014.

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the combined statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2016	2015	2014
Total liabilities	**P 9,199,235,989**	P 4,705,133,872	P 4,149,051,571
Total equity	**1,560,668,987**	2,538,497,878	2,247,682,437
Debt-to-equity ratio	**5.89 : 1.00**	1.85 : 1.00	1.85 : 1.00

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 1:5. This is in line with the Group's bank covenants related to its borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

Independent Auditors' Report on the SEC Supplementary Schedules Filed Separately from the Basic Consolidated Financial Statements

Others Required Information
(SEC Circular 11)

*The Parent Company is at a deficit position as of December 31, 2016; hence, no reconciliation of retained earnings for dividend declaration was prepared.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*	*Valued based on the market quotation at end of reporting period*	*Income (Loss) received and accrued*
Financial Assets at Fair Value Through Profit or Loss				
San Miguel Corporation	102,200	P 10,258,050	P 10,258,050	(P 26,850)
China Banking Corporation	51	1,021,586	1,021,586	1,000,679
		P 11,279,636	**P 11,279,636**	**P 973,829**
Available-for-Sale Financial Assets - Current				
Insular Life	436,633	**P 3,065,089**	**P 3,065,089**	**P 244,177**

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)

DECEMBER 31, 2016

(Amounts in Philippine Pesos)

			Deductions		*Ending Balance*		
Name and designation of debtor	*Balance at beginning of period*	*Additions*	*Amounts paid (collected)*	*Amounts written off*	*Current*	*Not current*	*Balance at end of period*
Advances from Related Parties	(P 405,997,123)	(P 50,578,764)	P 370,816,632	P -	(P 85,759,255)	P -	(P 85,759,255)
Advances to Officers and Employees (under the "Trade and Other Receivables" account)	8,408,206	5,187,980	(3,221,358)	-	10,374,828	-	10,374,828
Advances to Related Parties	27,250,735	364,371,957	(197,176,614)	-	194,446,078	-	194,446,078
Total	**(P 370,338,182)**	**P 318,981,173**	**P 170,418,660**	**P -**	**P 119,061,651**	**P -**	**P 119,061,651**

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE C - AMOUNTS OF RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2016

TERMS & CONDITIONS:
All receivables/payables are unsecured, noninterest-bearing, collectible/payable on demand, unimpaired and generally settled in cash.

Name and designation of debtor	Affected accounts	Balance at beginning of year	Additions	Deductions		Ending balance		Balance at the end of the period
				Amounts collected	Amounts written off	Current	Non current	
Chelsea Shipping Corporation	Trade Receivable	P -	P 24,000,000	P -	P -	P 24,000,000	P -	P 24,000,000
Trans-Asia Shipping	Trade Payable	-	24,000,000	-	-	24,000,000	-	24,000,000

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2016

Description	*Beginning balance*	*Additions at cost*	*Deduction*		*Other changes additions (deductions)*	*Ending balance*
			Charged to cost and expenses	*Charged to other accounts*		
Intangible Assets						
Goodwill	P 74,294,814	P -	P -	P -	P -	P 74,294,814

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

Title of issue and type of obligation	*Amount authorized by indenture*		*Amount shown under caption "Current portion of long-term debt" in related balance sheet*		*Amount shown under caption "Long-Term Debt" in related balance sheet*	
Bank Loans	P	4,576,345,754	P	4,576,345,754	P	-
Term Loans		2,596,979,367		445,149,306		2,151,830,061
Mortgage Loans		199,457,057		7,984,582		191,472,475
Interest-bearing loans and borrowings	**P**	**7,372,782,178**	**P**	**5,029,479,642**	**P**	**2,343,302,536**

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2016

(Amounts in Philippine Pesos)

Name of related party	*Balance at beginning of period*	*Balance at end of period*

- nothing to report -

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2016

(Amounts in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	*Title of issue of each class of securities guaranteed*	*Total amount of guaranteed and outstanding*	*Amount owned by person for which statement is filed*	*Nature of guarantee*

- nothing to report -

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2016

				Number of shares held by		
Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption*	*Number of shares reserved for options, warrants, conversion and other rights*	*Related parties*	*Directors, officers and employees*	*Others*
Common shares - P1 par value	2,000,000,000	150,000,000	-	150,000,000	-	-

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2016 AND 2015

	December 31, 2016	December 31, 2015
Current ratio	**0.39:1**	0.39:1
Quick ratio	**0.39:1**	0.36:1
Solvency Ratio	**0.06:1**	0.09:1
Liabilities-to-equity ratio	**5.89:1**	1.85:1
Asset-to-equity ratio	**6.89:1**	2.85:1
Net profit margin	**4.54%**	3.97%
Return on assets	**1.22%**	1.36%
Return on equity/investment	**8.44%**	3.88%
Interest coverage ratio	**1.46**	1.46

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio - computed as current assets divided by current liabilities
Quick ratio - computed a cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.
Solvency ratio - computed as net profit, plus non-cash depreciation and amortization, divided by total liabilities.
Liabilities-to-equity ratio - computed as total liabilities divided by stockholders' equity.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

PROFITABILITY RATIOS measure the business' ability to generate earnings.
Net margin - computed as net profit divided by revenues
Return on assets - net profit divided by total assets
Return on equity investment - net profit divided by total stockholders' equity

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments.
It is computed as profit before income tax and interest expense ("EBIT") divided by interest.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* *(effective January 1, 2018)*			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts** *(effective January 1, 2018)*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective when PFRS 9 is first applied)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* *(effective January 1, 2018)*			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		

PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contract with Customers* *(effective January 1, 2018)*			✓
PFRS 16	Leases* *(effective January 1, 2019)*			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative* *(effective January 1, 2017)*			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses* *(effective January 1, 2017)*			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants**	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

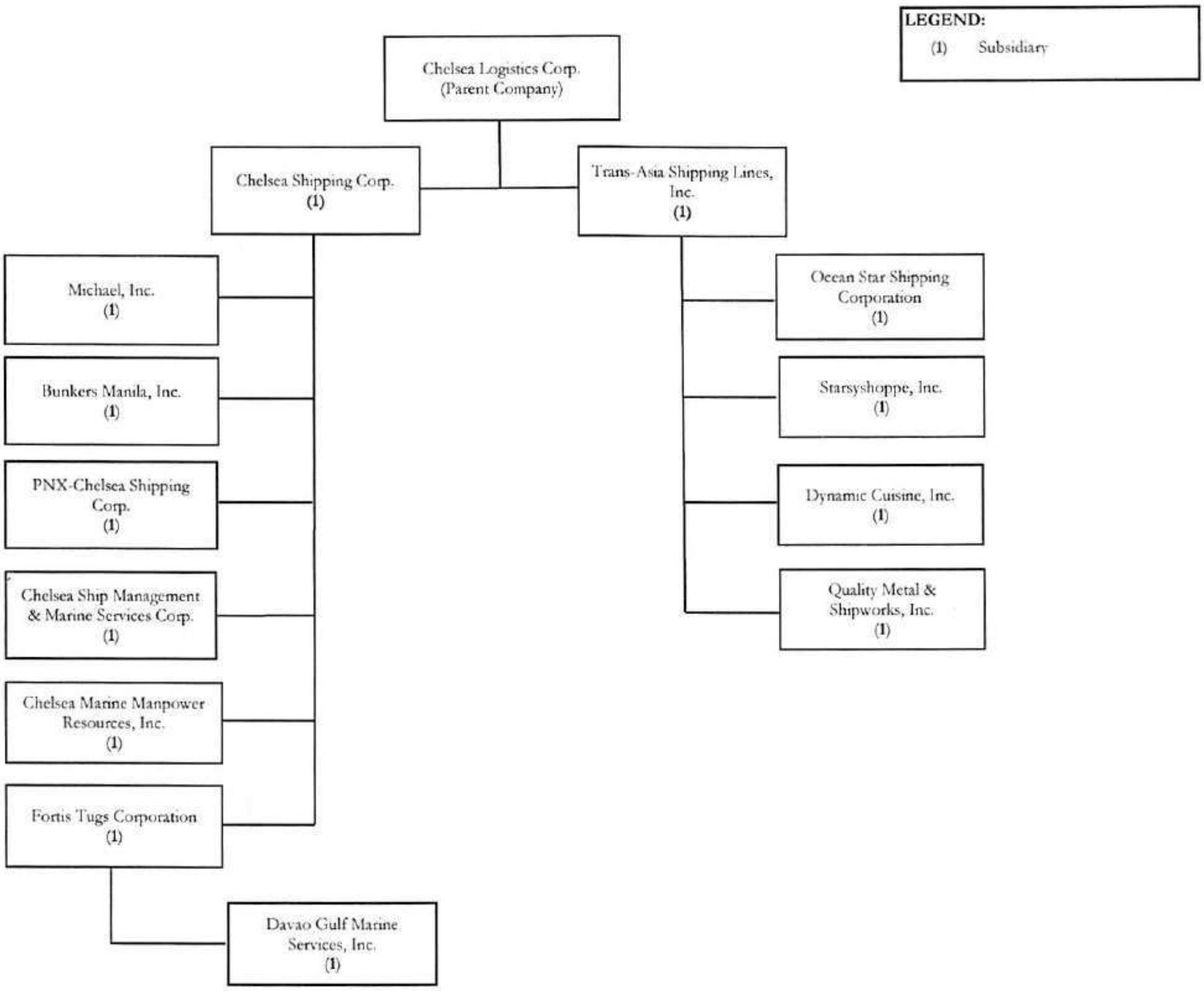
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants**			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓

IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies**	✓		
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		

* These standards will be effective for periods subsequent to 2016 and are not early adopted by the Group.

** These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

CHELSEA LOGISTICS CORPORATION
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Map Showing the Relationship Between and Among the Company and Its Related Parties
December 31, 2016



CHELSEA
LOGISTICS CORP.
A UDENNA Company

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Chelsea Logistics Corp. & Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the periods ended December 31 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

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

Dennis A. Uy
Chairman of the Board and
President & CEO

Ignacia S. Braga IV
VP – Finance / Chief Financial Officer

Chryss Alfonsus V. Damuy
Chief Operating Officer

Signed this 24th day of February, 2017.

Republic of the Philippines)
TAGUIG CITY) S.S

ACKNOWLEDGEMENT

BEFORE ME, a notary Public for and in TAGUIG CITY on this APR 0 3 2017, personally appeared the following, to wit:

Name	Valid ID	Valid until
Dennis A. Uy	Passport I.D. No. EC1641601	Valid until 14 Jul 19
Ignacia S. Braga IV	Passport I.D. No. EC8035770	Valid until 12 Jun 21
Chryss Alfonsus V. Damuy	Passport I.D. No. EC1771808	Valid until 30 Jun 19

Known to m and me known to be the same person who executed the foregoing Financial Statement and they acknowledge to me that they voluntary affixed his/her signature/s for the purpose/s stated in the foregoing instruments and that the same are his/her true and voluntary acts and deeds as well as of the corporation they present.

WITNESS MY HAND AND AFFIXED MY NOTARIAL SEAL on the date and place first written above.

Doc. No. 311;
Page No. 64;
Book No. 59;
Series of 2017

ATTY. JOWELL A. MENDOZA
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DEC. 31, 2018
APPT NO 20 (2016-2018)
PTR No 2512980, 01/4/2017, PASIG CITY
IBP No 1058109, 1/6/2017
ROLL NO 59561
MCLE COMPLIANCE NO V-0023127-7/23/16
32ND ST CAR PLAZA BONIFACIO
GLOBAL, TAGUIG CITY

P&A
Grant Thornton

An instinct for growth™

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Report of Independent Auditors

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Chelsea Logistics Corp. and subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

MAY 05 2017

ASSETS

	Notes		
CURRENT ASSETS			
Cash and cash equivalents	4	P	508,940,431
Trade and other receivables - net	5		944,516,250
Subscription receivable	22		350,000,000
Financial assets at fair value through profit or loss	6		11,279,636
Available-for-sale financial assets	9		3,065,089
Inventories	7		78,874,626
Advances to related parties	21		194,446,078
Other current assets	8		542,685,688
Total Current Assets			2,633,807,798
NON-CURRENT ASSETS			
Property and equipment - net	10		7,818,568,442
Investment in a joint venture	11		45,560,925
Goodwill	25		74,294,814
Post-employment benefit asset	18		4,873,519
Deferred tax assets - net	20		7,300,178
Other non-current assets - net	12		175,499,300
Total Non-current Assets			8,126,097,178
TOTAL ASSETS		P	10,759,904,976

LIABILITIES AND EQUITY

	Notes		
CURRENT LIABILITIES			
Trade and other payables	14	P	1,358,754,469
Interest-bearing loans	13		5,029,479,642
Advances from related parties	21		85,759,255
Advances from customers	2		14,484,000
Deposits for future stock subscription	15		50,000,000
Income tax payable			75,923,029
Total Current Liabilities			6,614,400,395
NON-CURRENT LIABILITIES			
Interest-bearing loans	13		2,343,302,536
Post-employment benefit obligation	18		4,046,544
Deferred tax liabilities - net	20		223,354,572
Other non-current liabilities			14,131,942
Total Non-current Liabilities			2,584,835,594
Total Liabilities			9,199,235,989
EQUITY	22		
Capital stock			500,000,000
Revaluation reserves			1,370,998,267
Other reserves		(	1,058,033,280)
Retained earnings			747,704,000
Total Equity			1,560,668,987
TOTAL LIABILITIES AND EQUITY		P	10,759,904,976

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Notes		
REVENUES	2		
Charter fees	21	P	1,422,433,646
Tugboat fees			118,200,515
Standby charges	21		94,295,146
Sale of goods			3,456,051
			1,638,385,358
COST OF SALES AND SERVICES	16		1,261,203,111
GROSS PROFIT			377,182,247
OTHER OPERATING EXPENSES	17		155,452,662
OPERATING INCOME			221,729,585
OTHER INCOME (CHARGES) - Net			
Finance costs	19	(	260,854,770)
Gain on bargain purchase	2		158,228,158
Finance income	19		730,801
Other income	21, 24		15,490,554
		(	86,405,257)
PROFIT BEFORE TAX			135,324,328
TAX EXPENSE	20		3,644,520
NET PROFIT		P	131,679,808
Earnings Per Share (Basic and Diluted)	23	P	0.26

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Notes		
NET PROFIT		P	131,679,808
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently through profit or loss:			
Revaluation of vessels	10		801,886,530
Remeasurement of post-employment benefit obligation	18	(	47,994)
Tax expense	20	(	23,690,669)
			778,147,867
TOTAL COMPREHENSIVE INCOME		P	909,827,675

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Note	Capital Stock	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2016		P 1,000,000,000	P 582,411,766	P -	P 561,933,606	P 2,144,345,372
Subscription of shares	22	500,000,000	-	-	-	500,000,000
Effect of business combination		(1,000,000,000)	-	(1,058,033,280)	-	(2,058,033,280)
Total comprehensive income for the year		-	778,147,867	-	131,679,808	909,827,675
Transfer of revaluation reserves through depreciation, net of tax	22	-	(54,090,586)	-	54,090,586	-
Other comprehensive income from acquired subsidiaries		-	64,529,220	-	-	64,529,220
Balance at December 31, 2016		P 500,000,000	P 1,370,998,267	(P 1,058,033,280)	P 747,704,000	P 1,560,668,987

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Notes	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		P 135,324,328
Adjustments for:		
Depreciation and amortization	10, 12	457,719,091
Interest expense	19	163,588,166
Gain on bargain purchase		(158,228,158)
Unrealized foreign currency losses - net		75,771,709
Interest income	19	(393,954)
Operating profit before working capital changes		673,781,182
Increase in trade and other receivables		(248,985,365)
Increase in advances to related parties		(353,995,562)
Increase in other current assets		(374,611,539)
Decrease in other non-current assets		3,253,168
Decrease in trade and other payables		(278,550,987)
Increase in advances from customers		9,375,509
Decrease in post-employment benefit obligation		(2,465,686)
Cash used in operations		(572,199,280)
Interest received		393,954
Cash paid for income taxes		(498,135)
Net Cash Used in Operating Activities		(572,303,461)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of interest in subsidiaries and a joint venture		(1,834,117,990)
Acquisitions of property and equipment	10	(1,116,845,333)
Additions to drydocking costs	12	(34,463,540)
Net Cash Used in Investing Activities		(2,985,426,863)
Balance carried forward		(P 3,557,730,324)

	Notes	
Balance brought forward		(P 3,557,730,324)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interest-bearing loans	13	5,217,206,036
Repayments of interest-bearing loans	13	(1,052,466,589)
Repayments of advances from related parties	21	(290,681,863)
Interest paid		(158,961,980)
Proceeds from issuance of shares of stock	22	150,000,000
Net Cash From Financing Activities		3,865,095,604
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		4,786,753
NET INCREASE IN CASH AND CASH EQUIVALENTS		312,152,033
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARIES		165,961,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		-
CASH AND CASH EQUIVALENTS OF CHELSEA SHIPPING CORP. AT BEGINNING OF YEAR		30,827,174
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 508,940,431

Supplemental Information for Non-cash Investing and Financing Activities

1) The Group recognized revaluation increment, gross of tax, amounting to P801.9 million in 2016 (see Notes 10 and 21).

2) In 2016, the Group reclassified certain amount from Contruction-in-progress under Property and Equipment to Drydocking costs under Other Non-current Assets (see Notes 10 and 12).

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

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

Chelsea Logistics Corp. (the Company or CLC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 26, 2016 primarily to act as manager or managing agent of persons, associations, corporations, partnerships and other entities providing management, investment and technical advice; and, to undertake, carry on, assist or participate in the organization, management, operation of corporations, partnerships and other entities engaged in commercial, industrial, manufacturing, shipping and other kinds of enterprises, except the management of funds, securities, portfolio or similar assets of the managed entities or corporation. It started commercial operations on November 24, 2016.

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

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

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

1.2 Subsidiaries and their Operations

As of December 31, 2016, the Company holds 100% ownership interests in Chelsea Shipping Corp. (CSC) and Trans-Asia Shipping Lines, Inc. (TASLI). The Company acquired CSC and TASLI through the purchase of said companies' outstanding shares of stock from their registered owners. The respective acquisitions of CSC and TASLI were completed by the Company in the last quarter of 2016.

CSC was incorporated on July 17, 2006 primarily to engage in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. As of December 31, 2016, CSC holds 100% ownership interests in the following subsidiaries:

(a) *Bunkers Manila, Inc.* – established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(b) *Michael, Inc. (MI)* – engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(c) *PNX-Chelsea Shipping Corp. (PNX)* – engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(d) *Chelsea Ship Management & Marine Services Corp. (CSMMSC)* – engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(e) *Fortis Tugs Corporation (FTC)* – engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors, and other waterways between the various ports of the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of Davao Gulf Marine Services Inc. (DGMSI), a Davao-based tug service provider.

(f) *Chelsea Marine Manpower Resources, Inc. (CMMRI)* – engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and; to provide allied maritime services for said vessels and companies.

On the other hand, TASLI was incorporated on March 25, 1974 to engage in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. TASLI holds direct ownership interest in the following subsidiaries as of December 31, 2016:

(a) *Quality Metals & Shipworks, Inc. (QMSI)* – engaged in machining and mechanical works on ship machineries and industrial plants.

(b) *Oceanstar Shipping, Inc. (Oceanstar)* – engaged in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas.

(c) *Dynamic Cuisine, Inc. (DCI)* – engaged in operating restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in cooking and catering foods, drinks, refreshments and other foods or commodities.

(d) *Starsy Shoppe, Inc. (SSI)* – engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

CLC, together with CSC, TASLI and their respective subsidiaries, are collectively referred herein as the Group.

1.3 Other Corporate Information

The registered office and principal place of business of the subsidiaries, except those listed below, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City. The registered offices and principal places of business of the other subsidiaries are as follows:

CSMMSC, FTC and CMMRI	–	26/F, Fort Legend Towers, 3rd Ave. corner 31st Street, Bonifacio Global City, Taguig City
TASLI, QMSI and Oceanstar	–	Ground Floor, Trans-Asia Building, Cor. M.J. Cuenco Avenue & Osmeña Boulevard, Cebu City
DCI	–	Rm 300 3rd Flr., Trans-Asia Building, Osmeña Boulevard, Cebu City
SSI	–	Rm 300 3rd Floor, Trans-Asia Building, Osmeña Boulevard, Cebu City
DGMSI	–	Door 1 and 2, Lagura Building, J.P. Cabaguio Avenue, Davao City

1.4 Accounting for the Acquisition of CSC by the Company

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from a related party under common ownership. The acquisition was accounted for at historical cost or at carrying amount of the acquired entity's net assets in a manner similar to that of pooling-of-interest method applicable for a business combination involving entities under common control. All financial data presented herein includes the financial data of CSC and subsidiaries (excluding DGMSI) for the period prior to acquisition as if the acquisition had taken place at January 1, 2016.

1.5 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2016 were authorized for issue by the Company's BOD on February 24, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.* The Group presents consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS Effective Subsequent to 2016 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, which are adopted by the FRSC. Management will adopt the relevant pronouncements below in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements.

(a) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(b) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(c) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9, *Financial Instruments* (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

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

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

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

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

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

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

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

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

2.3 Segment Reporting

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

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

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

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

2.4 Financial Assets

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

(a) Classification and Measurement of Financial Assets

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

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

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

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

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

(iii) AFS Financial Assets

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

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

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

(b) Impairment of Financial Assets

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

(i) Carried at Amortized Cost – Loans and Receivables

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

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

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

(ii) Carried at Fair Value – AFS Financial Assets

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

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

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

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

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

(iv) Derecognition of Financial Assets

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

2.5 Inventories

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

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

2.6 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel which are capitalized (see Note 2.7).

