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SEC Registration Number

NEGROS NAVIGATION CO., INC.  
AND SUBSIDIARIES  
(A MAJORITY OWNED SUBSIDIARY OF  
KGLI-NM HOLDINGS, INC.)

(Company's Full Name)

Pier 2, North Harbor, Tondo,  
Manila

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

Rocelie O. Mendoza

(Contact Person)

554-8777

(Company Telephone Number)

1 2 3 1

Month Day  
(Fiscal Year)

A F S - 0 9

(Form Type)

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
**Negros Navigation Co., Inc. and Subsidiaries**  
*(A majority owned subsidiary of  
KGLI-NM Holdings, Inc.)*  
Pier 2, North Harbor, Tondo, Manila.

We have audited the accompanying financial statements of **Negros Navigation Co., Inc. and Subsidiaries (A majority owned subsidiary of KGLI-NM Holdings, Inc.)**, which comprise the consolidated statements of financial position as of December 31, 2009 and 2008, and the consolidated statements of comprehensive income, cash flows and changes in equity for each of the three years then ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of **Negros Navigation Co., Inc. and Subsidiaries (A majority owned subsidiary of KGLI-NM Holdings, Inc.)** as of December 31, 2009 and 2008, and its consolidated financial performance and its cash flows for the three years then ended in accordance with Philippine Financial Reporting Standards.

**Reports on Other Legal and Regulatory Requirements**

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as whole. The information contained in Schedules A-I is the responsibility of the Company's management and is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. These supplementary schedules are also presented for the purpose of complying with the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our 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.

**Alba Romeo & Co.**



**ANTONIO V. CRUZ**

CPA Certificate No. 0017482

PTR No. 2124106, January 18, 2010, Makati City

TIN 141-791-333

SEC Accreditation No. 0038-AR-1 (Individual)

SEC Accreditation No. 0007-FR-1 (Firm)

BIR Accreditation No. 08-001682-3-2009

PRC/BOA Accreditation No. 0005

Makati City, Philippines

February 17, 2010

**NEGROS NAVIGATION CO., INC. AND SUBSIDIARIES**

*(A majority owned subsidiary of KGLI-NM Holdings, Inc.)*

**Consolidated Statements of Financial Position**

At December 31, 2009 and 2008

	Notes	2009	2008
		<i>(In Thousands)</i>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	P303,523	P190,549
Trade and other receivables - net	7	424,091	263,526
Inventories		53,145	41,419
Prepayments and other current assets		48,072	36,672
		<u>828,831</u>	<u>532,166</u>
Non-current assets held for sale	8	322,810	-
<b>Total current assets</b>		<u>1,151,641</u>	532,166
<b>Non-current assets</b>			
Available-for-sale investments	5	241	251
Property and equipment - net	9	1,434,982	1,506,084
Deferred tax assets	21	15,517	53,967
Other non-current assets - net		63,548	53,418
		<u>1,514,288</u>	<u>1,613,720</u>
<b>TOTAL ASSETS</b>		<u><u>P2,665,929</u></u>	<u><u>P2,145,886</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	10	P537,120	P442,477
Income tax payable		370	365
Cash bonds from agents		17,677	15,390
Current portion of:			
Obligations under finance lease	11	89,297	63,662
Restructured debts	12	73,900	132,934
Deferred credits		2,500	2,500
		<u>720,864</u>	<u>657,328</u>
<b>Total current liabilities</b>		<u>720,864</u>	657,328
<b>Non-current liabilities</b>			
Obligations under finance lease - net of current portion	11	314,801	207,965
Restructured debts - net of current portion	12	432,191	845,634
Deferred credits - net of current portion		7,083	9,583
Advances from related parties	22	-	329,455
Estimated retirement costs	18	33,241	17,655
Deferred tax liabilities	21	126,304	127,001
		<u>913,620</u>	<u>1,537,293</u>
<b>Total non-current liabilities</b>		<u>913,620</u>	1,537,293
<b>Total liabilities</b>		<u>1,634,484</u>	2,194,621
<b>Equity (Capital deficiency)</b>			
Share capital	13	3,025,733	2,960,810
Additional paid-in capital	22	1,774,652	890,932
Deposits for future stock subscription	22	-	280,310
Unrealized gain on available-for-sale investments		11	292
Deficit		<u>(3,768,951)</u>	<u>(4,181,079)</u>
<b>Total equity (capital deficiency)</b>		<u>1,031,445</u>	<u>(48,735)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>P2,665,929</u></u>	<u><u>P2,145,886</u></u>

*See accompanying Notes to Consolidated Financial Statements.*

NEGROS NAVIGATION CO., INC. AND SUBSIDIARIES

(A majority owned subsidiary of KGLI-NM Holdings, Inc.)