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

Revalued amounts represent fair values determined based on appraisals by external professional appraiser once every two years unless more frequently if market factors indicate a material change in fair value (see Note 29.4).

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

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

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

Leasehold improvements are amortized over the estimated useful lives of the assets of five years or the lease term, whichever is shorter.

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

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

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

2.7 Drydocking Costs

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

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Assets account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessels takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.6).

2.8 Other Assets

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

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

2.9 Financial Liabilities

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

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

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.20). All other interest-related charges incurred on a financial liability are recognized as an expense in the consolidated statement of profit or loss under the caption Finance costs presented under the Other Income (Charges) account in the consolidated statement of profit or loss.

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

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

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

2.10 Deposits for Future Stock Subscription

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

(i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;

(ii) The Group's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,

(iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

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

2.11 Offsetting Financial Instruments

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

2.12 Business Combinations

Business acquisitions are accounted for using the acquisition or pooling-of-interest method of accounting.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.13 Advances from Customers

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

2.14 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.15 Revenue and Expense Recognition

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

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

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

(b) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.

(c) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.

(d) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(e) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term (see Note 2.16).

(f) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term [see Note 2.15(e)].

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

2.17 Foreign Currency Transactions and Translation

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit and loss.

2.18 Impairment of Non-financial Assets

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

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

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

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

2.19 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability or asset recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

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

(d) *Profit-sharing and Bonus Plans*

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

(e) Compensated Absences

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

2.20 Borrowing Costs

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

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

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

2.21 Income Taxes

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

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

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

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.22 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.23 Equity

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

Revaluation reserves comprise of gains and losses arising from the revaluation of the Group's vessels and certain financial assets, and remeasurements of post-employment defined benefit plan, net of applicable taxes.

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

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

2.24 Earnings Per Share

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

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

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Revenue Recognition for Charter Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB agreements, management considers the following criteria: (1) whether the fulfillment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract [see Note 2.15(a)].

(b) Distinction Between Operating and Finance Leases

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

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

(c) Capitalization of Borrowing Costs

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

The amount of capitalized borrowing costs and information on the capitalization rate used for the year ended December 31, 2016 is disclosed in Note 10.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 24.

3.2 Key Sources of Estimation Uncertainty

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

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

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

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

(b) Estimation of Useful Lives of Property and Equipment and Drydocking Costs

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

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

(c) *Fair Value Measurement of Vessels*

The Group's vessels, included as part of Property and Equipment, are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant methodologies as discussed in Note 29.4.

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

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

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2016 is disclosed in Note 20.1.

(e) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

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

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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31, 2016:

Cash on hand and in banks	P 468,448,292
Short-term placements	40,492,139
	P 508,940,431

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

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of December 31, 2016:

	Note	
Trade receivables	21.1, 21.3	P 740,293,250
Due from agencies		190,407,635
Claims receivables		12,794,398
Advances to officers and employees		10,374,828
Others		5,212,452
		959,082,563
Allowance for doubtful accounts		(14,566,313)
		P 944,516,250

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

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

Balance at beginning of year	P -
Beginning balance of CSC	17,580,172
Write-off of receivables during the year	(15,317,178)
Balance from acquired subsidiaries	12,303,319
	P 14,566,313

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

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

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

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

In 2016, the Group wrote off uncollectible receivables, which were previously provided with allowance for doubtful accounts, amounting to P15.3 million.

Certain trade receivables amounting to P32.6 million as of December 31, 2016 were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 13.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The reconciliation of the carrying amounts of these financial assets at the beginning and end of 2016 follows:

Balance at the beginning of year	P	-
Balance from acquired subsidiaries		11,279,636
Balance at end of year	P	11,279,636

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

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

7. INVENTORIES

This account includes the following as of December 31, 2016:

	Note		
Fuel and lubricants	21.2	P	38,901,683
Spare parts			36,185,728
Food supplies			1,421,117
Electrical parts			1,275,178
Shipping supplies			1,090,920
		P	78,874,626

As of December 31, 2016, the total net realizable value of inventories is higher than its cost.

8. OTHER CURRENT ASSETS

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

	Notes		
Advances to suppliers		P	268,962,167
Deferred input VAT			82,322,433
Creditable withholding taxes			65,785,594
Input VAT			55,181,622
Restricted cash	4		34,388,529
Prepayments			30,759,478
Security deposits	24.3		4,600,998
Others			684,867
		P	542,685,688

Advances to suppliers represent downpayments made to suppliers for the acquisition of vessels, supply of spare parts, parcels of land and other services. It also includes TASLI's advances for land acquisitions, which will be used in operations.

Prepayments primarily include prepaid insurance, prepaid rent and supplies.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

On June 11, 2015, TASLI obtained a life insurance policy from Insular Life (policy provider) with an investment component linked to it. The net amount of premium paid of P2,071,000, after deducting the fund administration and management fees of P3,240,000 and insurance charges of P89,000, was invested in the equity fund to be managed and administered by the policy provider. The investment is to be held indefinitely and may be sold in response to the Group's liquidity requirements or changes in market condition.

As at December 31, 2016, the fair value of the equity fund is P3,065,089, which is composed of 436,633 unit shares.

A reconciliation of the carrying amounts of the Group's AFS financial assets as of December 31, 2016 is presented below.

Balance at the beginning of year	P	-
Balance from acquired subsidiaries		3,065,089
Balance at end of year	P	3,065,089

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment as of December 31, 2016 are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
December 31, 2016							
Cost or valuation	P 104,250,013	P 9,366,967,818	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	(2,053,621,702)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,147,680,516)
Accumulated impairment loss	-	(2,214,623)	-	-	-	-	(2,214,621)
Net carrying amount	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442

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

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P -	P -	P -	P -	P -	P -	P -
Balance of CSC at January 1, 2016, net of accumulated depreciation and amortization	-	4,576,445,613	7,002,015	394,715	2,861,561	129,613,034	4,716,316,936
Additions	-	1,073,870,174	34,183,273	190,018	2,618,283	5,983,585	1,116,845,333
Revaluation increment	-	801,886,530	-	-	-	-	801,886,530
Reclassification	-	72,873,835	-	-	-	(126,932,888)	(54,059,053)
Disposal	-	-	(1,082,142)	-	(29,762)	(550,391)	(1,662,295)
Depreciation and amortization charges for the year	-	(296,615,667)	(4,997,295)	(332,682)	(1,983,148)	-	(303,928,792)
Balance from acquired subsidiaries at December 31, 2016, net of accumulated depreciation and amortization	104,250,013	1,082,671,008	768,677	17,836,662	10,099,512	327,543,911	1,543,169,783
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442

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

Name of Vessel	Effective Date	Net Appraised Values
MV Trans-Asia 3	February 11, 2017	P 207,385,000
MV Trans-Asia 8	January 6, 2017	40,419,000
M/Tug Samal	January 6, 2017	33,451,000
M/Tug Sigaboy	January 6, 2017	28,880,000
M/Tug Fortis II	November 11, 2016	80,090,000
MT Chelsea Charlize	June 27, 2016	470,000,000
MT Chelsea Endurance	June 8, 2016	347,422,000
MT Chelsea Donatela	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000
MV Asia Philippines	May 17, 2016	71,000,000
MV Trans-Asia 8	April 28, 2016	90,000,000
MV Trans-Asia 10	April 27, 2016	85,500,000
MV Asia Pacific	April 27, 2016	71,000,000
MV Trans-Asia 9	April 25, 2016	86,000,000
MT Chelsea Resolute	March 28, 2016	242,000,000
MT Chelsea Intrepid	March 17, 2016	120,000,000
MT Chelsea Enterprise	March 4, 2016	135,000,000
MT Chelsea Denise II	December 23, 2015	487,000,000
M/Tug Fortis I	November 17, 2015	85,000,000
MT Chelsea Denise	November 4, 2015	180,000,000
MT Chelsea Thelma	August 5, 2015	1,021,886,700
MV Trans-Asia 2	May 28, 2015	60,000,000
MT Chelsea Cherylyn	December 29, 2014	880,000,000
MT Excellence	February 10, 2014	145,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of last appraisal. Further, no appraisal report was obtained for MT Chelsea Dominance as the Group has acquired the tanker towards the end of 2016; hence, management believes that the acquisition cost approximates its fair value.

Also, one of TASLI's vessels, MV Trans-Asia 2, was purchased in 2015 and was available for use in August 2016; hence, management has assessed that the carrying value approximates its fair value as at December 31, 2016.

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

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

Cost	P 6,378,900,455
Accumulated depreciation	(1,196,043,233)
Balance at end of year	P 5,182,857,222

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

	Notes		
Cost of sales and services	16	P	296,615,667
Other operating expenses			7,313,125
	17	P	303,928,792

The Group's vessels with a net carrying amount of P6,841.7 million as of December 31, 2016 were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

11. INVESTMENT IN JOINT VENTURE

In 2016, CSC entered into a Memorandum of Agreement with Meridian International Maritime Training Center, Inc., whereby both parties agree to establish and operate a training facility on a parcel of land at the Phoenix Petroterminals Industrial Park in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which includes the acquisition of the site, construction costs of the structures of the facility and government taxes, assessments and fees related thereto. As of December 31, 2016, the Group's investment in the joint venture amounted to P45.6 million.

As of December 31, 2016, management believes that the investment in joint venture is not impaired.

12. OTHER NON-CURRENT ASSETS

This account is composed of the following as of December 31, 2016:

	Notes		
Drydocking costs - net		P	169,125,830
Restricted cash	4		5,000,000
Security deposits	24.3		1,114,347
Others			259,123
		P	175,499,300

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

Balance at beginning of year	P	-
Beginning balance of CSC		160,258,939
Additions		34,463,540
Reclassification from CIP		54,059,053
Amortization charges for the year	(	153,790,299)
Balance from acquired subsidiaries		74,134,597
	P	169,125,830

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

13. INTEREST-BEARING LOANS

The short-term and long-term interest-bearing loans as of December 31, 2016 are broken down as follows:

	Note	
Current:		
Bank loans	13.2	P 4,576,345,754
Term loans	13.1	445,149,306
Mortgage loans	13.3	7,984,582
		P 5,029,479,642
Non-current:		
Term loans	13.1	P 2,151,830,061
Mortgage loans	13.3	191,472,475
		P 2,343,302,536

13.1 Term Loans

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

	Security	Terms	Interest Rates	Outstanding Balance
BDO Unibank, Inc. (BDO)	MT Chelsea Donatela	5 years	5.54%	P 441,680,061
China Banking Corporation (CBC)	MT Chelsea Charlize	7 years	3.25%	397,760,000
Philippine Business Bank (PBB)	MT Chelsea Dominance	7 years	4.50%	375,883,200
	Trans-Asia 1	10 years	4.25%	70,125,000
	Trans-Asia 1	10 years	4.25%	70,125,000
	Trans-Asia 10	10 years	4.25%	64,730,768
	Trans-Asia 1	10 years	4.25%	56,200,000
	Trans-Asia 1	10 years	4.25%	47,000,000
	Trans-Asia 8 and 9	3.50 years	4.25%	18,978,175
BDO	Trans-Asia 10	9.38 years	4.25%	45,833
PBB	MT Chelsea Endurance	7 years	4.32%	323,180,000
BDO	MT Chelsea Denise II	5 years	6.46%	242,300,000
BDO	MT Chelsea Thelma, MT Chelsea Excellence	7 years	One year LIBOR plus 3.50%	239,376,297
	Trans-Asia 12	8 years	4.25%	71,100,000
CBC	Trans-Asia 5	10 years	5.00%	61,759,197
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal, Mtug Sigaboy	5 years	6.00% to 6.50%	45,948,735
Asia United Bank	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	44,444,444
Development Bank of the Philippines (DBP)	MT Chelsea Cherylyn	2 years	5.00%	28,000,000
				2,598,636,710
Discount on loans payable				(1,657,343)
				P 2,596,979,367

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

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

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

Interest incurred on these loans, excluding capitalized borrowing costs, amounted to P44.8 million in and are presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P1.5 million were amortized in 2016 using the effective interest rates of 5.54% for each tranche. Amortized debt issuance costs were recognized as part of the Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1). Unamortized debt issuance costs are netted against the current and non-current portion of interest-bearing loans.

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

The OLSA requires CSC to maintain debt to equity ratio of not more than 2.00:1.00 and debt service coverage ratio (DSCR) of at least 1.20, except on drydocking year where minimum DSCR shall be 1.00. As of December 31, 2016, the CSC has breached these covenants; management; however, believes that the non-current classification of term loans is appropriate considering CSC's relationship with BDO and its history of prompt payment. Furthermore, CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

(b) OLSA with BDO – MT Chelsea Thelma

On April 26, 2011, CSC entered into a MOA with China Shipbuilding & Exports Corporation for the acquisition of one unit of oil tank (MT Chelsea Thelma) in the amount of US$19.8 million.

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

Related debt issuance costs amounted to P8.2 million, of which P0.9 million amortized in 2016 using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Finance costs under the Other Income (Charges) income in the consolidated statement of profit or loss (see Note 19.1). The unamortized debt issuance costs are netted against the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P989.6 million as of December 31, 2016 (see Note 10). The loan is also secured by collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

The OLSA requires CSC to maintain debt-to-equity ratio of not more than 1.5:1 and debt service coverage ratio of at least 2.5. As of December 31, 2016, CSC has breached these covenants. CSC's management, however, believes that the non-current classification of term loans is appropriate considering the CSC's relationship with BDO and its history of prompt payment. Furthermore, the CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

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

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

Interest incurred on this loan amounted to P7.8 million and is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss. The related unpaid interest as of December 31, 2016 amounted to P1.4 million and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statement of financial position (see Note 14).

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

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

On July 25, 2016 and August 18, 2016, PNX entered into loan agreements with PBB amounting to US$6.5 million and US$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. The loans are subject to annual effective interest rate of 4.32% for MT Chelsea Endurance and 4.5% for MT Chelsea Dominance and is payable in 24 equal monthly installments with one-year grace period from date of each release.

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

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts of P344.1 million and P419.7 million, respectively, as of December 31, 2016 (see Note 10).

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

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

Interest expense related to the loans amounted to P4.7 million for the year ended December 31, 2016 and is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

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

(f) *TLA with DBP*

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

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

The loans are secured by a chattel mortgage on MT Chelsea Cherylyn with net carrying amount of P886.5 million as of December 31, 2016 (see Note 10). The loans are also secured by a collateral on certain receivables of the Group and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

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

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

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

(h) *TLA with CBC – TASLI*

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

In addition, a loan from CBC amounting to P71.1 million was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two years and interest is payable monthly in arrears based on diminishing balance. This loan was availed to partially finance the purchase of Trans-Asia 12.

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

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

13.2 Bank Loans

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

	Security	Terms	Interest Rates	Outstanding Balance
CBC	Mortgage	181 days	4.50%	P 1,800,000,000
CTBC Bank (Phils) Inc.	Continuing Suretyship	180 days	4.00%	700,000,000
Maybank Philippines, Inc.	Unsecured	90 days	5.50%	592,000,000
DBP	MT Chelsea Cherylyn	180 days	4.25%	200,000,000
Multinational Investment Bancorporation (MIB)	Unsecured	22 to 39 days	5.00%	174,921,426
PBComm	MT Ernesto Uno	180 to 270 days	4.75%	158,000,000
	Real Estate Mortgage	120 days	4.00%	49,000,000
Security Bank Corporation (SBC)	Chattel Mortage	5 years	6.50%	35,476,703
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.75%	54,100,000
United Coconut Planters Bank (UCPB)	MT Chelsea Intrepid, MT BMI Patricia	90 days	5.75%	40,700,000
Metropolitan Bank and Trust Corporation	Unsecured	120 days	4.00%	37,000,000
BDO	Real Estate Mortgage	180 days	4.00%	19,500,000
UCPB	Restricted Time Deposit	1 year	6.00%	5,000,000
Others – MIB-arranged	Unsecured	30 to 96 days	4.25% to 5.00%	710,647,625
				P 4,576,345,754

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

Interest expense on these bank loans is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

13.3 Mortgage Loans

	Security	Terms	Interest Rates	Outstanding Balance
BDO	Real Estate Mortgage	10 years	4.25%	P 130,000,000
CBC	Real Estate Mortgage	10 years	6.00%	49,375,000
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.20% to 11.40%	20,082,057
				P 199,457,057

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rate ranging from 4.3% to 11.4% in 2016. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P700.6 million as of December 31, 2016 (see Note 10).

14. TRADE AND OTHER PAYABLES

As of December 31, 2016, this account consists of:

	Notes	
Trade payables	21.2, 21.6	P 1,029,988,283
Accrued expenses	13.1(c), 13.1(d)	173,269,627
Deferred output VAT		86,646,995
Output VAT		21,269,557
Provisions	24.4	8,865,400
Others		38,714,607
		P 1,358,754,469

Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans and professional fees rendered to the Group during the year.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered which remained uncollected as of the end of the reporting periods.

15. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

The account represents cash infusion from stockholders to cushion the accumulated deficiency of DGMSI as of December 31, 2011. An analysis of the movements in the balance of deposits on future stock subscription is presented below.

Balance at the beginning of year	P -
Balance from acquired subsidiaries	50,000,000
	P 50,000,000

In 2016, DGMSI's deposits for future stock subscriptions amounting to P36,145,000 was converted to capital stock through issuance of 36,145 shares amounting to P36,145,000.

The above balance as of December 31, 2016 is presented as current liability in the consolidated statement of financial position as management has not complied with the requirements under SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity.

16. COST OF SALES AND SERVICES

The details of this account for the years ended December 31, 2016 are shown below.

	Notes		
Depreciation and amortization	10, 12	P	450,405,966
Salaries and employee benefits	18.1		245,574,960
Charter hire fees			225,917,157
Bunkering	21.2		111,014,486
Port expenses			74,970,543
Insurance			43,711,854
Repairs and maintenance			41,885,766
Transportation and travel			20,687,554
Supplies			20,647,275
Taxes and licenses			7,510,533
Professional fees			6,134,546
Utilities and communication			4,293,925
Outside services			2,516,058
Miscellaneous			5,932,488
		P	1,261,203,111

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are presented below.

	Notes		
Depreciation and amortization	10, 12	P	457,719,091
Salaries and employee benefits	18.1		289,168,164
Charter hire fees			225,917,157
Bunkering	21.2		111,014,486
Port expenses			74,970,543
Taxes and licenses			53,911,811
Insurance			44,367,683
Repairs and maintenance			43,492,411
Transportation and travel			25,059,162
Supplies			22,975,037
Professional fees			14,460,709
Rentals	21.3, 24.3		13,763,342
Representation and entertainment			11,321,465
Utilities and communication			7,846,000
Outside services			6,251,615
Miscellaneous	21.7(b)		14,417,097
		P	1,416,655,773

These expenses are classified in the consolidated statement of profit or loss as follows:

	Note	
Cost of sales and services	16	P 1,261,203,111
Other operating expenses		155,452,662
		P 1,416,655,773

18. SALARIES AND EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

The details of salaries and employee benefits are presented below.

	Notes	
Short-term employee benefits		P 267,623,922
Bonus and incentives		4,687,313
Post-employment benefits	18.2(b)	1,744,827
Other employee benefits		15,112,102
	17	P 289,168,164

These expenses are classified in the consolidated statement of profit or loss as follows:

	Notes	
Cost of sales and services	16	P 245,574,960
Other operating expenses		43,593,204
	17	P 289,168,164

18.2 Post-employment Defined Benefits

(a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The plan of TASLI also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

(i) For regular employees who were hired before December 1, 2006

- more than two years to five years – 7.5 days per year of service
- five years and six months to ten years – 15 days per year of service
- ten years and six months to 15 years – 22.5 days per year of service
- 15 years and six months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006

- five years and six months to nine years – 7.5 days per year of service
- nine years and six months to 15 years – 15 days per year of service
- 15 years and five months to 20 years – 22.5 days per year of service
- 20 years and six months and above – 30 days per year of service

Further, the Group has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two years of service to the Group and by employees who has been hired starting December 31, 2006 and has rendered at least five years and six months of service to the Group. The total number of years of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of years he/she availed as advance retirement.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary.

(i) Post-employment benefit asset

The amounts of post-employment defined benefit asset of TASLI as of December 31, 2016, which is recognized in the consolidated statement of financial position, are determined as follows:

Fair value of plan assets	P	39,693,662
Present value of the obligation	(	34,820,143)
	P	4,873,519

The movements in the present value of post-employment defined benefit obligation recognized in the books are as follows:

Balance at beginning of year	P	-
Balance from acquired subsidiaries		34,820,143
Balance at end of year	P	34,820,143

The movements in the fair value of plan assets in 2016 are presented below.

Balance at beginning of year	P	-
Balance from acquired subsidiaries		39,693,662
Balance at end of year	P	39,693,662

The composition of the fair value of plan assets as at December 31, 2016 by category and risk characteristics is shown below.

Cash and cash equivalents	P	24,287,260
Debt securities:		
Philippine government bonds		15,057,197
Corporate bonds		349,205
	P	39,693,662

(ii) Post-employment benefit obligation

The amount of post-employment defined benefit obligation as of December 31, 2016 recognized in the consolidated statement of financial position is determined as follows:

Present value of the obligation	P	11,078,452
Fair value of plan assets		(7,031,908)
	P	4,046,544

The movements in the present value of post-employment defined benefit obligation recognized in the books are as follows:

Balance at beginning of year	P	-
Beginning balance of CSC		9,930,479
Current service cost		1,744,827
Interest cost		502,961
Benefits paid		(1,099,815)
Balance at end of year	P	11,078,452

The movements in the fair value of plan assets in 2016 are presented below.

Balance at beginning of year	P	-
Beginning balance of CSC		3,775,541
Interest income		193,664
Return on plan assets (excluding amounts included in net interest)	(	47,994)
Benefits paid	(	1,099,815)
Contributions to the plan		4,210,512
Balance at end of year	P	7,031,908

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

Cash and cash equivalents	P	2,310,013
Equity securities		1,657,037
Debt securities:		
Philippine government bonds		1,575,737
Unit investment trust funds (UITF)		978,370
Short-term commercial papers (STCP)		481,170
Others		11,581
	P	7,031,908

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P0.14 million in 2016.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The amounts of post-employment benefit expense recognized in the consolidated statement of profit or loss and consolidated statement of comprehensive income in respect of the defined benefit post-employment plan are as follows:

Recognized in profit or loss:		
Current service cost	P	1,744,827
Net interest expense		309,297
	P	2,054,124
Recognized in other comprehensive loss –		
Return on plan assets (excluding amounts included in net interest expense)	P	47,994

Current service cost is allocated and presented in the consolidated statement of profit or loss under the following accounts:

Cost of sales and services	P	341,876
Other operating expenses		1,402,951
	P	1,744,827

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

Discount rates	5.34%
Expected rate of salary increase	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities, STCP and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2016.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(P 2,684,155)	P 3,000,038
Salary growth rate	+/- 1.0%	2,660,712	(2,408,560)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position.

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2016 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in STCP and UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2016, the plan is overfunded by P0.8 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

CSC expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten years follows:

Within one year	P	3,936,306
More than one year but not more than five years		9,836,624
More than five years but not more than ten years		11,709,576
	P	25,482,506

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years.

19. OTHER INCOME (CHARGES)

19.1 Finance Costs

The details of this account follow:

	Notes		
Interest expense on:			
Interest-bearing loans	13	P	162,081,934
Deficiency taxes			1,196,935
Post-employment benefits	18.2(b)		309,297
			163,588,166
Foreign currency exchange losses – net			85,419,316
Bank charges			2,271,549
Others			9,575,739
		P	260,854,770

19.2 Finance Income

The breakdown of this account is shown below.

Interest income	P	393,954
Foreign currency exchange gains		336,847
	P	730,801

20. TAXES

20.1 Current and Deferred Taxes

The components of tax expense as reported in the consolidated statement of profit and loss are shown below:

Recognized in profit or loss:		
Regular corporate income tax	P	17,240,934
Minimum corporate income tax (MCIT)		3,904,564
Final tax at 20% and 7.5%		77,532
		21,223,030
Deferred tax income relating to origination and reversal of temporary differences	(	17,578,510)
	P	3,644,520
Recognized in other comprehensive income:		
Deferred tax expense relating to origination and reversal of temporary difference	P	23,690,669

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statement of profit or loss is as follows:

Tax on pretax profit at 30%	P	40,597,298
Adjustments for income subjected to lower tax rates	(	39,792)
Tax effects of:		
Gain on bargain purchase	(	47,468,447)
Nondeductible expenses		9,701,934
Net profit on Board of Investments (BOI)-registered activities	(	5,844,379)
Derecognition of unutilized deferred tax assets (DTA)		4,595,154
Unrecognized DTA on net operating loss carry-over (NOLCO)		3,191,646
Benefit from previously unrecognized DTA	(	2,812,324)
MCIT		1,723,430
	P	3,644,520

The net deferred tax assets of the Company and certain subsidiaries as of December 31, 2016 pertain to the following:

NOLCO	P	6,273,377
Impairment losses on trade and other receivables		969,728
Impairment losses on property and equipment		664,386
Revaluation reserves on property and equipment	(	607,313)
	P	7,300,178

The net deferred tax liabilities of certain subsidiaries as of December 31, 2016 are as follows:

Revaluation reserves on property and equipment	(P 244,406,814)
NOLCO	9,745,600
MCIT	8,040,180
Capitalized borrowing costs	(7,261,261)
Unrealized foreign currency loss – net	6,233,047
Revaluation surplus on disposed vessel	(3,036,983)
Impairment losses on long-term financial assets	2,721,268
Provision on estimated liability	2,659,620
Loss on contamination	2,057,831
Impairment losses on trade and other receivables	678,898
Post-employment benefit obligation	(248,092)
Others	(537,866)
	(P 223,354,572)

The deferred tax expense (income) reported in the consolidated statement of profit or loss and consolidated statement of comprehensive income is shown below.

	Consolidated Profit or Loss	Consolidated Other Comprehensive Income
Deferred tax expense (income):		
Revaluation of vessels	(P 14,488,398)	P 23,705,067
Allowance for impairment	4,595,155	-
NOLCO	(3,630,009)	-
Unrealized foreign currency loss – net	(1,410,986)	-
MCIT	(2,341,804)	-
Capitalized borrowing costs	(320,344)	-
Post-employment benefit asset	646,915	(14,398)
Others	(629,039)	-
Deferred tax expense (income) – net	(P 17,578,510)	P 23,690,669

The Group is subject to the MCIT, which is computed at 2% of gross income as defined under the tax regulations, or regular corporate income tax, whichever is higher.

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2016	P 10,638,820	P -	P -	P -	P 10,638,820	2019
2015	11,642,046	-	-	-	11,642,046	2018
2014	102,860,292	63,468,905	8,275,663	-	31,115,724	2017
2013	15,346,632	5,972,219	9,374,413	-	-	
	P 140,487,790	P 69,441,124	P 17,650,076	P -	P 53,396,590	
MCIT:						
2016	P 4,099,164	P -	P -	P -	P 4,099,164	2019
2015	3,357,615	-	-	-	3,357,615	2018
2014	583,401	-	-	-	583,401	2017
2013	1,723,430	-	-	1,723,430	-	
	P 9,763,610	P -	P -	P 1,723,430	P 8,040,180	

In 2016, the Group opted to claim itemized deductions in computing for its income tax due.

20.2 Registration with the BOI

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Chelsea Thelma and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). For MT Chelsea Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Chelsea Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2016, the BOI registration of MT Chelsea Charlize, which commenced in September 2015 for a period of four years was transferred to the Company following its acquisition. The tax and non-tax incentives of MT Chelsea Charlize are similar to that of MT Chelsea Donatela and MT Chelsea Denise II.

21. RELATED PARTY TRANSACTIONS

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

A summary of the Group's transactions with its related parties for the year ended December 31, 2016, and the related outstanding balances as of that date is presented in the succeeding page.

Related Party Category	Notes	Amount of Transactions	Outstanding Balances
Udenna –			
Cash advances granted	21.4	P 10,000,000	P -
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI):			
Acquisition of CSC's shares	21.6	2,000,000,000	(500,000,000)
Chartering services rendered	21.1	954,615,182	460,059,177
Cash advances obtained	21.4	50,578,764	(85,759,255)
Fuel purchases	21.2	132,524,625	(66,940,095)
Repayment of advances	21.4	370,816,632	-
Related party under common ownership:			
Cash advances granted	21.4	364,371,957	194,446,078
Rental income	21.3	9,273,407	1,600,540
Rental expense	21.3	2,356,626	-
Donation	21.7	360,000	
Port expenses	21.7	-	-
Key management personnel –			
Compensation and benefits		14,039,205	-

21.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statement of profit or loss. The related outstanding receivable as of December 31, 2016 is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statement of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties in 2016 based on management's assessment.

21.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statement of profit and loss (see Note 16) while the remaining fuel inventory amounting to P38.9 million as of December 31, 2016, are included as part of Inventories account in the consolidated statement of financial position (see Note 7). The outstanding liability arising from these transactions as of December 31, 2016 is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statement of financial position (see Note 14).

21.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related rent expense in 2016 is presented as part of Other Operating Expenses in the consolidated statement of profit or loss (see Note 17). The outstanding security deposit arising from this transaction is presented as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statement of financial position (see Notes 8 and 12).

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the consolidated statement of profit or loss. The related receivable as of December 31, 2016 is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statement of financial position (see Note 5).

No impairment loss was recognized on the outstanding receivables from this transaction as management has determined that such financial assets are fully collectible.

21.4 Advances to and from Related Parties

In the normal course of business, the Group grants to and obtains unsecured, noninterest-bearing cash advances from its related parties mainly for working capital requirements and other purposes. As of December 31, 2016, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statement of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2016 follows:

Balance at beginning of year	P -
Beginning balance of CSC	27,250,735
Additions	364,371,957
Repayments	(197,176,614)
	P 194,446,078

Based on management's assessment, no impairment loss is recognized in 2016 related to the advances to related parties.

The movement in the Advances from Related Parties account in 2016 follows:

Balance at beginning of year	P -
Beginning balance of CSC	376,441,118
Repayments	(290,681,863)
	P 85,759,255

21.5 Transactions with the Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, STCP and UITF with fair value totaling P46.7 million as of December 31, 2016.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 18.2.

21.6 Acquisition of CSC's shares

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion. As of December 31, 2016, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statement of financial position (see Note 14).

21.7 Others

(a) The OLSA with BDO, TLA with DBP and certain bank loans of the Group were guaranteed by certain stockholders through a continuing surety agreement with the respective banks (see Notes 13.1 and 13.2). The vessels owned by the Group and certain receivables of the subsidiaries were also used as security on such loans (see Notes 5, 8 and 10).

(b) The Group granted donations amounting to P0.4 million in 2016 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by the ultimate parent company. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 17).

22. EQUITY

22.1 Capital Stock

The Company has authorized capital stock of 2,000,000,000, P1 par value shares for a total authorized capital stock of P2.0 billion. As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 is presented under current assets in the consolidated statement of financial position as the amount is expected to be collectible within 12 months after the end of the reporting period.

As of December 31, 2016, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

22.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statement of changes in equity at their aggregate amount under the Revaluation Reserves account are shown in the succeeding page.

	Property and Equipment (see Note 10)	AFS Financial Assets (see Note 9)	Post-employment Benefit Obligation (see Note 18.2)	Total
Balance as of January 1, 2016	P -	P -	P -	P -
Beginning balance of CSC	582,398,558	-	13,208	582,411,766
	582,398,558	-	13,208	582,411,766
Remeasurements of post-employment benefit obligation	-	-	(47,994)	(47,994)
Gain on revaluation of tankers	801,886,530	-	-	801,886,530
Depreciation transferred to retained earnings - revalued tankers	(55,184,974)	-	-	(55,184,974)
Other comprehensive income before tax	746,701,556	-	(47,994)	746,653,562
Tax income (expense)	(13,031,647)	-	14,398	(13,017,249)
Other comprehensive income after tax	733,669,909	-	(33,596)	733,636,313
Balance from acquired subsidiaries	34,916,977	170,924	19,862,287	54,950,188
Balance as of December 31, 2016	P 1,350,985,444	P 170,924	P 19,841,899	P 1,370,998,267

22.3 Other Reserves

Other reserves pertain to the difference between the Group's consideration for the purchase of its subsidiaries and capital stock of the acquired entities. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method.

23. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders are computed as follows:

Net profit	P	131,679,808
Divided by weighted average shares outstanding		500,000,000
Earnings per share – basic and diluted	P	0.26

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2016; hence, diluted earnings per share is equal to the basic earnings per share.

24. COMMITMENTS AND CONTINGENCIES

24.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

24.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering property and equipment. The leases have terms ranging from one to five years, with renewal options, and include annual escalation from 5.00% to 10.00%. The future minimum lease receivables under these agreements are presented below.

Within one year	P	817,966
After one year but not more than five years		1,109,347
	P	1,927,313

Rent income amounted to P2.1 million in December 31, 2016 and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statement of profit and loss.

24.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under an operating lease covering its office space. The lease has a term of five years commencing on June 10, 2009, with renewal options, and includes annual escalation rate of 3.0% on the second year and 6.0% from third to fifth year. The lease period was subsequently renewed on September 30, 2014 for a term of three years. The future minimum lease payables under this operating lease are as follows as of December 31, 2016:

Within one year	P	8,023,352
After one year but not more than five years		1,680,000
More than five years		1,260,000
	P	10,963,352

Total rentals from these operating leases amounted to P9.7 million in 2016 and are included as part of Rentals under the Other Operating Expenses account in the consolidated statement of profit or loss (see Note 17).

The related security deposit on this operating lease amounted to P2.4 million as of December 31, 2016 and is shown as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statement of financial position (see Notes 8 and 12).

24.4 Legal Claims

TASLI is a defendant in an ongoing litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that TASLI will be found liable. The related liability is presented as part of Provisions under Trade and Other Payables account in the consolidated statement of financial position (see Note 14).

24.5 Unused Lines of Credit

As of December 31, 2016, the Group has unused lines of credit totaling P64.8 million.

24.6 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's consolidated financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's consolidated financial statements.

25. GOODWILL

The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P1.1 million, respectively. As such, goodwill, which comprises the value of expected synergies arising from the acquisition of subsidiaries, amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets was recognized in the consolidated statement of financial position.

26. SEGMENT INFORMATION

26.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;

(b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;

(c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas; and,

(d) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels.

Segment accounting policies are the same as the policies described in Note 2.3.

26.2 Segment Assets and Segment Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

26.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation in 2016.

26.4 Analysis of Segment Information

The table below presents revenue and profit information regarding business segments for the year ended December 31, 2016 and certain asset and liability information regarding segments as at December 31, 2016.

	Shipping	Tugboats	Roll-on/ Roll-off Passenger	Ship Management and Crewing	Elimination	Consolidated
SEGMENT RESULTS						
Sales to external customers	P 1,520,184,843	P 118,200,515	P -	P -	P -	P 1,638,385,358
Intersegment sales	82,708,009	15,825,995	-	104,191,190	(202,725,194)	-
Total revenues	1,602,892,852	134,026,510	-	104,191,190	(202,725,194)	1,638,385,358
Cost of sales and services	1,234,433,037	71,571,705	-	84,548,888	(129,350,519)	1,261,203,111
Other operating expenses	169,148,430	16,369,358	-	22,604,713	(52,669,839)	155,452,662
Operating profit (loss)	199,311,385	46,085,447	-	(2,962,411)	(20,704,836)	221,729,585
Finance costs	(245,980,471)	(14,435,443)	-	(438,856)	-	(260,854,770)
Finance income	614,745	108,499	-	7,557	-	730,801
Other income	24,921,541	1,193,000	-	171,177	(10,795,164)	15,490,554
Profit (loss) before tax	(21,132,800)	32,951,503	-	(3,222,533)	-	(22,903,830)
Tax expense (income)	(5,960,942)	10,006,233	-	(400,771)	-	3,644,520
Net profit (loss)	(P 15,171,858)	P 22,945,270	P -	(P 2,821,762)	P -	(P 26,548,350)
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 11,908,450,237	P 666,997,557	P 2,039,746,696	P 50,415,773	(P 3,905,705,287)	P 10,759,904,976
Total liabilities	P 7,670,587,723	P 472,688,162	P 1,504,934,459	P 49,875,662	(P 498,850,017)	P 9,199,235,989

26.5 Reconciliation

The net loss presented for the Group's operating segments reconciled to the Group's consolidated net profit as presented in the consolidated statement of profit or loss are as follows:

Net loss of operating segments	(P 26,548,350)
Gain on bargain purchase	158,228,158
Consolidated net profit	P 131,679,808

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 28. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Group, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described in the succeeding paragraphs.

27.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are primarily denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the December 31, 2016 closing rate follow:

Financial assets	P 158,797,465
Financial liabilities	(1,780,781,091)
	(P 1,621,983,626)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P209.7 million in 2016. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2016 by the same amount. This sensitivity of the net result for the year assumes a +/- 12.93% change of the Philippine peso/U.S. dollar exchange rate for the year ended December 31, 2016. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2016 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2016, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 13). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.45% in 2016. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.58% in 2016. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P19.5 million for the year ended December 31, 2016.

27.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statement of financial position as of December 31, 2016 as summarized below.

	Notes		
Cash and cash equivalents	4	P	508,940,431
Trade and other receivables – net (excluding advances for liquidation)	5		934,141,422
Subscription receivable	22		350,000,000
Restricted cash	8, 12		39,388,529
Security deposits	8, 12		4,600,998
Advances to related parties	21		194,446,078
Other non-current assets (except drydocking costs)	12		1,373,470
		P	2,032,890,928

None of the financial assets are secured by collateral or other credit enhancements, except for cash as described in the below.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

In respect of trade and other receivables, 46.04% of the Group's outstanding receivables as of December 31, 2016 represent claims from related parties. Based on historical information about default rates, management considers the credit quality of trade and other receivables that are not past due or impaired to be good.

Financial assets that are past due but not impaired pertain only to trade and other receivables as detailed below.

Not more than three months	P	388,227,653
More than three months but not more than one year		238,062,334
More than one year		118,924,564
	P	745,214,551

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.

27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2016, the Group's financial liabilities have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P 4,914,912,928	P 346,581,267	P 2,149,517,592	P 471,995,901
Trade and other payables (except for government-related obligations)	14	1,250,837,917	-	-	-
Advances from related parties	21	42,879,628	42,879,627	-	-
		P 6,208,630,473	P 389,460,894	P 2,149,517,592	P 471,995,901

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

28.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statement of financial position are shown below.

	Notes	Carrying Amounts	Fair Values
Financial Assets			
Loans and receivables:			
Cash and cash in equivalents	4	P 508,940,431	P 508,940,431
Trade and other receivables – net	5	934,141,422	934,141,422
Restricted cash	8, 12	39,388,529	39,388,529
Security deposits	12	4,600,998	4,600,998
Subscription receivable	22	350,000,000	350,000,000
Advances to related parties	21	194,446,078	194,446,078
Other non-current assets (except for drydocking costs)	12	1,373,470	1,373,470
		P 2,032,890,928	P 2,032,890,928
Financial Liabilities			
At amortized cost:			
Trade and other payables	14	P 1,250,837,917	P 1,250,837,917
Interest-bearing loan	13	7,505,864,384	7,505,864,384
Advances from related parties	21	85,759,255	85,759,255
		P 8,842,461,556	P 8,842,461,556

See Notes 2.4 and 2.9 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

28.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2016 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by the parent company. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set off to the extent of the Group's outstanding cash deposited in the same banks.

29. FAIR VALUE MEASUREMENTS AND DISCLOSURES

29.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities, and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

29.2 Financial Instruments Measured at Fair Value

The table below shows the classes of financial assets measured at fair value in the consolidated statement of financial position on a recurring basis.

	Notes	
Financial assets at FVTPL	6	P 11,279,636
AFS financial assets	9	3,065,089
		P 14,344,725

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the Philippines and U.S. stock exchanges at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 2016.

29.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed

The tables below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities as of December 31, 2016, which are not measured at fair value in the consolidated statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	P 508,940,431	P -	P -	P 508,940,431
Trade and other receivables - net	-	-	934,141,422	934,141,422
Restricted cash	39,388,529	-	-	39,388,529
Security deposits	-	-	4,600,998	4,600,998
Subscription receivable	-	-	350,000,000	350,000,000
Advances to related parties	-	-	194,446,078	194,446,078
Other non-current assets (except for drydocking costs)	-	-	1,373,470	1,373,470
	P 548,328,960	P -	P 1,484,561,968	P 2,032,890,928
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 1,250,837,917	P 1,250,837,917
Interest-bearing loans	-	-	7,505,864,384	7,505,864,384
Advances from related parties	-	-	85,759,255	85,759,255
	P -	P -	P 8,842,461,556	P 8,842,461,556

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

29.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 10). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2016.

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statement of financial position. Capital for the reporting periods under review is summarized as follows:

Total liabilities	P9,199,235,989
Total equity	1,560,668,987
Debt-to-equity ratio	5.89 : 1.00

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 1.00:5.00. This is in line with the Group's bank covenants related to its borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

P&A
Grant Thornton
An instinct for growth™

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Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Consolidated Financial Statements

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Chelsea Logistics Corp. and subsidiaries (the Group) for the year ended December 31, 2016, on which we have rendered our report dated February 24, 2017. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

Independent Auditors' Report on the SEC Supplementary Schedules Filed Separately from the Basic Consolidated Financial Statements

Others Required Information (SEC Circular 11)

*The Parent Company is at a deficit position as of December 31, 2016; hence, no reconciliation of retained earnings for dividend declaration was prepared.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*	*Valued based on the market quotation at end of reporting period*	*Income (Loss) received and accrued*
Financial Assets at Fair Value Through Profit or Loss				
San Miguel Corporation	102,200	P 10,258,050	P 10,258,050	(P 26,850)
China Banking Corporation	51	1,021,586	1,021,586	1,000,679
		P 11,279,636	**P 11,279,636**	**P 973,829**
Available-for-Sale Financial Assets - Current				
Insular Life	436,633	**P 3,065,089**	**P 3,065,089**	**P 244,177**

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)
DECEMBER 31, 2016
(Amounts In Philippine Pesos)

Name and designation of debtor	Balance at beginning of period	Additions	Deductions: Amounts paid (collected)	Deductions: Amounts written off	Ending Balance: Current	Ending Balance: Not current	Balance at end of period
Advances from Related Parties	(P 405,997,123)	(P 50,578,764)	P 370,816,632	P -	(P 85,759,255)	P -	(P 85,759,255)
Advances to Officers and Employees (under the "Trade and Other Receivables" account)	8,408,206	5,187,980	(3,221,358)	-	10,374,828	-	10,374,828
Advances to Related Parties	27,250,735	364,371,957	(197,176,614)	-	194,446,078	-	194,446,078
Total	(P 370,338,182)	P 318,981,173	P 170,418,660	P -	P 119,061,651	P -	P 119,061,651

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE C - AMOUNTS OF RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2016

TERMS & CONDITIONS:
All receivables/payables are unsecured, noninterest-bearing, collectible/payable on demand, unimpaired and generally settled in cash.