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2009, 2008 and 2007

	Notes	2009	2008	2007
			(In Thousands)	
Revenue	14	2,443,911	1,980,787	2,016,235
Direct costs and expenses	15	<u>(1,919,046)</u>	<u>(1,695,439)</u>	<u>(1,683,224)</u>
Gross profit		524,865	285,348	333,011
General and administrative expenses	16	(178,802)	(157,116)	(135,564)
Other income - net	19	<u>354,740</u>	<u>140,946</u>	<u>259,619</u>
Earnings before interest and tax		700,803	269,178	457,066
Interest and financing charges	20	<u>(239,276)</u>	<u>(161,383)</u>	<u>(236,150)</u>
Profit before tax		461,527	107,795	220,916
Provision for (benefit from) income tax	21	<u>49,399</u>	<u>(76,665)</u>	<u>(76,796)</u>
PROFIT FOR THE YEAR		412,128	184,460	297,712
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale investments		<u>(281)</u>	<u>(364)</u>	<u>146</u>
TOTAL COMPREHENSIVE INCOME		<u>P411,847</u>	<u>P184,096</u>	<u>P297,858</u>

See accompanying Notes to Consolidated Financial Statements.

**NEGROS NAVIGATION CO., INC. AND SUBSIDIARIES**  
*(A majority owned subsidiary of KGLI-NM Holdings, Inc.)*

**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2009, 2008 and 2007

	Notes	2009	2008 <i>(In Thousands)</i>	2007
<b>Cash flows from operating activities</b>				
Profit before tax		P461,527	P107,795	P220,916
Adjustments for:				
Income from reversal and condonation of debts		(583,835)	(59,105)	(115,544)
Excess of original value over the discounted value of obligations under finance lease	20	(13,787)	(12,193)	-
Interest expense and financing charges	19	239,276	161,383	236,150
Amortization of deferred credits		(2,500)	(2,500)	(2,500)
Interest income		(2,458)	(3,540)	(3,816)
Unrealized foreign exchange loss (gain)		13,999	(2,507)	(9)
Depreciation and amortization of property and equipment	9	233,252	214,413	204,802
Impairment of trade and other receivables		-	20,700	-
Reversal of allowance for doubtful accounts		(2,164)	-	-
Impairment loss on non-current assets held for sale	8	237,009	-	-
Impairment loss (recovery) of property and equipment	9	-	(70,306)	70,306
Provision for inventory write-down		-	29,644	-
Mark-to-market loss on embedded derivatives		-	-	549
Retirement expense	18	21,041	9,800	15,357
Gain from disposal of property and equipment		(1,712)	(33)	-
Operating cash flows before working capital changes		<u>599,648</u>	<u>393,551</u>	<u>626,211</u>
Decrease (increase) in:				
Trade and other receivables		(158,401)	40,935	(77,082)
Inventories		(11,726)	41,115	(71,352)
Prepayments and other current assets		59,080	(11,006)	(11,501)
Decrease in trade and other current liabilities		<u>9,109</u>	<u>(111,233)</u>	<u>(130,294)</u>
Cash generated from operations		<u>497,710</u>	<u>353,362</u>	<u>335,982</u>
Interest received		2,458	3,540	3,816
Income tax paid		(614)	-	-
Net cash provided by operating activities		<u>499,554</u>	<u>356,902</u>	<u>339,798</u>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property and equipment		1,712	48	-
Proceeds from sale of non-current asset held-for-sale		-	-	68,185
Additions to property and equipment	7	(506,200)	(380,063)	(225,487)
Decrease (increase) in other non-current assets		(10,440)	(31,435)	5,996
Net cash used in investing activities		<u>(514,928)</u>	<u>(411,450)</u>	<u>(151,306)</u>
<b>Cash flows from financing activities</b>				
Increase (decrease) in:				
Deposits for future stock subscription		360,750	180,310	-
Cash bonds from agents		2,287	1,338	450
Obligations under finance lease		(78,811)	(30,284)	(27,680)
Restructured debt		(85,988)	(4,464)	(42,482)
Advances from a related party		-	8,027	15,989
Retirement expense paid		(10,728)	(16,823)	(7,424)
Interest paid		(45,163)	(33,476)	-
Net cash provided by (used in) financing activities		<u>142,347</u>	<u>104,628</u>	<u>(61,147)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>(13,999)</u>	<u>2,507</u>	<u>9</u>
Net increase in cash and cash equivalents		112,974	52,587	127,345
Cash and cash equivalents at January 1		190,549	137,962	10,617
<b>Cash and cash equivalents at December 31</b>		<b>P303,523</b>	<b>P190,549</b>	<b>P137,962</b>