Name and designation of debtor	Affected accounts	Balance at beginning of year	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Ending balance: Current	Ending balance: Non current	Balance at the end of the period
Chelsea Shipping Corporation	Trade Receivable	P -	P 24,000,000	P -	P -	P 24,000,000	P -	P 24,000,000
Trans-Asia Shipping	Trade Payable	-	24,000,000	-	-	24,000,000	-	24,000,000

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2016

			Deduction			
Description	*Beginning balance*	*Additions at cost*	*Charged to cost and expenses*	*Charged to other accounts*	*Other changes additions (deductions)*	*Ending balance*
Intangible Assets						
Goodwill	P 74,294,814	P -	P -	P -	P -	P 74,294,814

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

Title of issue and type of obligation	*Amount authorized by indenture*	*Amount shown under caption "Current portion of long-term debt" in related balance sheet*	*Amount shown under caption "Long-Term Debt" in related balance sheet*
Bank Loans	P 4,576,345,754	P 4,576,345,754	P -
Term Loans	2,596,979,367	445,149,306	2,151,830,061
Mortgage Loans	199,457,057	7,984,582	191,472,475
Interest-bearing loans and borrowings	**P 7,372,782,178**	**P 5,029,479,642**	**P 2,343,302,536**

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2016

(Amounts in Philippine Pesos)

Name of related party	*Balance at beginning of period*	*Balance at end of period*

- nothing to report -

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2016

(Amounts in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	*Title of issue of each class of securities guaranteed*	*Total amount of guaranteed and outstanding*	*Amount owned by person for which statement is filed*	*Nature of guarantee*

- nothing to report -

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

SCHEDULE H - CAPITAL STOCK

DECEMBER 31, 2016

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common shares - P1 par value	2,000,000,000	150,000,000	-	150,000,000	-	-

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2016

Current ratio	0.40:1
Quick ratio	0.39:1
Solvency Ratio	0.06:1
Liabilities-to-equity ratio	5.89:1
Asset-to-equity ratio	6.89:1
Net profit margin	8.04%
Return on assets	1.22%
Return on equity/investment	8.44%
Interest coverage ratio	0.85

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio - computed as current assets divided by current liabilities
Quick ratio - computed a cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.
Solvency ratio - computed as net profit, plus non-cash depreciation and amortization, divided by total liabilities.
Liabilities-to-equity ratio - computed as total liabilities divided by stockholders' equity.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

PROFITABILITY RATIOS measure the business' ability to generate earnings.
Net margin - computed as net profit divided by revenues
Return on assets - net profit divided by total assets
Return on equity investment - net profit divided by total stockholders' equity

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments.
It is computed as profit before income tax and interest expense ("EBIT") divided by interest.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* *(effective January 1, 2018)*			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts** *(effective January 1, 2018)*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective when PFRS 9 is first applied)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* *(effective January 1, 2018)*			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		

PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contract with Customers* *(effective January 1, 2018)*			✓
PFRS 16	Leases* *(effective January 1, 2019)*			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative* *(effective January 1, 2017)*			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses* *(effective January 1, 2017)*			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants**	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

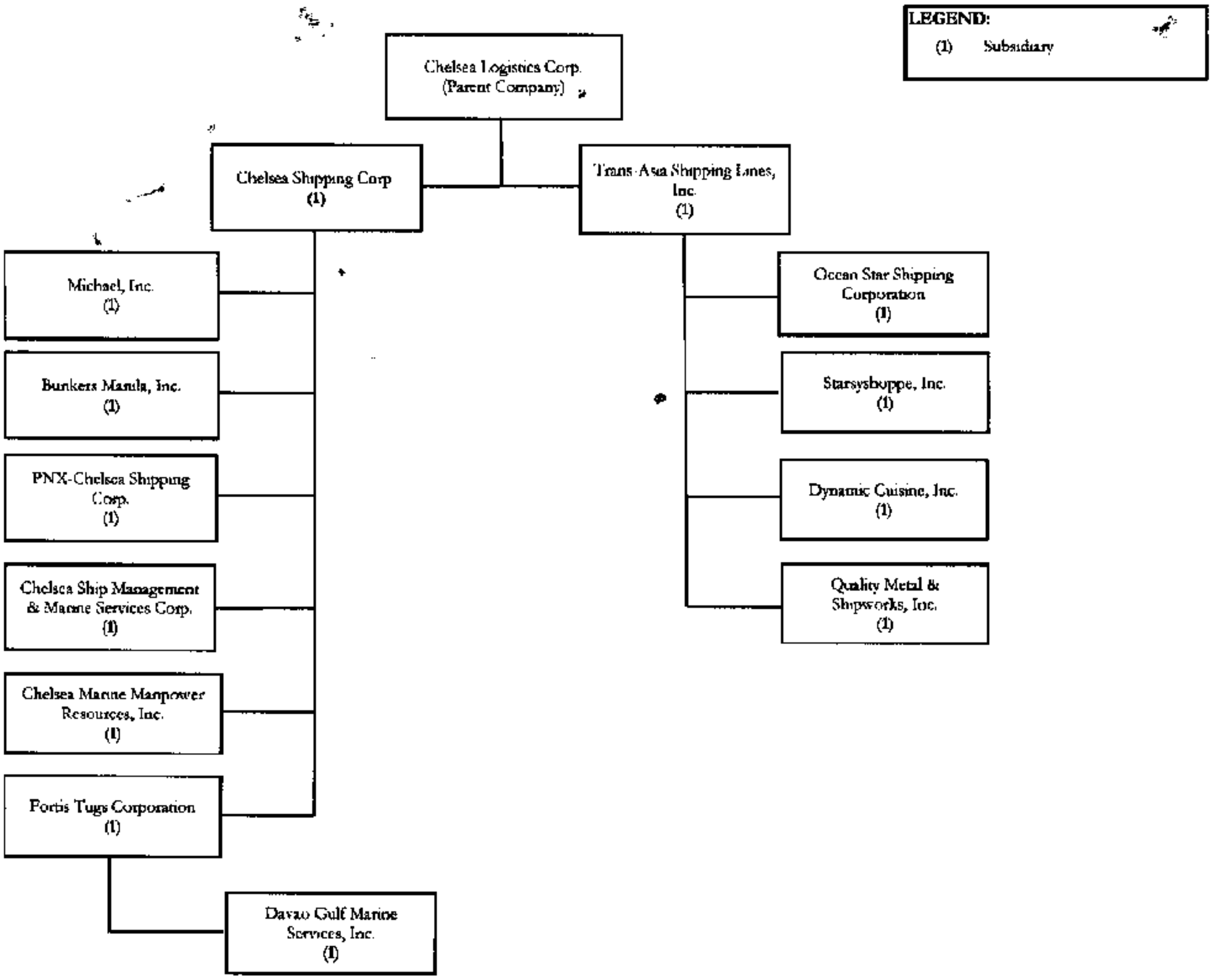
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(effective date deferred indefinitely)*			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economics			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants**			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓

IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies**	✓		
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		

* These standards will be effective for periods subsequent to 2016 and are not early adopted by the Group.

** These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

CHELSEA LOGISTICS CORPORATION
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Map Showing the Relationship Between and Among the Company and Its Related Parties
December 31, 2016



CHELSEA
LOGISTICS CORP.
A UDENNA Company

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Chelsea Logistics Corp. & Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the periods ended March 31, 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

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

Dennis A. Uy
Chairman of the Board and
President & CEO

Ignacia S. Braga IV
VP – Finance / Chief Financial Officer

Chryss Alfonsus V. Damuy
Chief Operating Officer

Signed this 28th day of April, 2017.

Republic of the Philippines)
TAGUIG CITY) S.S

ACKNOWLEDGEMENT

BEFORE ME, a notary Public for and in TAGUIG CITY on this MAY 09 2017, personally appeared the following, to wit:

Name	Valid ID	Valid until
Dennis A. Uy	Passport I.D. No. EC1641601	Valid until 14 Jul 19
Ignacia S. Braga IV	Passport I.D. No. EC8035770	Valid until 12 Jun 21
Chryss Alfonsus V. Damuy	Passport I.D. No. EC1771808	Valid until 30 Jun 19

Known to m and me known to be the same person who executed the foregoing Financial Statement and they acknowledge to me that they voluntary affixed his/her signature/s for the purpose/s stated in the foregoing instruments and that the same are his/her true and voluntary acts and deeds as well as of the corporation they present.

WITNESS MY HAND AND AFFIXED MY NOTARIAL SEAL on the date and place first written above.

Doc. No. 414;
Page No. 84;
Book No. 03;
Series of 2017

ATTY. JOWELL A. MENDOZA
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DEC. 31, 2018
APPT NO. 20 (2016-2018)
PTR No. 2512590. 01/4/2017, PASIG CITY
IBP No 1058109. 1/6/2017
ROLL NO 59661
MCLE COMPLIANCE NO V-0023127-7/23/16
32ND ST CAR PLAZA BONIFACIO
GLOBAL, TAGUIG CITY

P&A
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An instinct for growth™

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1200 Makati City
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Report of Independent Auditors

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of
Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

Opinion

We have audited the consolidated and combined interim financial statements of Chelsea Logistics Corp. and subsidiaries (the Group), and of Chelsea Logistics Corp., Chelsea Shipping Corp. and subsidiaries, and Trans-Asia Shipping Lines, Inc. and subsidiaries (collectively referred to herein as the Reporting Entities), which comprise the Group's consolidated statement of financial position as at March 31, 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the three months then ended, and the Reporting Entities' combined statement of financial position as at December 31, 2016, and the combined statement of profit or loss, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the three months ended March 31, 2016, and notes to the consolidated and combined interim financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Combined Interim Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated and combined interim financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 of the consolidated and combined interim financial statements, which explains the basis of presentation and disclosure, and principles of combination, including the approach to and the purpose for preparing them. The consolidated and combined interim financial statements were prepared for the purpose of a planned initial public offering of common shares by Chelsea Logistics Corp. and listing on the Philippine Stock Exchange. In addition, the combined financial statements of the Reporting Entities as of December 31, 2016 and for the three months ended March 31, 2016, include the historical financial information of Trans-Asia Shipping Lines, Inc. and subsidiaries and Davao Gulf Marine Services, Inc., which were acquired by Chelsea Logistics Corp. at the end of 2016.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated and Combined Interim Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and combined interim financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 28, 2017

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES

(Formerly Chelsea Shipping Group Corp.)

(A Wholly Owned Subsidiary of Udenna Corporation)

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2017 AND DECEMBER 31, 2016

(Amounts in Philippine Pesos)

	Notes	March 31, 2017 (Consolidated)	December 31, 2016 (Combined)
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	P 203,247,559	P 508,940,431
Trade and other receivables - net	5	956,247,435	944,516,250
Subscription receivable	22	-	350,000,000
Financial assets at fair value through profit or loss	6	11,279,636	11,279,636
Available-for-sale financial assets	9	3,065,089	3,065,089
Inventories	7	196,721,492	78,874,626
Advances to related parties	21	-	194,446,078
Other current assets	8	684,509,993	542,685,688
Total Current Assets		2,055,071,204	2,633,807,798
NON-CURRENT ASSETS			
Property and equipment - net	10	8,038,221,317	7,818,568,442
Investments in an associate and a joint venture	11	2,154,773,221	45,560,925
Goodwill	25	3,991,726,357	74,294,814
Post-employment benefit asset	18	520,829	4,873,519
Deferred tax assets	20	12,139,177	7,300,178
Other non-current assets - net	12	150,413,622	175,499,300
Total Non-current Assets		14,347,794,523	8,126,097,178
TOTAL ASSETS		P 16,402,865,727	P 10,759,904,976

	Notes	March 31, 2017 (Consolidated)	December 31, 2016 (Combined)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	14	P 1,541,926,093	P 1,358,754,469
Interest-bearing loans	13	4,581,506,044	5,029,479,642
Advances from related parties	21	40,637,028	85,759,255
Advances from customers	2	14,484,000	14,484,000
Deposits for future stock subscription	15	50,000,000	50,000,000
Income tax payable		93,839,007	75,923,029
Total Current Liabilities		6,322,392,172	6,614,400,395
NON-CURRENT LIABILITIES			
Interest-bearing loans	13	2,227,231,368	2,343,302,536
Post-employment benefit obligation	18	4,046,544	4,046,544
Deferred tax liabilities - net	20	199,504,611	223,354,572
Other non-current liabilities		15,318,806	14,131,942
Total Non-current Liabilities		2,446,101,329	2,584,835,594
Total Liabilities		8,768,493,501	9,199,235,989
EQUITY	22		
Capital stock		1,275,384,615	500,000,000
Additional paid-in capital		5,272,615,385	-
Revaluation reserves		1,362,784,661	1,370,998,267
Other reserves		(1,058,033,280)	(1,058,033,280)
Retained earnings		781,620,845	747,704,000
Total Equity		7,634,372,226	1,560,668,987
TOTAL LIABILITIES AND EQUITY		P 16,402,865,727	P 10,759,904,976

See Notes to Consolidated and Combined Interim Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED AND COMBINED STATEMENTS OF PROFIT OR LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	March 31, 2017 (Consolidated)	March 31, 2016 (Combined)
REVENUES	2		
Charter fees	21	P 242,621,266	P 310,042,511
Passage		159,085,523	129,953,035
Freight		124,688,041	101,334,979
Tugboat fees		63,944,044	48,775,957
Standby charges	21	19,692,086	-
Rendering of services		6,283,084	4,233,219
Sale of goods		363,431	-
		616,677,475	594,339,701
COST OF SALES AND SERVICES	16	448,661,948	466,640,587
GROSS PROFIT		168,015,527	127,699,114
OTHER OPERATING EXPENSES	17	69,629,221	47,065,593
OPERATING INCOME		98,386,306	80,633,521
OTHER INCOME (CHARGES) - Net	19		
Finance costs		(105,338,139)	(54,045,617)
Finance income		1,904,713	1,411,717
Other income		43,033,685	7,848,621
		(60,399,741)	(44,785,279)
PROFIT BEFORE TAX		37,986,565	35,848,242
TAX EXPENSE	20	10,850,154	17,221,920
NET PROFIT		P 27,136,411	P 18,626,322
Earnings Per Share (Basic and Diluted)	23	P 0.05	P 1.55

See Notes to Consolidated and Combined Interim Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	March 31, 2017 (Consolidated)	March 31, 2016 (Combined)
NET PROFIT		P 27,136,411	P 18,626,322
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of post-employment benefit obligation	18	(1,930,731)	(1,757,210)
Currency exchange differences on translating financial statements of foreign operations	22	(81,660)	-
Tax income	20	579,219	527,163
		(1,433,172)	(1,230,047)
TOTAL COMPREHENSIVE INCOME		P 25,703,239	P 17,396,275

See Notes to Consolidated and Combined Interim Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Note	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2017	22	P 500,000,000	P -	P 1,370,998,267	(P 1,058,033,280)	P 747,704,000	P 1,560,668,987
Issuance of shares during the period	11, 22	775,384,615	5,272,615,385	-	-		6,048,000,000
Total comprehensive income for the period		-	-	(1,433,172)	-	27,136,411	25,703,239
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(6,780,434)	-	6,780,434	-
Balance at March 31, 2017		**P 1,275,384,615**	**P 5,272,615,385**	**P 1,362,784,661**	**(P 1,058,033,280)**	**P 781,620,845**	**P 7,634,372,226**
Balance at January 1, 2016	22	P 1,117,600,000	P 48,146,450	P 766,554,286	(P 58,033,280)	P 664,230,422	P 2,538,497,878
Total comprehensive income for the period		-		(1,230,047)	-	18,626,322	17,396,275
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(3,945,792)	-	3,945,792	-
Balance at March 31, 2016		P 1,117,600,000	P 48,146,450	P 761,378,447	(P 58,033,280)	P 686,802,536	P 2,555,894,153

See Notes to Consolidated and Combined Interim Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	March 31, 2017 (Consolidated)	March 31, 2016 (Combined)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 37,986,565	P 35,848,242
Adjustments for:			
Depreciation and amortization	10, 12	166,406,676	126,839,619
Interest expense	19	86,801,327	45,885,015
Unrealized foreign currency losses - net	19	17,312,593	4,380,171
Interest income	19	(684,726)	(1,411,717)
Impairment loss on trade and other receivables		-	3,232,427
Operating profit before working capital changes		307,822,435	214,773,757
Increase in trade and other receivables		(11,731,185)	(496,137,210)
Decrease (increase) in inventories		(117,846,866)	13,629,839
Decrease (increase) in advances to related parties		194,446,078	(19,231,415)
Increase in other current assets		(61,168,251)	(95,030,905)
Decrease in post-employment benefit asset		2,919,518	-
Decrease (increase) in other non-current assets		8,369,089	(33,737,262)
Increase in trade and other payables		183,171,624	137,845,533
Increase in advances from customers		-	580,282,635
Increase in post-employment benefit obligation		-	2,631,104
Increase in other non-current liabilities		1,186,864	-
Cash generated from operations		507,169,306	305,026,076
Interest received		684,726	1,411,717
Cash paid for income taxes		(75,923,029)	(533)
Net Cash From Operating Activities		431,931,003	306,437,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	10	(347,968,527)	(111,434,520)
Additions to drydocking costs	12	(22,341,186)	-
Acquisition of interest in a joint venture		(5,000,000)	-
Proceeds from disposal of property and equipment	10	966,751	-
Acquisitions of financial assets at fair value through profit or loss	6	-	(9,210,000)
Net Cash Used in Investing Activities		(374,342,962)	(120,644,520)
Balance carried forward		P 57,588,041	P 185,792,740

	Notes		March 31, 2017 (Consolidated)		March 31, 2016 (Combined)
Balance brought forward		P	57,588,041	P	185,792,740
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of interest-bearing loans	13	(	564,044,766)	(	30,810,123)
Collection of subscription receivable	22		350,000,000		-
Interest paid	19	(	86,801,327)	(	10,570,704)
Repayments of advances from related parties	21	(	84,830,229)	(	262,392,275)
Proceeds from advances from related parties	21		39,708,002		-
Proceeds from interest-bearing loans	13		-		37,053,639
Net Cash Used in Financing Activities		(	345,968,320)	(	266,719,463)
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		(	17,312,593)	(	4,380,171)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(	305,692,872)	(	85,306,894)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			508,940,431		360,061,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD		P	203,247,559	P	274,754,866

Supplemental Information for Non-cash Financing Activity

Subscribed capital stock amounting to P350.0 million has not been collected as of December 31, 2016 and is presented as Subscription Receivable under current assets in the 2016 combined statement of financial position (see Note 22).

See Notes to Consolidated and Combined Interim Financial Statements.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
NOTES TO CONSOLIDATED AND COMBINED INTERIM
FINANCIAL STATEMENTS
MARCH 31, 2017 AND DECEMBER 31, 2016
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

These consolidated and combined interim financial statements (collectively referred to herein as interim financial statements) are presented in the context of a planned initial public offering of common shares by Chelsea Logistics Corp. (CLC or the Company) and listing on the Philippine Stock Exchange (PSE). CLC was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to act as manager or managing agent of persons, associations, corporations, partnerships and other entities providing management, investment and technical advice; and to undertake, carry on, assist or participate in the organization, management, operation of corporations, partnerships and other entities engaged in commercial, industrial, manufacturing, shipping and other kinds of enterprises, except the management of funds, securities, portfolio or similar assets of the managed entities or corporation.

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

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

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

1.2 Subsidiaries and their Operations

As of March 31, 2017, the Company holds 100% ownership interests in Chelsea Shipping Corp. (CSC), Trans-Asia Shipping Lines, Inc. (TASLI) and Udenna Investments B.V. (UIBV). The Company acquired CSC and TASLI through the purchase of said companies' outstanding shares of stock from their registered owners. The respective acquisitions of CSC and TASLI were completed by the Company in the last quarter of 2016. In 2017, the Company acquired UIBV from Udenna through share-for-share swap, where the Company issued new common shares in favor of Udenna, in exchange for shares of UIBV (see Note 22.1).

CSC was incorporated on July 17, 2006 primarily to engage in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. As of March 31, 2017, CSC holds 100% ownership interests in the following subsidiaries:

(a) *Bunkers Manila, Inc.* – established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(b) *Michael, Inc. (MI)* – engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(c) *PNX-Chelsea Shipping Corp. (PNX)* – engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(d) *Chelsea Ship Management & Marine Services Corp. (CSMMSC)* – engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(e) *Fortis Tugs Corporation (FTC)* – engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors, and other waterways between the various ports of the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of Davao Gulf Marine Services Inc. (DGMSI), a Davao-based tug service provider.

(f) *Chelsea Marine Manpower Resources, Inc. (CMMRI)* – engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

On the other hand, TASLI was incorporated on March 25, 1974 to engage in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. TASLI holds 100% ownership interest in the following subsidiaries as of March 31, 2017:

(a) *Quality Metals & Shipworks, Inc. (QMSI)* – engaged in machining and mechanical works on ship machineries and industrial plants.

(b) *Oceanstar Shipping, Inc. (Oceanstar)* – engaged in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas.

(c) *Dynamic Cuisine, Inc. (DCI)* – engaged in operating restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in cooking and catering foods, drinks, refreshments and other foods or commodities.

(d) *Starsy Shoppe, Inc. (SSI)* – engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

UIBV, formerly known as KGL Investment B.V, a private company with limited liability, was incorporated and organized under the laws of the Netherlands, having its corporate seat in Amsterdam. It is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV owns 219,609 of KGLI-NM Holdings, Inc. (KGLI-NM)'s voting Preferred C Shares and 39.97% of its voting rights. KGLI NM owns 60% of Negros Navigation Co., Inc. (NENACO)'s voting stocks. NENACO, in turn, owns 98% of the publicly listed company 2Go Group, Inc.

CLC, together with CSC, TASLI, UIBV and their respective subsidiaries, are collectively referred herein as the Group.

1.3 Approval of Interim Financial Statements

The consolidated interim financial statements of the Group as of and for the three months ended March 31, 2017 (including the comparative combined interim financial statements as of December 31, 2016 and for the three months ended March 31, 2016) were authorized for issue by the Company's BOD on April 28, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements are presented in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. As allowed by PAS 34, the Company has opted to present a complete set of financial statements in conformity with PAS 1, *Presentation of Financial Statements*.

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

2.1 Basis of Preparation of Interim Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Interim Financial Statements

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

The interim financial statements presented consist of consolidated balances of the Group as of and for the three months ended March 31, 2017 and combined balances of CSC and subsidiaries and TASLI and subsidiaries as of December 31, 2016 and for the three months ended March 31, 2016.

(c) *Functional and Presentation Currency*

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

Items included in the interim financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2017 that are Relevant to the Company*

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

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(b) Effective Subsequent to 2017 but not Adopted Early

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

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

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

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

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

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

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

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

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

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

2.3 Principles of Combination

The accompanying combined financial statements as of December 31, 2016 and for the three months ended March 31, 2016 include the horizontal sum of all accounts and transactions of the entities described in Note 1.2, except UIBV, wherein all material transactions, balances and investments between the combined entities have been eliminated in combination. The balance of the stockholders' equity presented in the combined statements of financial position as of March 31, 2016 includes the equity interest of CSC and its subsidiaries (excluding DGMSI) and TASLI and its subsidiaries. The aforementioned equity interest was acquired by CLC in 2016. Each entity is a separate legal entity, which is responsible in maintaining custody of its financial resources.

The combination was performed for the purpose of giving investors a view of the financial position and historical performance of the entities that form part of CLC's combined group expected to be publicly listed. As to the basis of the principles, the consolidation standard under PFRS was used in taking consideration the ultimate full control of CLC over the combined entities.

2.4 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss (see Note 2.14).

(b) Investments in an Associate

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.20).

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

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

(c) Investments in Joint Venture

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

The investments in joint ventures are subject to impairment testing (see Note 2.20).

2.5 Segment Reporting

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

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

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

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

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

2.6 Financial Assets

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

(a) Classification and Measurement of Financial Assets

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

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

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

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

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

(iii) AFS Financial Assets

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

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

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

(b) Impairment of Financial Assets

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

(i) Carried at Amortized Cost – Loans and Receivables

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

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

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

(ii) Carried at Fair Value –AFS Financial Assets

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

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

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

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

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

(iv) Derecognition of Financial Assets

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

2.7 Inventories

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

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

2.8 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel which are capitalized (see Note 2.9).

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

Revalued amounts represent fair values determined based on appraisals by external professional appraiser once every two years unless more frequently if market factors indicate a material change in fair value (see Note 29.4).

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

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

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

Leasehold improvements are amortized over the estimated useful lives of the assets of five years or the lease term, whichever is shorter.

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

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.22) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

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

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

2.9 Drydocking Costs

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

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Assets account in the interim statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.20).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.8).

2.10 Other Assets

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

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

2.11 Financial Liabilities

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

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

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.22). All other interest-related charges incurred on a financial liability are recognized as an expense in the interim statement of comprehensive income under the caption Finance costs under the Other Income (Charges) – net section of the statement of profit or loss.

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

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

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

2.12 Deposits for Future Stock Subscriptions

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

(i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;

(ii) The Group's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,

(iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

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

2.13 Offsetting Financial Instruments

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

2.14 Business Combinations

Business combinations are accounted for using the acquisition method, except for business combination of entities under common control which are being accounted for using the pooling-of-interest method of accounting.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.20).

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.15 Advances from Customers

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

2.16 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.17 Revenue and Expense Recognition

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

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

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

(b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.

(c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.

(d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.

(e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.

(f) *Rendering of services* – Revenue is recognized when contractually-agreed tasks have been substantially performed.

(g) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term [see Note 2.18(b)].

(i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.22).

2.18 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

(b) Group as Lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term [see Note 2.17(h)].

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

2.19 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim statement of comprehensive income.

(c) Translation of Financial Statements of UIBV

The operating results and financial position of UIBV, which are measured using United States (U.S.) dollars, its functional currency, are translated to Philippine pesos, the Group's functional currency, as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Revaluation Reserves account.

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

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

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

2.20 Impairment of Non-financial Assets

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

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

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

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

2.21 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability or asset recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Profit-sharing and Bonus Plans

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

(e) Compensated Absences

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

2.22 Borrowing Costs

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

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

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

2.23 Income Taxes

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

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

All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

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

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.24 Related Party Transactions and Relationships

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

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

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

2.25 Equity

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

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

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

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

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

2.26 Earnings Per Share

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

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

2.27 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's interim financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Revenue Recognition for Charter Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB agreements, management considers the following criteria: (1) whether the fulfillment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract [see Note 2.17(a)].

(b) Distinction Between Operating and Finance Leases

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

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

(c) Capitalization of Borrowing Costs

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

The amount of capitalized borrowing costs and information on the capitalization rates used for the three months ended March 31, 2017 and 2016 is disclosed in Note 10.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.16 and relevant disclosures are presented in Note 24.

3.2 Key Sources of Estimation Uncertainty

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

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

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. Meanwhile, based on management assessment, no impairment loss on subscription receivable, advances to related parties and security deposits is required to be recognized in 2017 and 2016 (see Notes 8, 21.4, 22.1 and 24.3).

(b) Estimation of Useful Lives of Property and Equipment and Drydocking Costs

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

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

(c) Fair Value Measurement of Vessels

The Group's vessels, included as part of Property and Equipment, are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant methodologies as discussed in Note 29.4.

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

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

(d) Determination of Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at March 31, 2017 and December 31, 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of March 31, 2017 and December 31, 2016 is disclosed in Note 20.1.

(e) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.20). Though management believes that the assumptions used in the estimation of fair values reflected in the interim financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(f) Valuation of Post-employment Defined Benefit Obligation

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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

	March 31, 2017	December 31, 2016
Cash on hand and in banks	P 189,570,367	P 468,448,292
Short-term placements	13,677,192	40,492,139
	P 203,247,559	P 508,940,431

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

The balances of cash on hand and in banks as of March 31, 2017 and December 31, 2016 did not include an amount of P34.4 million and P39.4 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the statements of financial position (see Notes 8 and 12). Such amount is not available for the general use of the Group.

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of:

	Notes	March 31, 2017	December 31, 2016
Trade receivables	21.1, 21.3	P 706,377,245	P 740,293,250
Due from agencies		208,795,732	190,407,635
Claims receivables		15,180,742	12,794,398
Advances to officers and employees		4,906,805	10,374,828
Others		35,553,224	5,212,452
		970,813,748	959,082,563
Allowance for doubtful accounts		(14,566,313)	(14,566,313)
		P 956,247,435	P 944,516,250

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

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

		March 31, 2017		December 31, 2016
Balance at beginning of period	P	14,566,313	P	17,580,172
Impairment losses during the period		-		12,303,319
Write-off of receivables		-		(15,317,178)
	P	14,566,313	P	14,566,313

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

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

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

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

Certain trade receivables amounting to P38.6 million and P32.6 million as of March 31, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 13.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

7. INVENTORIES

This account includes the following:

	Note	March 31, 2017	December 31, 2016
Spare parts		**P 146,239,756**	P 36,185,728
Fuel and lubricants	21.2	**41,910,544**	38,901,683
Shipping supplies		**7,543,043**	1,090,920
Food, beverage and other supplies		**1,028,149**	1,421,117
Electrical parts		**-**	1,275,178
		P 196,721,492	P 78,874,626

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

8. OTHER CURRENT ASSETS

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

	Notes	March 31, 2017	December 31, 2016
Advances to suppliers	10	**P 401,289,216**	P 268,962,167
Deferred input VAT		**90,320,209**	82,322,433
Creditable withholding taxes		**67,013,546**	65,785,594
Input VAT		**62,147,242**	55,181,622
Restricted cash	4	**34,410,993**	34,388,529
Prepaid insurance		**10,595,817**	-
Prepaid rent		**5,473,398**	-
Security deposits	24.3	**4,530,998**	4,600,998
Prepayments		**4,277,972**	30,759,478
Prepaid tax		**1,956,601**	-
Supplies		**1,507,517**	-
Others		**986,484**	684,867
		P 684,509,993	P 542,685,688

Advances to suppliers represent downpayments made to suppliers for the acquisition of vessels, supply of spare parts, parcels of land and other services. It also includes advances for land acquisitions pertaining to TASLI's advance payments for the purchase of certain parcels of land, which are bought for use in operations.

Supplies pertain to company forms, engine and deck supplies, and office supplies on hand as of the end of reporting date.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

As of March 31, 2017 and December 31, 2016, the fair value of the equity fund amounted to P3,065,089, consisting of 436,633 unit shares.

10. PROPERTY AND EQUIPMENT

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

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
March 31, 2017							
Cost or valuation	P 208,076,838	P 9,408,364,465	P 60,993,784	P 44,744,547	P 63,881,105	P 529,134,332	P 10,315,195,071
Accumulated depreciation and amortization	-	(2,173,582,775)	(26,413,317)	(26,915,090)	(47,847,951)	-	(2,274,759,133)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
Net carrying amount	P 208,076,838	P 7,232,567,069	P 34,580,467	P 17,829,457	P 16,033,154	P 529,134,332	P 8,038,221,317
December 31, 2016							
Cost or valuation	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	(2,053,621,702)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,147,680,516)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
Net carrying amount	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442
January 1, 2016							
Cost or valuation	P 106,032,337	P 7,093,694,746	P 26,080,384	P 29,139,193	P 63,849,028	P 136,384,805	P 7,455,180,493
Accumulated depreciation and amortization	-	(1,572,458,063)	(18,413,204)	(25,881,003)	(50,853,934)	-	(1,667,606,204)
Net carrying amount	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289

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

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixtures and Equipment	CIP	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442
Additions	103,826,825	41,396,647	3,032,563	100,000	6,135,411	193,477,081	347,968,527
Reclassification	-	(3,410,158)	-	-	-	-	(3,410,158)
Disposal	-	-	(725,450)	-	(241,301)	-	(966,751)
Depreciation and amortization charges for the period	-	(116,550,913)	(3,601,172)	(359,256)	(3,427,402)	-	(123,938,743)
Balance at March 31, 2017, net of accumulated depreciation and amortization	P 208,076,838	P 7,232,567,069	P 34,580,467	P 17,829,457	P 16,033,154	P 529,134,332	P 8,038,221,317
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289
Additions	-	1,270,926,225	34,563,773	15,955,985	5,077,732	333,527,496	1,660,051,211
Revaluation increment	-	865,452,258	-	-	-	-	865,452,258
Reclassification	-	79,645,606	-	-	-	(133,704,659)	(54,059,053)
Disposal	(1,782,324)	(14,967,997)	(1,082,142)	(450,631)	(32,162)	(550,391)	(18,865,647)
Depreciation and amortization charges for the year	-	(408,946,661)	(5,274,285)	(674,831)	(4,474,218)	-	(419,369,995)
Impairment losses	-	(2,214,621)	-	-	-	-	(2,214,621)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442

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

Name of Vessel	Effective Date	Net Appraised Values
MV Trans-Asia 3	February 11, 2017	P 207,385,000
M/Tug Pindasan	January 6, 2017	40,419,000
M/Tug Samal	January 6, 2017	33,451,000
M/Tug Sigaboy	January 6, 2017	28,880,000
M/Tug Fortis II	November 11, 2016	80,090,000
MT Chelsea Charlize	June 27, 2016	470,000,000
MT Chelsea Endurance	June 8, 2016	347,422,000
MT Chelsea Donatela	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000
MV Asia Philippines	May 17, 2016	71,000,000
MV Trans-Asia 8	April 28, 2016	90,000,000
MV Trans-Asia 10	April 27, 2016	85,500,000
MV Asia Pacific	April 27, 2016	71,000,000
MV Trans-Asia 9	April 25, 2016	86,000,000
MT Chelsea Resolute	March 28, 2016	242,000,000
MT Chelsea Intrepid	March 17, 2016	120,000,000
MT Chelsea Enterprise	March 4, 2016	135,000,000
MT Chelsea Denise II	December 23, 2015	487,000,000
M/Tug Fortis I	November 17, 2015	85,000,000
MT Ernesto Uno	November 10,2015	150,000,000
MT BMI Patricia	November 10, 2015	56,000,000
MT Chelsea Denise	November 4, 2015	180,000,000
MT Chelsea Thelma	August 5, 2015	1,021,886,700
MV Trans-Asia 2	May 28, 2015	60,000,000
MT Chelsea Cherylyn	December 29, 2014	880,000,000
MT Jasaan	September 8, 2014	45,000,000
MT Excellence	February 10, 2014	145,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of last appraisal. Further, no appraisal report was obtained for MT Chelsea Dominance as the Group has newly-acquired the tanker towards the end of 2016; hence, management believes that the acquisition cost approximates its fair value.

One of TASLI's vessels, MV Trans-Asia 12, was purchased in 2015 and was available for use in August 2016; hence, management has assessed that the carrying value approximates its fair value as at December 31, 2016.

TASLI made advance payments for the purchase of certain parcels of land, which are bought for use in operations, and is presented as part of Advances to suppliers under the Other Current Assets account in the interim statements of financial position (see Note 8).

For the year ended December 31, 2016, CSC acquired new vessels namely, MT Chelsea Charlize, MT Chelsea Endurance and MT Chelsea Dominance, which commenced operations in March 2016, August 2016 and November 2016, respectively. Total capitalized borrowing costs for these tankers amounted to nil for the first quarter of 2016; capitalized cost in 2016 is for MT Chelsea Endurance and MT Chelsea Dominance. The capitalization rates used range from 4.32% to 4.50% per annum.

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

	March 31, 2017	December 31, 2016
Cost	**P 6,460,863,723**	P 6,378,900,455
Accumulated depreciation	**(1,260,103,796)**	(1,196,043,233)
Net carrying amount	**P 5,200,759,927**	P 5,182,857,222

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

	Notes	**March 31, 2017**	March 31, 2016
Cost of sales	16	**P 120,492,558**	P 61,572,053
Other operating expenses		**3,446,185**	2,156,606
	17	**P 123,938,743**	P 63,728,659

In 2016, DGMSI recognized impairment losses of P2.2 million to write down the value of certain vessels to their recoverable amount based on their fair value as determined by an independent appraiser.

The Group's vessels with a net carrying amount of P6,952.6 million and P7,022.4 million as of March 31, 2017 and December 31, 2016, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

11. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

	March 31, 2017	December 31, 2016
Associate –		
KGLI-NM	**P 2,104,212,296**	P -
Jointly controlled entity –		
Meridian Maritime Training Center		
Center (Meridian)	**50,560,925**	45,560,925
	P 2,154,773,221	P 45,560,925

On March 27, 2017, the Group entered into a Share Swap Agreement with the parent company to issue 775,384,615 shares of the Company in exchange for Udenna's entire ownership in UIBV. UIBV owns 79.99% of the economic interest of KGLI, which in turn has approximately 40% ownership interest in NENACO. As of March 31, 2017, NENACO owns 88.31% of the common stocks of 2GO Group, Inc. The new shares of the Company were valued at P7.80 per share, computed based on the Group's book value per share as of December 31, 2016 multiplied by a 250% premium.

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agree to establish and operate a training facility on a parcel of land at the Phoenix Petroterminals Industrial Park in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which includes the acquisition of the site, construction costs of the structures of the facility and government taxes, assessments and fees related thereto. As of March 31, 2017 and December 31, 2016, the Group's investment in the joint venture amounted to P50.6 million and P45.6 million, respectively.

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

12. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

	Notes	March 31, 2017	December 31, 2016
Drydocking costs – net		**P 148,999,083**	P 169,125,830
Security deposits	24.3	**822,371**	1,114,347
Restricted cash	4	-	5,000,000
Others		**592,168**	259,123
		P 150,413,622	P 175,499,300

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

	Note	**March 31, 2017**	December 31, 2016
Balance at beginning of period		**P 169,125,830**	P 187,304,642
Additions		**22,341,186**	118,926,046
Reclassification from CIP	10	**-**	54,059,053
Disposals		**-**	(1,443,438)
Amortization charges for the period		**(42,467,933)**	(189,720,473)
		P 148,999,083	P 169,125,830

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

13. INTEREST-BEARING LOANS

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

	Notes	**March 31, 2017**	December 31, 2016
Current:			
Bank loans	13.2	**P 4,147,850,313**	P 4,576,345,754
Term loans	13.1	**424,050,825**	445,149,306
Mortgage loans	13.3	**9,604,906**	7,984,582
		P 4,581,506,044	P 5,029,479,642
Non-current:			
Term loans	13.1	**P 1,953,766,892**	P 2,151,830,061
Mortgage loans	13.3	**188,221,087**	191,472,475
Bank loans	13.2	**85,243,389**	-
		P 2,227,231,368	P 2,343,302,536

13.1 Term Loans

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

	Security	Terms	Interest Rates	Outstanding Balance March 31, 2017	Outstanding Balance December 31, 2016
BDO Unibank, Inc. (BDO)	MT Chelsea Donatela	5 years	5.54%	P 419,984,747	P 441,680,061
China Banking Corporation (CBC)	MT Chelsea Charlize	7 years	3.25%	401,552,000	397,760,000
Philippine Business Bank (PBB)	MT Chelsea Dominance	7 years	4.50%	379,466,640	375,883,200
PBB	MT Chelsea Endurance	7 years	4.32%	326,261,000	323,180,000
	Trans-Asia 1	10 years	4.25%	70,125,000	70,125,000
	Trans-Asia 1	10 years	4.25%	70,125,000	70,125,000
	Trans-Asia 10	10 years	4.25%	62,524,037	64,730,768
	Trans-Asia 1	10 years	4.25%	56,208,000	56,200,000
	Trans-Asia 1	10 years	4.25%	47,000,000	47,000,000
	Trans-Asia 8 and 9	3.50 years	4.25%	13,284,722	18,978,175
BDO	Trans-Asia 10	9.38 years	4.25%	44,271	45,833
BDO	MT Chelsea Denise II	5 years	6.46%	230,760,000	242,300,000
BDO	MT Chelsea Thelma, MT Chelsea Excellence	7 years	One year LIBOR plus 3.50%	215,764,297	239,376,297
Asia United Bank	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	38,888,889	44,444,444
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal, Mtug Sigaboy	5 years	6.00% to 6.50%	35,885,762	45,948,735
Development Bank of the Philippines (DBP)	MT Chelsea Cherylyn	2 years	5.00%	14,000,000	28,000,000
	Trans-Asia 12	8 years	4.25%	-	71,100,000
CBC	Trans-Asia 5	10 years	5.00%	-	61,759,197
				2,381,874,365	2,598,636,710
Discount on loans payable				(4,056,648)	(1,657,343)
				P 2,377,817,717	P 2,596,979,367

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

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

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

Interest incurred on these loans amounted to P12.2 million and P10.2 million in 2017 and 2016, respectively, and are presented as part of Finance costs under the Other Income (Charges) account in the statements of profit or loss (see Note 19.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.4 million and P0.3 million, were amortized in 2017 and 2016, respectively, using the effective interest rate 5.54% for each tranche. Amortized debt issuance costs were recognized as part of the Finance costs under the Other Income (Charges) – net section of the statements of profit or loss (see Note 19.1). Unamortized debt issuance costs are included as part of the current and non-current portion of interest-bearing loans.

The loans are secured by a chattel mortgage of MT Chelsea Donatela and MT Chelsea Denise II, respectively (see Note 10). The carrying amounts of these vessels, presented as part of the Property and Equipment account, amounted to P155.9 million and P2,002.4 million as of March 31, 2017 and December 31, 2016, respectively.

The OLSA requires CSC to maintain debt to equity ratio of not more than 2.00:1.00 and debt service coverage ratio (DSCR) of at least 1.20, except on drydocking year where minimum DSCR shall be 1.00. As of March 31, 2017 and December 31, 2016, the CSC has breached these covenants; management; however, believes that the non-current classification of term loans is appropriate considering CSC's relationship with BDO and its history of prompt payment. Furthermore, CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

(b) OLSA with BDO – MT Chelsea Thelma

On April 26, 2011, CSC entered into a MOA with China Shipbuilding & Exports Corporation for the acquisition of one unit of oil tank (MT Chelsea Thelma) in the amount of US$19.8 million.

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

Related debt issuance costs amounted to P8.2 million, of which P2.7 million and P3.3 million was amortized in 2017 and 2016, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Finance costs under the Other Income (Charges) – net section of the statements of profit or loss (see Note 19.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P958.8 million and P989.6 million as of March 31, 2017 and December 31, 2016, respectively (see Note 10). The loan is also secured by collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

The OLSA requires CSC to maintain debt-to-equity ratio of not more than 1.5:1 and DSCR of at least 2.5. As of March 31, 2017 and December 31, 2016, CSC has breached these covenants. CSC's management, however, believes that the non-current classification of term loans is appropriate considering the CSC's relationship with BDO and its history of prompt payment. Furthermore, the CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

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

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

Interest incurred on this loan is included as part of Finance costs under the Other Income (Charges) – net section of the 2017 statement of profit or loss (see Note 19.1). The related unpaid interest as of March 31, 2017 and December 31, 2016 amounted to P1.3 million and P1.4 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the statements of financial position (see Note 14).

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P456.9 million and P460.8 million as of March 31, 2017 and December 31, 2016, respectively (see Note 10).

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

On July 25, 2016 and August 18, 2016, PNX entered into loan agreements with PBB amounting to US$6.5 million and US$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. The loans are subject to annual effective interest rate of 4.32% for MT Chelsea Endurance and 4.5% for MT Chelsea Dominance and is payable in 24 equal monthly installments with one-year grace period from date of each release.

Interest incurred on these loans amounted to P8.0 million is included as part of Finance costs under the Other Income (Charges) – net section of the 2017 statement of profit or loss (see Note 19.1). The related unpaid interest as of March 31, 2017 and December 31, 2016 amounted to P4.5 million and P4.6 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the statements of financial position (see Note 14).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P750.3 million and P763.8 million, respectively, as of March 31, 2017 and December 31, 2016 (see Note 10).

(e) TLA with AUB – MTug Fortis I and MTug Fortis II

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

Interest expense related to the loans amounted to P0.8 million and P1.2 million for the three months ended March 31, 2017 and 2016, respectively, and is presented as part of Finance costs under the Other Income (Charges) – net section of the statements of profit or loss (see Note 19.1).

Certain trade receivables amounting to P22.2 million and P25.2 million as of March 31, 2017 and December 31, 2016, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P152.2 million and P155.6 million as of March 31, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of these loans (see Note 10).

(f) TLA with DBP

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

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

The loans are secured by a chattel mortgage on MT Chelsea Cherylyn with net carrying amount of P1,163.8 million and P1,177.8 million as of March 31, 2017 and December 31, 2016, respectively (see Note 10). The loans are also secured by a collateral on certain receivables of the Group and guaranteed by certain stockholders of the Group (see Notes 5 and 21.7).

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

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

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

(h) TLA with CBC – TASLI

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

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

(i) TLA with UCPB and PBComm – DGMSI

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

13.2 Bank Loans

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

				Outstanding Balance	
	Security	Terms	Interest Rates	March 31, 2017	December 31, 2016
CBC	Mortgage	181 days	4.50%	P 1,800,000,000	P 1,800,000,000
CTBC Bank (Phils) Inc.	Continuing Suretyship	180 days	4.00%	700,000,000	700,000,000
Maybank Philippines, Inc.	Unsecured	90 days	5.50%	75,000,000	592,000,000
	Unsecured	10 years	4.00%	88,118,410	-
	Real Estate Mortgage	120 days	4.00%	47,500,000	49,000,000
	Unsecured	10 years	4.00%	36,000,000	-
Security Bank Corporation (SBC)	Chattel Mortage	5 years	6.50%	29,216,109	35,476,703
DBP	MT Chelsea Cherylyn	180 days	4.25%	200,000,000	200,000,000
PBComm	MT Ernesto Uno	180 to 270 days	4.75%	197,000,000	158,000,000
Multinational Investment Bancorporation (MIB)	Unsecured	22 to 39 days	5.00%	124,859,571	174,921,426
Robinsons Bank Corporation	MT Chelsea Resolute, MT Chelsea Denise	180 days	5.75%	65,000,000	54,100,000
UCPB	MT Chelsea Intrepid, MT BMI Patricia	90 days	5.75%	39,200,000	40,700,000
BDO	Real Estate Mortgage	180 days	4.00%	18,000,000	19,500,000
UCPB	Restricted Time Deposit	1 year	6.00%	5,000,000	5,000,000
Metropolitan Bank and Trust Corporation	Unsecured	120 days	4.00%	-	37,000,000
Others – MIB-arranged	Unsecured	30 to 96 days	4.25% to 5.00%	808,199,612	710,647,625
				P 4,233,093,702	P 4,576,345,754

The bank loans were obtained to finance the acquisition and drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P1,459.8 million and P513.3 million as of March 31, 2017 and December 31, 2016, respectively, and by certain stockholders (see Notes 10 and 21.7).

Interest expense on these bank loans is presented as part of Finance costs in the statements of profit and loss (see Note 19.1).

13.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance March 31, 2017	Outstanding Balance December 31, 2016
BDO	Real Estate Mortgage	10 years	4.25%	P 127,500,000	P 130,000,000
CBC	Real Estate Mortgage	10 years	6.00%	47,500,000	49,375,000
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.20% to 11.40%	22,825,993	20,082,057
				P 197,825,993	P 199,457,057

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rate ranging from 4.3% to 11.4% both in 2017 and 2016. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) – net section of the statements of profit or loss (see Note 19.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P710.4 million and P700.6 million as of March 31, 2017 and December 31, 2016, respectively (see Note 10).

14. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	March 31, 2017	December 31, 2016
Trade payables	21.2, 21.6	**P 1,093,931,541**	P 1,029,988,283
Accrued expenses	13	**263,454,526**	173,269,627
Deferred output VAT		**88,329,062**	86,646,995
Output VAT		**21,818,310**	21,269,557
Provisions	24.4	**8,865,400**	8,865,400
Others		**65,527,254**	38,714,607
		P 1,541,926,093	P 1,358,754,469

Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans, and professional fees rendered to the Group during the year.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered which remained uncollected as of the end of the reporting periods.

15. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

The account represents cash infusion from stockholders to cushion the accumulated deficiency last December 31, 2011. An analysis of the movements in the balance of deposits on future stock subscription is presented below.

	March 31, 2017	December 31, 2016
Balance at the beginning of period	P 50,000,000	P 98,644,899
Conversion of capital stock	-	(36,145,000)
Repayments to related parties	-	(12,499,899)
	P 50,000,000	P 50,000,000

In 2016, DGMSI's deposits for future stock subscriptions amounting to P36,145,000 was converted to capital stock through issuance of 36,145 shares amounting to P36,145,000.

The above balances as at March 31, 2017 and December 31, 2016 are presented as current liability in the statements of financial position as the Group has not complied with the requirements under SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity.

16. COST OF SALES AND SERVICES

The details of this account for the three months ended March 31, 2017 and 2016 are shown below.

	Notes	2017	2016
Depreciation and amortization	10, 12	P 162,960,491	P 124,683,013
Bunkering	21.2	69,628,578	106,351,807
Salaries and employee benefits	18.1	65,039,571	54,446,225
Charter hire fees		26,934,356	69,927,930
Port expenses		23,098,312	18,257,277
Insurance		21,849,480	21,121,350
Outside services		18,191,032	2,432,021
Repairs and maintenance		16,886,189	33,285,771
Supplies		16,579,612	8,862,472
Voyage expenses		11,747,956	11,095,475
Taxes and licenses		3,819,028	3,459,827
Transportation and travel		3,524,305	2,511,771
Utilities and communication		2,185,273	837,335
Cost of inventories sold	7	1,915,635	2,587,776
Commission		966,097	3,007,667
Representation and entertainment		189,456	-
Professional fees		100,514	-
Miscellaneous		3,046,063	3,772,870
	17	P 448,661,948	P 466,640,587

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are presented below.

	Notes	March 31, 2017	March 31, 2016
Depreciation and amortization	10, 12	P 166,406,676	P 126,839,619
Salaries and employee benefits	18.1	89,184,230	71,596,005
Bunkering	21.2	69,856,761	106,372,056
Charter hire fees		26,934,356	69,927,930
Outside services		24,477,753	3,336,286
Port expenses		23,098,312	18,257,277
Insurance		22,501,673	21,351,483
Supplies		20,008,296	12,726,016
Repairs and maintenance		17,694,533	34,970,309
Taxes and licenses		14,336,606	10,110,138
Voyage expenses		11,747,956	11,095,475
Transportation and travel		7,727,680	4,487,327
Rentals	21.3, 24.3	6,516,759	3,682,744
Utilities and communication		4,444,697	2,499,180
Professional fees		2,413,273	2,536,319
Representation and entertainment		1,654,321	1,238,669
Commission		966,097	3,007,667
Miscellaneous	21.7(b)	8,321,190	9,671,680
		P 518,291,169	P 513,706,180

These expenses are classified in the statements of profit or loss as follows:

	Note	March 31, 2017	March 31, 2016
Cost of sales	16	P 448,661,948	P 466,640,587
Other operating expenses		69,629,221	47,065,593
		P 518,291,169	P 513,706,180

18. SALARIES AND EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

The details of salaries and employee benefits are presented below.

	Notes	March 31, 2017	March 31, 2016
Short-term employee benefits		P 86,171,463	P 68,814,876
Post-employment benefits	18.2(b)	2,680,742	2,357,329
Other employee benefits		332,025	423,800
	17	P 89,184,230	P 71,596,005

These expenses are classified in the statements of profit or loss as follows:

	Notes	March 31, 2017	March 31, 2016
Cost of sales and services	16	P 65,039,571	P 54,446,225
Other operating expenses		24,144,659	17,149,780
	17	P 89,184,230	P 71,596,005

18.2 Post-employment Defined Benefits

(a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The plan of TASLI also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

(i) For regular employees who were hired before December 1, 2006

- more than two years to five years – 7.5 days per year of service
- five years and six months to ten years – 15 days per year of service
- ten years and six months to 15 years – 22.5 days per year of service
- 15 years and six months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006

- five years and six months to nine years – 7.5 days per year of service
- nine years and six months to 15 years – 15 days per year of service
- 15 years and five months to 20 years – 22.5 days per year of service
- 20 years and six months and above – 30 days per year of service

Further, TASLI has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two years of service to TASLI and by employees who has been hired starting December 31, 2006 and has rendered at least five years and six months of service to TASLI. The total number of years of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of years he/she availed as advance retirement.

(b) Explanation of Amounts Presented in the Interim Financial Statements

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary.

(i) Post-employment benefit asset

The amounts of post-employment defined benefit asset of TASLI as of March 31, 2017 and December 31, 2016, which is recognized in the statements of financial position are determined as follows:

	March 31, 2017	December 31, 2016
Fair value of plan assets	P 39,432,057	P 39,693,662
Present value of the obligation	(38,911,228)	(34,820,143)
	P 520,829	P 4,873,519

The movements in the present value of post-employment defined benefit obligation recognized in the 2017 and 2016 books are as follows:

	March 31, 2017	December 31, 2016
Balance at beginning of period	P 34,820,143	P 55,993,052
Current service cost	2,680,742	5,717,725
Interest cost	1,848,950	2,851,356
Benefits paid	(438,607)	
Remeasurements		
Actuarial gains arising from:		
Experience adjustments	-	(28,775,839)
Changes in financial assumptions	-	(966,151)
Balance at end of period	P 38,911,228	P 34,820,143

The movements in the fair value of plan assets in 2017 and 2016 are presented below.

	March 31, 2017	December 31, 2016
Balance at beginning of period	P 39,693,662	P 34,839,020
Interest income	2,107,733	1,804,232
Return on plan assets (excluding amounts included in net interest)	(1,930,731)	(1,367,294)
Benefits paid	(438,607)	-
Contributions to the plan	-	4,417,704
Balance at end of period	P 39,432,057	P 39,693,662

The composition of the fair value of plan assets as at March 31, 2017 and December 31, 2016 by category and risk characteristics is shown below.

	March 31, 2017	December 31, 2016
Cash and cash equivalents	P 21,046,063	P 24,287,260
Debt securities:		
Philippine government bonds	15,173,209	15,057,197
Corporate bonds	3,212,785	349,205
	P 39,432,057	P 39,693,662

(ii) Post-employment benefit obligation

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	March 31, 2017	December 31, 2016
Present value of the obligation	P 11,078,452	P 11,078,452
Fair value of plan assets	(7,031,908)	(7,031,908)
	P 4,046,544	P 4,046,544

The movements in the present value of post-employment defined benefit obligation recognized in the books are as follows:

	March 31, 2017	December 31, 2016
Balance at beginning of period	P 11,078,452	P 9,930,479
Current service cost	-	1,744,827
Interest cost	-	502,961
Benefits paid	-	(1,099,815)
Balance at end of period	P 11,078,452	P 11,078,452

The movements in the fair value of plan assets are presented below.

	March 31, 2017	December 31, 2016
Balance at beginning of period	P 7,031,908	P 3,775,541
Interest income	-	193,665
Return on plan assets (excluding amounts included in net interest)	-	(47,994)
Benefits paid	-	(1,099,816)
Contributions to the plan	-	4,210,512
Balance at end of period	P 7,031,908	P 7,031,908

The composition of the fair value of plan assets at the end of the reporting periods by category and risk characteristics is shown below.

		March 31, 2017		December 31, 2016
Cash and cash equivalents	P	2,310,013	P	2,310,013
Equity securities		1,675,037		1,675,037
Debt securities:				
Philippine government bonds		1,575,737		1,575,737
Unit investment trust funds (UITF)		978,370		978,370
Short-term commercial papers (STCP)		481,170		481,170
Others		11,581		11,581
	P	7,031,908	P	7,031,908

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P0.17 million and P0.14 million in 2017 and 2016, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

(iii) Post-employment benefit expense

The amounts of post-employment benefit expense recognized in the statements of profit or loss and statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

		March 31, 2017		March 31, 2016
Recognized in profit or loss:				
Current service cost	P	2,680,742	P	2,357,329
Net interest expense (income)	(	258,783)		1,047,124
	P	2,421,959	P	3,404,453
Recognized in other comprehensive income:				
Return on plan assets (excluding amounts included in net interest expense	P	1,930,731	P	1,757,210

Current service cost is allocated and presented in the statements of profit or loss under the following accounts:

	Note		March 31, 2017		March 31, 2016
Cost of sales and services	16	**P**	**1,874,881**	P	1,577,762
Other operating expenses			**805,861**		779,567
	18.1	**P**	**2,680,742**	P	2,357,329

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the statements of profit or loss (see Note 19.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	March 31, 2017	December 31, 2016
Discount rates	**5.03%**	5.34%
Expected rate of salary increase	**5.00%**	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities, STCP and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) Sensitivity Analysis

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of March 31, 2017 and December 31, 2016.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
March 31, 2017			
Discount rate	+/- 1.0%	(P 2,112,185)	P 2,385,045
Salary growth rate	+/- 1.0%	2,092,368	(1,898,201)
December 31, 2016			
Discount rate	+/- 1.0%	(P 2,684,155)	P 3,000,038
Salary growth rate	+/- 1.0%	2,660,712	(2,408,560)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the statements of financial position.

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.
In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of March 31, 2017 and December 31, 2016 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in STCP and UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

(iii) Funding Arrangements and Expected Contributions

As of March 31, 2017, the plan is overfunded by P0.8 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

CSC expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten years follows:

Within one year	P	3,936,306
More than one year but notmore than five years		9,836,624
More than five years but not more than ten years		11,709,576
	P	25,482,506

The weighted average duration of the defined benefit obligation at the end of the reporting period is not presented since the Group had not engaged the services of a qualified actuary in the measurement of its post-employment defined benefit obligation as of March 31, 2017.

19. OTHER INCOME (CHARGES)

19.1 Finance Costs

The details of this account follow:

	Notes	March 31, 2017	March 31, 2016
Interest expense on:			
Interest-bearing loans	13	P 86,691,820	P 43,437,432
Advances from previous stockholders of DGMSI		-	1,100,459
Post-employment benefits	18.2(b)	-	1,047,124
Other payables		-	300,000
		86,691,820	45,885,015
Foreign currency exchange losses – net		18,532,580	4,380,171
Bank charges		113,739	-
Impairment loss on receivables	5	-	3,232,427
Others		-	548,004
		P 105,338,139	P 54,045,617

19.2 Finance Income

The breakdown of this account is shown below.

	Note	March 31, 2017	March 31, 2016
Foreign currency exchange gains		P 1,219,987	P -
Interest income	4	684,726	1,411,717
		P 1,904,713	P 1,411,717

19.3 Other Income

Presented below are the details of other operating income.

	Note	March 31, 2017	March 31, 2016
Handling and trucking		P 25,532,543	P -
Rebates		11,601,568	-
Rental income	24.2	1,757,849	445,023
Miscellaneous		4,141,725	7,403,598
		P 43,033,685	P 7,848,621

Handling and trucking pertains to excess customer charges over amounts payable to various truckers.

Rebates pertain to the share of TASLI on all cargo handling charges based on the Cebu Port Authority Tariff rates.

Rental income pertains to the leased portion of the Group's office building.

20. TAXES

20.1 Current and Deferred Taxes

The components of tax expense (income) as reported in the statements of profit and loss are shown below.

		March 31, 2017		March 31, 2016
Recognized in profit or loss:				
Regular corporate income tax (RCIT)	P	39,133,328	P	11,208,342
Final tax at 20% and 7.5%		21,168		15,380
		39,154,496		11,223,722
Deferred tax expense (income) relating to origination and reversal of temporary differences	(	28,304,342)		5,998,198
	P	10,850,154	P	17,221,920
Recognized in other comprehensive income:				
Deferred tax income relating to origination and reversal of temporary difference	(P	579,219)	(P	527,163)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense (income) reported in the statements of profit or loss is as follows:

		March 31, 2017		March 31, 2016
Tax on pretax profit at 30%	P	11,395,970	P	10,754,473
Adjustments for income subjected to lower tax rates	(	7,003)	(	7,956)
Tax effects of:				
Excess of OSD	(	9,538,845)		-
Nondeductible expenses		9,155,346		3,309,943
Unrecognized DTA on NOLCO		5,698,744		3,191,646
Nontaxable income	(	4,990,549)	(	203,721)
Excess of itemized deductions over optional standard deduction (OSD)	(	649,543)		-
OSD	(	213,966)		-
Derecognition of unutilized DTA		-		1,638,630
Net profit on Board of Investments (BOI)-registered activities		-	(	1,461,095)
	P	10,850,154	P	17,221,920

The net deferred tax assets pertain to the following:

		March 31, 2017		December 31, 2016
NOLCO	**P**	**11,113,722**	P	6,273,377
Impairment losses on trade and other receivables		**969,728**		969,728
Impairment losses on property and equipment		**651,053**		664,386
Revaluation reserves on property and equipment	**(**	**595,326)**	(	607,313)
	P	**12,139,177**	P	7,300,178

The net deferred tax liabilities are as follows:

		March 31, 2017		December 31, 2016
Revaluation reserves on property and equipment	**(P**	**228,492,216)**	(P	244,406,814)
NOLCO		**21,309,722**		9,745,600
MCIT		**8,040,180**		8,040,180
Capitalized borrowing costs	**(**	**7,261,261)**	(	7,261,261)
Revaluation surplus on disposed vessel	**(**	**3,036,983)**	(	3,036,983)
Impairment losses on trade and other receivables		**2,736,729**		678,898
Impairment losses on long-term financial assets		**2,721,268**		2,721,268
Provision on estimated liability		**2,659,620**		2,659,620
Loss on contamination		**2,057,831**		2,057,831
Post-employment benefit obligation		**1,264,619**	(	248,092)
Unrealized foreign currency loss – net	**(**	**658,488)**		6,233,047
Others	**(**	**845,632)**	(	537,866)
	(P	**199,504,611)**	(P	223,354,572)

The deferred tax expense (income) reported in the statements of profit or loss and statements of comprehensive income is shown below.

	Statements of Profit or Loss		Statements of Other Comprehensive Income	
	March 31, 2017	March 31, 2016	**March 31, 2017**	March 31, 2016
Deferred tax expense (income):				
NOLCO	**(P 16,608,872)**	P 1,895,131	**P -**	P -
Revaluation reserves of vessels	**(15,926,585)**	(1,691,054)	**-**	-
Unrealized foreign currency loss – net	**6,891,535**	2,168,694	**-**	-
Impairment loss on trade and other receivables	**(2,057,831)**	3,625,427	**-**	-
Post-employment benefit obligation	**(923,688)**	-	**(579,219)**	(527,163)
Impairment loss on property and equipment	**13,333**	-	**-**	-
Others	**307,766**	-	**-**	-
	(P 28,304,342)	P 5,998,198	**(P 579,219)**	(P 527,163)

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or regular corporate income tax, whichever is higher. The Group reported MCIT in 2017 and 2016.

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2017	P 55,362,907	P -	P -	P -	P 55,362,907	
2016	19,383,563	-	-	-	19,383,563	2019
2015	2,215,953	-	-	-	2,215,953	2018
2014	102,860,292	71,744,568	-	-	31,115,724	2017
2013	15,346,632	15,346,632	-	-	-	
	P 195,169,347	P 87,091,200	P -	P -	P 108,078,147	
MCIT:						
2016	P 4,099,164	P -	P -	P -	P 4,099,164	2019
2015	3,357,615	-	-	-	3,357,615	2018
2014	583,401	-	-	-	583,401	2017
2013	1,723,430	-	-	1,723,430	-	
	P 9,763,610	P -	P -	P 1,723,430	P 8,040,180	

In 2017 and 2016, the Group (except TASLI, DGMSI and FTC which opted to claim OSD) opted to claim itemized deductions in computing for its income tax due.

20.2 Registration with the BOI

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Chelsea Thelma and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). For MT Chelsea Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Chelsea Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2016, the BOI registration of MT Chelsea Charlize, which commenced in September 2015 for a period of four years was transferred to the Company following its acquisition. The tax and non-tax incentives of MT Chelsea Charlize are similar to that of MT Chelsea Donatela and MT Chelsea Denise II.

21. RELATED PARTY TRANSACTIONS

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

A summary of the Group's transactions with its related parties for the three months ended March 31, 2017 and 2016, and the related outstanding balances as of March 31, 2017 and December 31, 2016 is presented below.

		Amount of Transactions		Outstanding Balances	
Related Party Category	Notes	March 31, 2017	March 31, 2016	March 31, 2017	December 31, 2016
Udenna –					
Cash advances obtained	21.4	P 39,708,002	P -	(P 39,708,002)	P -
Cash advances granted	21.4	-	10,000,000	-	-
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI):					
Repayment of advances	21.4	84,830,229	370,816,632	-	-
Chartering services rendered	21.1	114,651,167	238,653,796	432,355,225	460,059,177
Fuel purchases	21.2	9,922,105	33,131,156	(62,792,288)	(66,940,095)
Cash advances obtained	21.4	-	50,578,764	(929,026)	(85,759,255)
Acquisition of CSC's shares	21.6	-	-	(500,000,000)	(500,000,000)
Related party under common ownership:					
Rental income	21.3	1,243,859	2,318,352	562,936	1,600,540
Rental expense	21.3	591,974	589,157	-	-
Donation	21.7(b)	90,000	90,000	-	-
Cash advances granted	21.4	-	364,371,957	-	194,446,078
Key management personnel –					
Compensation and benefits		12,665,037	12,340,344	-	-

21.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the statements of profit or loss. The related outstanding receivable as of March 31, 2017 and December 31, 2016, is presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties in 2017 and 2016 based on management's assessment.

21.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the statements of profit and loss (see Note 16) while the remaining fuel and lubricants inventory amounting to P41.9 million and P38.9 million as of March 31, 2017 and December 31, 2016, respectively, are included as part of Inventories account in the statements of financial position (see Note 7). The outstanding liability arising from these transactions as of March 31, 2017 and December 31, 2016 is presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 14).

21.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related rent expense in 2017 and 2016 is presented as part of Rentals under Other Operating Expenses in the statements of profit or loss (see Note 17). The outstanding security deposit arising from this transaction is presented as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the statements of financial position (see Notes 8 and 12).

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the statements of profit or loss. The related receivable as of March 31, 2017 and December 31, 2016, is presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 5).

No impairment loss was recognized on the outstanding receivables from this transaction as management has determined that such financial assets are fully collectible.

21.4 Advances to and from Related Parties

In the normal course of business, the Group grants to and obtains unsecured, noninterest-bearing cash advances from its related parties mainly for working capital requirements and other purposes. As of March 31, 2017 and December 31, 2016, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the statements of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2017 and 2016 follows:

	March 31, 2017	December 31, 2016
Balance at the beginning of period	**P 194,446,078**	P 27,250,735
Advances granted during the period	**-**	364,371,957
Collection	**(194,446,078)**	(197,176,614)
	P -	P 194,446,078

Based on management's assessment, no impairment loss is recognized in 2017 and 2016 related to the advances to related parties.

The movement in the Advances from Related Parties account in 2017 and 2016 follows:

	March 31, 2017	December 31, 2016
Balance at the beginning of period	P 85,759,255	P 405,997,123
Advances obtained during the period	39,708,002	50,578,764
Repayments	(84,830,229)	(370,816,632)
	P 40,637,028	P 85,759,255

21.5 Transactions with the Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, STCP and UITF with fair value totaling P46.5 million and P46.7 million as of March 31, 2017 and December 31, 2016, respectively.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 18.2.

21.6 Acquisition of CSC's Shares

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion. As of March 31, 2017 and December 31, 2016, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 14).

21.7 Others

(a) The OLSA with BDO, TLA with DBP and certain bank loans of the Group were guaranteed by certain stockholders through a continuing surety agreement with the respective banks (see Notes 13.1 and 13.2). The vessels owned by the Group and certain receivables of the subsidiaries were also used as security on such loans (see Notes 5, 8 and 10).

(b) The Group granted donations amounting to P0.1 million in 2017 and 2016 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by the ultimate parent company. This is presented as part of Miscellaneous under the Other Operating Expenses account in the statements of profit and loss (see Note 17).

22. EQUITY

22.1 Capital Stock

The Company has authorized capital stock of 2,000,000,000, P1 par value shares for a total authorized capital stock of P2.0 billion. In 2017, the Company issued 775,384,615 shares in exchange for shares of UIBV. As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 is presented under current assets in the 2016 combined statement of financial position as the amount is expected to be collectible within 12 months after the end of the reporting period. In 2017, the Company collected the receivable in full.

As of March 31, 2017 and December 31, 2016, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

22.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown below.

	Property and Equipment (see Note 10)	AFS Financial Assets (see Note 9)	Post-employment Benefit Obligation (see Note 18.2)	Cumulative translation adjustments	Total
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,930,731)	-	(1,930,731)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	(81,660)	(81,660)
Depreciation transferred to retained earnings - revalued tankers	(6,780,434)	-	-	-	(6,780,434)
Other comprehensive income before tax	(6,780,434)	-	(1,930,731)	(81,660)	(8,792,825)
Tax income (expense)	-	-	579,219	-	579,219
Other comprehensive income after tax	(6,780,434)	-	(1,351,512)	(81,660)	(8,213,606)
Balance as of March 31, 2017	**P 1,328,451,683**	**P 34,725**	**P 34,379,913**	**(P 81,660)**	**P 1,362,784,661**
Balance as of January 1, 2016	P 750,787,751	(P 136,199)	P 15,902,734	P -	P 766,554,286
Remeasurements of post-employment benefit obligation	-	-	28,326,702	-	28,326,702
Fair value gains on AFS financial assets	-	244,177	-	-	244,177
Gain on revaluation of tankers	865,452,258	-	-	-	865,452,258
Effect of business combination	(184,142,520)	-	-	-	(184,142,520)
Depreciation transferred to retained earnings - revalued tankers	(73,463,526)	-	-	-	(73,463,526)
Other comprehensive income before tax	607,846,212	244,177	28,326,702	-	636,417,091
Tax income (expense)	(23,401,846)	(73,253)	(8,498,011)	-	(31,973,110)
Other comprehensive income after tax	584,444,366	170,924	19,828,691	-	604,443,981
Balance as of December 31, 2016	P 1,335,232,117	P 34,725	P 35,731,425	P -	P 1,370,998,267

22.3 Other Reserves

Other reserves pertain to the difference between the Group's consideration for the purchase of its subsidiaries and capital stock of the acquired entities. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method.

23. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders are computed as follows:

		March 31, 2017		March 31, 2016
Net profit	P	27,136,411	P	18,626,322
Divided by weighted average shares outstanding		500,000,000		12,017,600
	P	0.05	P	1.55

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2017 and 2016; hence, diluted earnings per share is equal to the basic earnings per share.

24. COMMITMENTS AND CONTINGENCIES

24.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

24.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering property and equipment. The leases have terms ranging from one to five years, with renewal options, and include annual escalation from 5.00% to 10.00%. The future minimum lease receivables under these agreements are presented below.

		March 31, 2017		December 31, 2016
Within one year	P	838,415	P	817,966
More than one year but not more than five years		884,406		1,109,347
	P	1,722,821	P	1,927,313

Rent income amounted to P1.8 million and P0.4 million in 2017 and 2016, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the statements of profit and loss (see Note 19.3).

24.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under an operating lease covering its office space. The lease has a term of five years commencing on June 10, 2009, with renewal options, and includes annual escalation rate of 3.0% on the second year and 6.0% from third to fifth year. The lease period was subsequently renewed on September 30, 2014 for a term of three years. The future minimum lease payables under this operating lease are as follows as of:

	March 31, 2017	December 31, 2016
Within one year	**P 6,101,514**	P 8,023,352
More than one year but not more than five years	**1,659,000**	1,680,000
More than five years	**1,197,000**	1,260,000
	P 8,957,514	P 10,963,352

Total rentals from these operating leases amounted to P6.5 million and P3.7 million in 2017 and 2016, respectively, and are included as part of Rentals under the Other Operating Expenses account in the statements of profit or loss (see Note 17).

The related security deposit on this operating lease amounted to P5.4 million and P5.7 million as of March 31, 2017 and December 31, 2016, respectively, and is shown as Security deposits under the Other Current Assets and Other Non-current Assets accounts in the statements of financial position (see Notes 8 and 12).

24.4 Legal Claims

TASLI is a defendant in an ongoing litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that TASLI will be found liable; hence, a provision for the claim has been made in the financial statements. The related liability is presented as part of Provisions under Trade and Other Payables account in the statements of financial position (see Note 14).

Various legal and labor claims were brought against the TASLI during the period. Management considers these claims to be unjustified and the probability that these will require settlement at the TASLI's expense is remote.

24.5 Unused Lines of Credit

As of March 31, 2017 and December 31, 2016, the Group has unused lines of credit amounting to P64.8 million.

24.6 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's interim financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's interim financial statements.

25. GOODWILL

The fair value of the net assets of BMI, MI and UIBV as of the acquisition date amounted to P21.6 million, P1.1 million and P2,130.6 million, respectively. As such, goodwill, which comprises the value of expected synergies arising from the acquisition of subsidiaries, amounting to P10.4 million for BMI, P63.9 million for MI and P3,917.4 million for UIBV representing excess of purchase price over the fair value of their respective net assets and net liability was recognized in the statements of financial position. Based on management's assessment, no impairment of goodwill is required to be recognized in 2017 and 2016.

26. SEGMENT INFORMATION

26.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;

(b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;

(c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas; and,

(d) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels.

Segment accounting policies are the same as the policies described in Note 2.5.

26.2 Segment Assets and Segment Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

26.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2017 and 2016, respectively.

26.4 Analysis of Segment Information

The tables presented below present revenue and profit information regarding business segments for the three months ended March 31, 2017 and 2016 and certain asset and liability information regarding segments as at March 31, 2017 and December 31, 2016.

	Shipping	Tugboats	Roll-on/ Roll-off Passenger	Ship Management and Crewing	Elimination	Consolidated
2017						
SEGMENT RESULTS						
Sales to external customers	P 262,807,995	P 63,944,044	P 289,925,436	P -	P -	P 616,677,475
Intersegment sales	14,123,546	2,913,214	-	47,576,243	(64,613,003)	-
Total revenues	276,931,541	66,857,258	289,925,436	47,576,243	(64,613,003)	616,677,475
Cost of sales and services	266,657,221	32,584,717	159,020,306	40,889,161	(50,489,457)	448,661,948
Other operating expenses	38,109,223	9,582,056	33,374,519	9,615,401	(21,051,978)	69,629,221
Operating profit (loss)	(27,834,903)	24,690,485	97,530,611	(2,928,319)	6,928,432	98,386,306
Finance costs	(95,760,511)	(1,545,242)	(7,885,483)	(146,903)	-	(105,338,139)
Finance income	1,010,892	320,841	570,699	2,281	-	1,904,713
Other income	9,096,031	-	40,624,785	241,301	(6,928,432)	43,033,685
Profit (loss) before tax	(113,488,491)	23,466,084	130,840,612	(2,831,640)	-	37,986,565
Tax expense (income)	(24,930,888)	6,176,245	30,163,255	(558,458)	-	10,850,154
Net profit (loss)	(P 88,557,603)	P 17,289,839	P 100,677,357	(P 2,273,182)	P -	P 27,136,411
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 16,230,473,379	P 694,782,831	P 2,431,528,466	P 60,775,987	(P 3,014,694,936)	P 16,402,865,727
Total liabilities	P 6,961,328,463	P 566,373,675	P 1,797,390,383	P 62,509,058	(P 619,108,078)	P 8,768,493,501
2016						
SEGMENT RESULTS						
Sales to external customers	P 310,042,511	P 48,775,957	P 235,521,233	P -	P -	P 594,339,701
Intersegment sales	8,000,000	1,958,214	-	14,437,500	(24,395,714)	-
Total revenues	318,042,511	50,734,171	235,521,233	14,437,500	(24,395,714)	594,339,701
Cost of sales and services	274,196,965	24,270,138	186,843,669	5,725,529	(24,395,714)	466,640,587
Other operating expenses	21,144,907	4,520,042	19,412,260	1,988,384	-	47,065,593
Operating profit (loss)	22,700,639	21,943,991	29,265,304	6,723,587	-	80,633,521
Finance costs	(39,130,493)	(6,956,431)	(7,914,892)	(43,801)	-	(54,045,617)
Finance income	5,813	1,212,630	192,588	686	-	1,411,717
Other income	7,403,598	-	445,023	-	-	7,848,621
Profit (loss) before tax	(9,020,443)	16,200,190	21,988,023	6,680,472	-	35,848,242
Tax expense (income)	3,055,508	4,943,782	7,200,428	2,022,203	-	17,221,920
Net profit (loss)	(P 12,075,951)	P 11,256,408	P 14,787,595	P 4,658,269	-	P 18,626,322
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 11,908,450,237	P 666,997,557	P 2,039,746,696	P 50,415,773	(P 3,905,705,287)	P 10,759,904,976
Total liabilities	P 7,670,587,723	P 472,688,162	P 1,504,934,459	P 49,875,662	(P 498,850,017)	P 9,199,235,989

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 28. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Group, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described in the succeeding paragraphs.

27.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are primarily denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the March 31, 2017 and December 31, 2016 closing rates follow:

	March 31, 2017	December 31, 2016
Financial assets	**P 76,107,017**	P 158,797,465
Financial liabilities	**(1,311,500,000)**	(1,780,781,091)
Net exposure	**(P 1,235,392,983)**	(P 1,621,983,626)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P55.6 million and P121.2 million in 2017 and 2016, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2017 and 2016 by the same amount. This sensitivity of the net result for the year assumes a +/- 4.50% and +/- 7.47% change of the Philippine peso/U.S. dollar exchange rate for the three months ended March 31, 2017 and 2016, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2017 and 2016 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At March 31, 2017 and December 31, 2016, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 13). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.39% in 2017 and +/- 0.45% in 2016. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.23% and +/- 0.58% in 2017 and 2016, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P16.3 million and +/- P13.7 million for the three months ended March 31, 2017 and 2016, respectively.

27.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position as summarized below.

	Notes	**March 31, 2017**	December 31, 2016
Cash and cash equivalents	4	**P 203,247,559**	P 508,940,431
Trade and other receivables – net (excluding advances to officers and employees)	5	**951,340,630**	934,141,422
Subscription receivable	22.1	**-**	350,000,000
Restricted cash	8, 12	**34,410,993**	39,388,529
Security deposits	8, 12	**5,353,369**	5,715,345
Advances to related parties	21.4	**-**	194,446,078
Other non-current assets (except drydocking costs)	12	**592,168**	259,123
		P 1,194,944,719	P 2,032,890,928

None of the financial assets are secured by collateral or other credit enhancements, except for cash as described in the below.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

In respect of trade and other receivables, 45.5% and 49.42% of the Group's outstanding receivables as of March 31, 2017 and December 31, 2016, respectively, represent claims from related parties. Based on historical information about default rates, management considers the credit quality of trade and other receivables that are not past due or impaired to be good.

Financial assets that are past due but not impaired pertain only to trade and other receivables as detailed below.

	March 31, 2017	December 31, 2016
Not more than three months	**P 241,445,656**	P 388,227,653
More than three months but not more than one year	**216,621,210**	238,062,334
More than one year	**129,105,743**	118,924,564
	P 587,172,609	P 745,214,551

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.

27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at March 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P 4,411,242,310	P 393,975,986	P 1,881,784,273	P 645,884,625
Trade and other payables (except for government-related obligations)	14	1,431,778,722	-	-	-
Advances from related parties	21.4	20,318,514	20,318,514	-	-
		P 5,863,339,546	P 414,294,500	P 1,881,784,273	P 645,884,625

As at December 31, 2016, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P 4,914,912,928	P 346,581,267	P 2,149,517,592	P 471,995,901
Trade and other payables (except for government-related obligations)	14	1,250,837,917	-	-	-
Advances from related parties	21.4	42,879,628	42,879,627	-	-
		P 6,208,630,473	P 389,460,894	P 2,149,517,592	P 471,995,901

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

28.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	March 31, 2017		March 31, 2016	
		Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:					
Loans and Receivables:					
Cash and cash equivalents	4	**P 203,247,559**	**P 203,247,559**	P 508,940,431	P 508,940,431
Trade and other receivables - net	5	**951,340,630**	**951,340,630**	934,141,422	934,141,422
Restricted cash	8, 12	**34,410,993**	**34,410,993**	39,388,529	39,388,529
Security deposits	8, 12	**5,353,369**	**5,353,369**	5,715,345	5,715,345
Subscription receivable	22.1	-	-	350,000,000	350,000,000
Advances to related parties	21.4	-	-	194,446,078	194,446,078
Other non-current assets (except for drydocking costs)	12	**592,168**	**592,168**	259,123	259,123
		P 1,194,944,719	**P 1,194,944,719**	P 2,032,890,928	P 2,032,890,928
Financial Liabilities:					
At amortized cost:					
Trade and other payables	14	**P 1,431,778,722**	**P 1,431,778,722**	P 1,250,837,917	P 1,250,837,917
Interest-bearing loans	13	**6,808,737,412**	**6,808,737,412**	7,372,782,178	7,372,782,178
Advances from related parties	21.4	**40,637,028**	**40,637,028**	85,759,255	85,759,255
		P 8,281,153,162	**P 8,281,153,162**	P 8,709,379,350	P 8,709,379,350

See Notes 2.6 and 2.11 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

28.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2017 and 2016 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by the parent company. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set off to the extent of the Group's outstanding cash deposited in the same banks.

29. FAIR VALUE MEASUREMENTS AND DISCLOSURES

29.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

29.2 Financial Instruments Measured at Fair Value

The table below shows the classes of financial assets measured at fair value in the statements of financial position on a recurring basis.

	Notes	March 31, 2017	December 31, 2016
Financial assets at FVTPL	6	P 11,279,636	P 11,279,636
AFS financial assets	9	3,065,089	3,065,089
		P 14,344,725	P 14,344,725

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the Philippines and U.S. stock exchanges at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of March 31, 2017 and December 31, 2016.

29.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed

The tables below and in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of March 31, 2017 and December 31, 2016, which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	2017			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	P 203,247,559	P -	P -	P 203,247,559
Trade and other receivables - net	-	-	951,340,630	951,340,630
Restricted cash	34,410,993	-	-	34,410,993
Security deposits	-	-	5,353,369	5,353,369
Other non-current assets (except for drydocking costs)	-	-	592,168	592,168
	P 237,658,552	P -	P 957,286,167	P 1,194,944,719
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 1,431,778,722	P 1,431,778,722
Interest-bearing loans	-	-	6,808,737,412	6,808,737,412
Advances from related parties	-	-	40,637,028	40,637,028
	P -	P -	P 8,281,153,162	P 8,281,153,162

	2016							
	Level 1		Level 2		Level 3		Total	
Financial Assets:								
Loans and Receivables:								
Cash and cash equivalents	P	508,940,431	P	-	P	-	P	508,940,431
Trade and other receivables - net		-		-		934,141,422		934,141,422
Restricted cash		39,388,529		-		-		39,388,529
Security deposits		-		-		5,715,345		5,715,345
Subscription receivable		-		-		350,000,000		350,000,000
Advances to related parties		-		-		194,446,078		194,446,078
Other non-current assets (except for drydocking costs)		-		-		259,123		259,123
	P	548,328,960	P	-	P	1,484,561,968	P	2,032,890,928
Financial Liabilities:								
At amortized cost:								
Trade and other payables	P	-	P	-	P	1,250,837,917	P	1,250,837,917
Interest-bearing loans		-		-		7,372,782,178		7,372,782,178
Advances from related parties		-		-		85,759,255		85,759,255
	P	-	P	-	P	8,709,379,350	P	8,709,379,350

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

29.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 10). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized as follows:

	March 31, 2017	December 31, 2016
Total liabilities	**P 8,768,493,501**	P9,199,235,989
Total equity	**7,634,372,226**	1,560,668,987
Debt-to-equity ratio	**1.15 : 1.00**	5.89 : 1.00

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 1:5. This is in line with the Group's bank covenants related to its borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

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Independent Auditors' Assurance Report on the Compilation of Pro Forma Condensed Consolidated Financial Information Included in a Prospectus

The Board of Directors
Chelsea Logistics Corp. and Subsidiaries
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

Introduction

We have completed our assurance engagement to report on the compilation of pro forma condensed consolidated financial information of Chelsea Logistics Corp. (the Company) and subsidiaries (collectively referred to herein as the Group). The pro forma condensed consolidated financial information consist of the pro forma condensed consolidated statement of financial position of the Group as of December 31, 2016, and the pro forma condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended. The applicable criteria on the basis of which management has compiled the pro forma condensed consolidated financial information are described in Note 2 to the pro forma condensed consolidated financial information.

The pro forma condensed consolidated financial information has been compiled by the Company's management to illustrate the impact of the events or transactions set out in Note 2 on the Group's consolidated financial position as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows as if the events or transactions occurred at an earlier date, that is, January 1, 2016. As part of this process, information about the Group's consolidated financial position, consolidated financial performance and consolidated cash flows are derived from the audited historical financial information of the Group, which were audited by us.

Responsibility for the Pro Forma Condensed Consolidated Financial Information

Management is responsible for compiling the pro forma financial information on the basis of the applicable criteria set out in Note 2 to the pro forma condensed consolidated financial information.

Auditors' Responsibilities

Our responsibility is to express an opinion, as required under Part II, paragraph 8 of the Securities Regulation Code Rule 68, As Amended, about whether the pro forma condensed consolidated financial information has been compiled, in all material respects, by the Company's management on the basis of the applicable criteria described in Note 2 to the pro forma condensed consolidated financial information.

We conducted our engagement in accordance with Philippine Standards on Assurance Engagements (PSAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Philippine Auditing and Assurance Standards Council. The standard requires that the auditors comply with the ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Company's management has complied, in all material respects, the pro forma financial information on the basis of the applicable criteria described in Note 2 to the pro forma condensed consolidated financial information.

The objective of this pro forma condensed combined financial statements is to show what the significant effects on the historical information might have been had the transaction occurred at an earlier date, that is, January 1, 2016. However, the pro forma condensed combined financial statements are not necessarily indicative of the effects of the results of operations or related effects on the financial position that would have been attained had the aforementioned transaction actually occurred earlier.

A reasonable assurance engagement to report on whether the pro forma condensed consolidated financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Company's management in the compilation of the pro forma condensed consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether the related pro forma adjustments give appropriate effect to those criteria, and, the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the auditors' judgment, having regard to the auditors' understanding of the nature of the Group, the events or transactions in respect of which the pro forma condensed consolidated financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma condensed consolidated financial information.

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

Opinion

In our opinion, the pro forma condensed consolidated financial information has been compiled, in all material respects, on the basis of the applicable criteria set out in Note 2 to the pro forma condensed consolidated financial information.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 5908629, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-19-2015 (until Mar. 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

June 8, 2017

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

ASSETS		Consolidated Balances		Pro Forma Adjustments		Pro Forma Consolidated Balances
CURRENT ASSETS						
Cash and cash equivalents	P	508,940,431	P	25,315,216	P	534,255,647
Trade and other receivables - net		944,516,250		759,847		945,276,097
Subscription receivable		350,000,000		-		350,000,000
Financial assets at fair value through profit or loss		11,279,636		-		11,279,636
Available-for-sale financial assets		3,065,089		-		3,065,089
Inventories		78,874,626		-		78,874,626
Advances to related parties		194,446,078		-		194,446,078
Other current assets		542,685,688		-		542,685,688
Total Current Assets		2,633,807,798		26,075,063		2,659,882,861
NON-CURRENT ASSETS						
Property and equipment - net		7,818,568,442		-		7,818,568,442
Investments in associates and a joint venture		45,560,925		2,484,788,188		2,530,349,113
Goodwill		74,294,814		7,199,934,841		7,274,229,655
Post-employment benefit asset		4,873,519		-		4,873,519
Deferred tax assets - net		7,300,178		-		7,300,178
Other non-current assets - net		175,499,300		-		175,499,300
Total Non-current Assets		8,126,097,178		9,684,723,029		17,810,820,207
TOTAL ASSETS	P	10,759,904,976	P	9,710,798,092	P	20,470,703,068

LIABILITIES AND EQUITY		Consolidated Balances		Pro Forma Adjustments		Pro Forma Consolidated Balances
CURRENT LIABILITIES						
Trade and other payables	P	1,358,754,469	P	-	P	1,358,754,469
Interest-bearing loans		5,029,479,642		-		5,029,479,642
Advances from related parties		85,759,255		-		85,759,255
Advances from customers		14,484,000		-		14,484,000
Deposits for future stock subscription		50,000,000		-		50,000,000
Income tax payable		75,923,029		-		75,923,029
Total Current Liabilities		6,614,400,395		-		6,614,400,395
NON-CURRENT LIABILITIES						
Interest-bearing loans		2,343,302,536		-		2,343,302,536
Post-employment benefit obligation		4,046,544		-		4,046,544
Deferred tax liabilities - net		223,354,572		-		223,354,572
Other non-current liabilities		14,131,942		-		14,131,942
Total Non-current Liabilities		2,584,835,594		-		2,584,835,594
Total Liabilities		9,199,235,989		-		9,199,235,989
EQUITY						
Capital stock		500,000,000		775,384,615		1,275,384,615
Additional paid-in capital		-		5,272,615,385		5,272,615,385
Revaluation reserves		1,370,998,267		1,385,596		1,372,383,863
Other reserves	(	1,058,033,280)		-		(1,058,033,280)
Retained earnings		747,704,000		3,661,412,496		4,409,116,496
Total Equity		1,560,668,987		9,710,798,092		11,271,467,079
TOTAL LIABILITIES AND EQUITY	P	10,759,904,976	P	9,710,798,092	P	20,470,703,068

See Notes to Pro Forma Condensed Consolidated Financial Information.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Consolidated Balances	Pro Forma Adjustments	Pro Forma Consolidated Balances
REVENUES			
Charter fees	P 1,422,433,646	P -	P 1,422,433,646
Tugboat fees	118,200,515	-	118,200,515
Standby charges	94,295,146	-	94,295,146
Sale of goods	3,456,051	-	3,456,051
	1,638,385,358	-	1,638,385,358
COST OF SALES AND SERVICES	1,261,203,111	-	1,261,203,111
GROSS PROFIT	377,182,247	-	377,182,247
OTHER OPERATING EXPENSES	155,452,662	-	155,452,662
OPERATING INCOME	221,729,585	-	221,729,585
OTHER INCOME (CHARGES) - Net			
Gain on derecognition of liabilities	-	3,770,099,597	3,770,099,597
Loss on derecognition of assets	-	(622,327,778)	(622,327,778)
Equity in net earnings of an associate	-	513,640,677	513,640,677
Finance costs	(260,854,770)	-	(260,854,770)
Gain on bargain purchase	158,228,158	-	158,228,158
Finance income	730,801	-	730,801
Other income	15,490,554	-	15,490,554
	(86,405,257)	3,661,412,496	3,575,007,239
PROFIT BEFORE TAX	135,324,328	3,661,412,496	3,796,736,824
TAX EXPENSE	3,644,520	-	3,644,520
NET PROFIT	P 131,679,808	P 3,661,412,496	P 3,793,092,304
Earnings Per Share (Basic and Diluted)	P 0.26		P 2.97

See Notes to Proforma Condensed Consolidated Financial Information.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Consolidated Balances	Pro Forma Adjustments	Pro Forma Consolidated Balances
NET PROFIT	P 131,679,808	P 3,661,412,496	P 3,793,092,304
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently through profit or loss:			
Revaluation of vessels	801,886,530	-	801,886,530
Remeasurement of post-employment benefit obligation	(47,994)	-	(47,994)
Currency exchange differences on translating financial statements of foreign operations	-	1,385,596	1,385,596
Tax expense	(23,690,669)	-	(23,690,669)
	778,147,867	1,385,596	779,533,463
TOTAL COMPREHENSIVE INCOME	P 909,827,675	P 3,662,798,092	P 4,572,625,767

See Notes to Pro Forma Condensed Consolidated Financial Information.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2016	P 1,000,000,000	P -	P 582,411,766	P -	P 561,933,606	P 2,144,345,372
Subscription of shares	500,000,000	-	-	-	-	500,000,000
Effect of business combination	(1,000,000,000)	-	-	(1,058,033,280)	-	(2,058,033,280)
Pro forma total comprehensive income for the year	-		779,533,463	-	3,793,092,304	4,572,625,767
Transfer of revaluation reserves through depreciation, net of tax	-	-	(54,090,586)	-	54,090,586	-
Other comprehensive income from acquired subsidiaries	-	-	64,529,220	-	-	64,529,220
Pro forma issuance of shares	775,384,615	5,272,615,385	-	-	-	6,048,000,000
Balance at December 31, 2016	P 1,275,384,615	P 5,272,615,385	P 1,372,383,863	(P 1,058,033,280)	P 4,409,116,496	P 11,271,467,079

See Notes to Pro Forma Condensed Consolidated Financial Information.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Consolidated Balances	Pro Forma Adjustments	Pro Forma Consolidated Balances
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	P 135,324,328	P 3,661,412,496	P 3,796,736,824
Adjustments for:			
Gain on derecognition of liabilities	-	(3,770,099,597)	(3,770,099,597)
Loss on derecognition of assets	-	622,327,778	622,327,778
Depreciation and amortization	457,719,091	-	457,719,091
Equity in net earnings of an associate	-	(513,640,677)	(513,640,677)
Interest expense	163,588,166	-	163,588,166
Gain on bargain purchase	(158,228,158)	-	(158,228,158)
Unrealized foreign currency losses - net	75,771,709	-	75,771,709
Interest income	(393,954)	-	(393,954)
Operating profit before working capital changes	673,781,182	-	673,781,182
Increase in trade and other receivables	(248,985,365)	-	(248,985,365)
Increase in advances to related parties	(353,995,562)	-	(353,995,562)
Increase in other current assets	(374,611,539)	-	(374,611,539)
Decrease in other non-current assets	3,253,168	-	3,253,168
Decrease in trade and other payables	(278,550,987)	-	(278,550,987)
Increase in advances from customers	9,375,509	-	9,375,509
Decrease in post-employment benefit obligation	(2,465,686)	-	(2,465,686)
Cash used in operations	(572,199,280)	-	(572,199,280)
Interest received	393,954	-	393,954
Cash paid for income taxes	(498,135)	-	(498,135)
Net Cash Used in Operating Activities	(572,303,461)	-	(572,303,461)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of interest in subsidiaries and a joint venture	(1,834,117,990)	-	(1,834,117,990)
Acquisitions of property and equipment	(1,116,845,333)	-	(1,116,845,333)
Additions to drydocking costs	(34,463,540)	-	(34,463,540)
Net Cash Used in Investing Activities	(2,985,426,863)	-	(2,985,426,863)
Balance carried forward	(P 3,557,730,324)	P -	(P 3,557,730,324)

		Consolidated Balances		Pro Forma Adjustments		Pro Forma Consolidated Balances
Balance brought forward	(P	3,557,730,324)	P	-	(P	3,557,730,324)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from interest-bearing loans		5,217,206,036		-		5,217,206,036
Repayments of interest-bearing loans	(	1,052,466,589)		-	(	1,052,466,589)
Repayments of advances from related parties	(	290,681,863)		-	(	290,681,863)
Interest paid	(	158,961,980)		-	(	158,961,980)
Proceeds from issuance of shares of stock		150,000,000		-		150,000,000
Net Cash From Financing Activities		3,865,095,604		-		3,865,095,604
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		4,786,753		1,345,219		6,131,972
NET INCREASE IN CASH AND CASH EQUIVALENTS		312,152,033		1,345,219		313,497,252
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARIES		165,961,224		-		165,961,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		30,827,174		23,969,997		54,797,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	P	508,940,431	P	25,315,216	P	534,255,647

Supplemental Information for Non-cash Investing and Financing Activities

1) The Group recognized revaluation increment, gross of tax, amounting to P801.9 million in 2016.

2) In 2016, the Group reclassified certain amount from Contruction-in-progress 0

3) Subscribed capital stock amounting to P350.0 million has not been collected as of December 31, 2016 and is presented as Subscription Receivable under current assets in the pro forma condensed consolidated statement of financial position.

4) The Company acquired Udenna Investments BV during the year through a share-swap agreement with its Parent Company whereby the Company issued 775,384,615 shares in exchange for a 100% interest in said subsidiary.

See Notes to Pro Forma Condensed Consolidated Financial Information.

CHELSEA LOGISTICS CORP. AND SUBSIDIARIES
(Formerly Chelsea Shipping Group Corp.)
(A Wholly Owned Subsidiary of Udenna Corporation)
NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
DECEMBER 31, 2016
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

These pro forma consolidated financial information are presented in the context of a planned initial public offering of common shares by Chelsea Logistics Corp. (CLC or the Company) and listing on the Philippine Stock Exchange. CLC was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to act as manager or managing agent of persons, associations, corporations, partnerships and other entities providing management, investment and technical advice; and to undertake, carry on, assist or participate in the organization, management, operation of corporations, partnerships and other entities engaged in commercial, industrial, manufacturing, shipping and other kinds of enterprises, except the management of funds, securities, portfolio or similar assets of the managed entities or corporation.

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

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

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

1.2 Subsidiaries and their Operations

As of December 31, 2016, the Company holds 100% ownership interests in Chelsea Shipping Corp. (CSC) and Trans-Asia Shipping Lines, Inc. (TASLI). The Group acquired CSC and TASLI through the purchase of said companies' outstanding shares of stock from their registered owners. The respective acquisitions of CSC and TASLI were completed by the Company in the last quarter of 2016.

CSC was incorporated on July 17, 2006 primarily to engage in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. As of December 31, 2016, CSC holds 100% ownership interests in the following subsidiaries:

(a) *Bunkers Manila, Inc. (BMI)* – established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(b) *Michael, Inc. (MI)* – engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(c) *PNX-Chelsea Shipping Corp. (PNX)* – engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(d) *Chelsea Ship Management & Marine Services Corp. (CSMMSC)* – engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(e) *Fortis Tugs Corporation (FTC)* – engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors, and other waterways between the various ports of the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of Davao Gulf Marine Services Inc. (DGMSI), a Davao-based tug service provider.

(f) *Chelsea Marine Manpower Resources, Inc. (CMMRI)* – engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

On the other hand, TASLI was incorporated on March 25, 1974 to engage in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. TASLI holds direct ownership interest in the following subsidiaries as of December 31, 2016:

(a) *Quality Metals & Shipworks, Inc. (QMSI)* – engaged in machining and mechanical works on ship machineries and industrial plants.

(b) *Oceanstar Shipping, Inc. (Oceanstar)* – engaged in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas.

(c) *Dynamic Cuisine, Inc. (DCI)* – engaged in operating restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in cooking and catering foods, drinks, refreshments and other foods or commodities.

(d) *Starsy Shoppe, Inc. (SSI)* – engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

On March 27, 2017, the Company acquired 100% interest in Udenna Investments BV (UIBV), which is included in the pro forma condensed consolidated financial information of the Company.

UIBV, formerly known as KGL Investment B.V, a private company with limited liability, was incorporated and organized under the laws of the Netherlands, having its corporate seat in Amsterdam. It is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV owns 219,609 of KGLI-NM Holdings, Inc. (KGLI-NM)'s voting Preferred C Shares and 39.97% of its voting rights. KGLI-NM owns 60% of Negros Navigation Co., Inc. (NENACO)'s voting stocks. NENACO, in turn, owns 98% of the publicly listed company 2Go Group, Inc.

CLC, together with CSC, TASLI, UIBV and their respective subsidiaries, are collectively referred herein as the Group.

2. BASIS OF PREPARING THE PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The pro forma condensed consolidated financial information of the Group have been prepared in accordance with paragraph 8, Part II of Rule 68 of the SEC's Implementing Rules and Regulations of the Securities and Regulation Code, as amended.

The pro forma condensed consolidated financial information have been prepared solely for the Group's planned initial public offering (IPO) and for no other purpose. The pro forma condensed consolidated financial information should be read in conjunction with the audited combined financial statements of CLC, CSC, TASLI and their respective subsidiaries as of and for the years ended December 31, 2016, 2015 and 2014 and the audited consolidated financial statements of CLC, CSC, TASLI and their respective subsidiaries as of and for the year ended December 31, 2016.

The objective of this pro forma condensed consolidated financial information is to show what the significant effects to the historical information might have been had the acquisition of UIBV occurred on January 1, 2016. However, the pro forma condensed consolidated financial information are not necessarily indicative of the financial performance or related effects on the Group's consolidated financial information that would have been attained, had the acquisition actually occurred at an earlier date. The pro forma condensed consolidated financial information are not intended to be considered in isolation from, or as a substitute for, consolidated financial position and consolidated financial performance prepared in accordance with Philippine Financial Reporting Standards.

The pro forma condensed consolidated financial information do not necessarily reflect what the Group's consolidated financial position and consolidated financial performance would have been had the acquisition of UIBV occurred at January 1, 2016. They may also not be useful in predicting the future consolidated financial position and consolidated financial performance of the Group. The actual financial position and financial performance may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The pro forma condensed consolidated financial information do not reflect the realization of any expected cost savings or other synergies from the acquisition of UIBV as a result of restructuring activities and other planned cost savings initiatives following the completion of the business combination.

The foregoing transactions have occurred as at December 31, 2016, have occurred subsequent to December 31, 2016, or are highly probable to occur before the consummation of the IPO. The effects of the pro forma adjustments were reflected as if such events and transactions have occurred at an earlier date. Below are the assumptions used by the Company's management in developing the pro forma adjustments:

- the Company is fully operational as if it was incorporated on January 1, 2016;
- UIBV's assets and liabilities were acquired by the Company on January 1, 2016 through issuance of its own capital stock at a premium;
- the derecognition of UIBV's assets and liabilities which resulted to a loss and gain, respectively, was done on January 1, 2016; and,
- the transactions related to the acquisition of UIBV and the derecognition of some of its assets and liabilities were translated using the applicable exchange rate as of January 1, 2016.

3. PRO FORMA ADJUSTMENTS

As discussed in Note 1, CLC acquired equity interests in UIBV. Management has elected to adopt the acquisition method of accounting to account for this business combination when preparing the pro forma condensed consolidated financial information. As such, the following are included as pro forma adjustments in preparing the Group's pro forma condensed consolidated financial information:

- assets acquired, including the income and expenses incurred by UIBV;
- issuance of capital stock as a result of the acquisition of UIBV;
- share in the net income of UIBV's associate for the year ended December 31, 2016;
- goodwill arising from the business combination; and,
- the resulting exchange differences from translation of UIBV's financial position and operating results.

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

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

The pro forma condensed consolidated financial information is based on the audited consolidated financial statements of CLC, CSC, TASLI and their respective subsidiaries as of and for the year ended December 31, 2016, and the financial statements of UIBV (translated using the applicable exchange rates) and its associate as of and for the year ended December 31, 2016. The pro forma adjustments are based upon available information and certain assumptions that the Group believes are reasonable under the circumstances. The pro forma condensed consolidated financial information do not purport to represent what the consolidated financial performance and consolidated financial position of the Group would have been had the significant acquisition described above occurred as of January 1, 2016, as the case may be, nor does it purport to project the consolidated financial performance and consolidated financial position of the Group for any future period or date.

The pro forma adjustments are based on our estimates and assumptions that are subject to change.

Pro forma adjustments for the transaction on the condensed consolidated statement of financial position as at December 31, 2016

For the purpose of the pro forma condensed consolidated statement of financial position as at December 31, 2016, the following pro forma adjustments have been made:

	Accounts Affected	Amount
1) Acquisition of net assets of a subsidiary	Cash and cash equivalents	P 25,315,216
	Trade and other receivables	759,847
	Investment in an associate	2,484,788,188
2) Issuance of additional shares to Udenna	Capital stock	775,384,615
	Additional paid-in capital	5,272,615,385
3) Goodwill adjustment from business combination	Goodwill	7,199,934,841
4) Elimination of subsidiary's equity	Capital stock	(775,384,615)
	Additional paid-in capital	(5,272,615,385)

- The acquisition of UIBV resulted to the consolidation of its net assets in the Company's pro forma condensed consolidated financial information.

- As a result of the acquisition of UIBV, the Company would issue additional shares to Udenna amounting to P775,384,615. Also, additional paid-in capital amounting to P5,272,615,385 was recognized.

- The acquisition by the Company to obtain 100% ownership interest in UIBV was effected as if it occurred effective January 1, 2016. As a result, UIBV has been fully consolidated in the pro forma condensed consolidated financial information effective January 1, 2016.

- For purposes of pro forma consolidation, the equity investment of the Company in UIBV was eliminated against UIBV's equity as at December 31, 2016 and goodwill arising from the business combination was recognized amounting to P7,199,934,841.

Pro forma adjustments for the transaction on the condensed consolidated statement of comprehensive income for the year ended December 31, 2016

For the purpose of the pro forma condensed consolidated statement of comprehensive income for the year ended December 31, 2016, the transactions are assumed to have occurred on January 1, 2016, beginning of the period presented. The following pro forma adjustments have been made:

	Accounts Affected		Amount
1) Derecognition of liabilities	Gain on derecognition of liabilities	P	3,770,099,597
2) Derecognition of assets	Loss on derecognition of assets	(	622,327,778)
3) Share in the net income of an associate	Equity in net earnings of an associate		513,640,677
4) Translation of financial statements of foreign operations	Currency exchange differences on translating financial statements of foreign operations		1,385,596

- The acquisition of UIBV resulted to the derecognition of its assets and liabilities. As a result, the Company recognized loss and gain amounting to P622,327,778 and P3,770,099,597, respectively.

- As a result of the acquisition of UIBV, the Company recognized its share in the net income of UIBV's associate amounting to P513,640,677.

- The translation of the financial statements of UIBV resulted to exchange differences (gain) amounting to P1,385,596.

Pro forma adjustments for the transaction on the condensed consolidated statement of changes in equity for the year ended December 31, 2016

For the purpose of the pro forma condensed consolidated statement of changes in equity for the year ended December 31, 2016, the transaction is assumed to have occurred on January 1, 2016. The following pro forma adjustments have been made:

- Additional total comprehensive income amounting to P3,662,798,092 was reflected in the pro forma condensed consolidated statement of comprehensive income.

- The Company issued shares to Udenna amounting to P775,384,615. Also, additional paid-in capital amounting to P5,272,615,385 was recognized.

Pro forma adjustments for the transaction on the condensed consolidated statement of cash flows for the year ended December 31, 2016

For the purpose of the pro forma condensed consolidated statement of cash flows for the year ended December 31, 2016, the transaction is assumed to have occurred on January 1, 2016. The following pro forma adjustments have been made:

- The acquisition of the UIBV's net assets resulted to the consolidation of UIBV's cash as at January 1, 2016 amounting to P23,969,997.
- The translation of UIBV's financial statements resulted to a gain on foreign exchange rate changes amounting to P1,345,219.

4. PRO FORMA BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders in 2016 are computed as follows:

Net profit	P3,793,092,304
Divided by weighted average shares outstanding	1,275,384,615
	P 2.97

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