*See accompanying Notes to Consolidated Financial Statements.*

**NEGROS NAVIGATION CO., INC. AND SUBSIDIARIES**  
*(A majority owned subsidiary of KGLI-NM Holdings, Inc.)*

**Consolidated Statements of Changes in Equity**  
For the years ended December 31, 2009, 2008 and 2007

	Note	Share capital	Additional paid-In capital	Deposits for future stock subscription	Unrealized gain on available-for- sale investments	Deficit	Total
<i>(In Thousands)</i>							
<b>Balances at December 31, 2006</b>		P3,025,733	P826,009	P100,000	P510	(P4,663,251)	(P710,999)
Total comprehensive income		-	-	-	146	297,712	297,858
<b>Balances at December 31, 2007</b>		3,025,733	826,009	100,000	656	(4,365,539)	(413,141)
Additional deposit	22	-	-	180,310	-	-	180,310
Total comprehensive income		-	-	-	(364)	184,460	184,096
<b>Balances at December 31, 2008</b>		3,025,733	826,009	280,310	292	(4,181,079)	(48,735)
Additional deposit		-	-	360,750	-	-	360,750
Effect of conversion of:							-
Restructured debts		-	243,714	-	-	-	243,714
Advances from related parties		-	130,728	-	-	-	130,728
Deposits for future stock subscription		-	574,201	(641,060)	-	-	(66,859)
Total comprehensive income		-	-	-	(281)	412,128	411,847
<b>Balances at December 31, 2009</b>		P3,025,733	P1,774,652	P-	P11	(P3,768,951)	P1,031,445

*See accompanying Notes to Consolidated Financial Statements.*

**NEGROS NAVIGATION CO., INC. AND SUBSIDIARIES**  
*(A majority owned subsidiary of KGLI-NM Holdings, Inc.)*

**Notes to Consolidated Financial Statements**  
December 31, 2009 and 2008

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**Note 1 - Corporate information and approval of financial statements**

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Negros Navigation Co., Inc. (Company or NENACO) and its subsidiaries (collectively referred to as the Group) were incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on various dates. The Company was organized and registered with the SEC on July 26, 1932. The registration of the Company was subsequently renewed prior to its expiration in July 1982.

The registered office address of the Company is at Pier 2, North Harbor, Tondo, Manila.

The Company is primarily engaged in the business of transporting passengers and cargoes at various ports of call in the Philippines, which is considered as one business segment. The principal activities of the subsidiaries, which were all incorporated in the Philippines, are as follows:

Name of subsidiary	Principal activity	Percentage of ownership
Negrense Marine Integrated Services, Inc.	Hotel and allied services	100%
Brisk Nautilus Dock Integrated Services, Inc.	Arrastre	100%

In 2006, Negros Holdings & Management Corporation (NHMC), a company organized in the Philippines, acquired from Metro Pacific Corporation (MPC), a domestic company, 84.55% of its then 98.96% ownership in NENACO, thus effectively acquiring an 83.68% economic and voting interest in the issued and outstanding common stock of the Company.

Pursuant to an Investment Agreement dated May 14, 2008, NHMC and KGL Investment BV (KGLI BV) became strategic partners in NENACO. NHMC and KGLI BV set up KGLI-NM Holdings, Inc. (KGLI-NM) as their investment vehicle in NENACO, with KGLI BV contributing cash and NHMC contributing its above-mentioned 83.68% economic and voting interest in the issued and outstanding common stock of the Company.

On August 8, 2008, pursuant to the Investment Agreement, KGLI-NM acquired the remaining shares of MPC and Metro Pacific Management Services, Inc. (MPMSI), representing 15.29% and 0.07%, respectively, of the economic and voting interest in the issued and outstanding common stock of NENACO. Thereafter, KGLI-NM became the majority owner of NENACO, with a 99.04% economic and voting interest in the issued and outstanding common stock of NENACO.

Also, pursuant to the Investment Agreement, KGLI-NM, in 2008, acquired various loan receivables held by creditors of NENACO directly from the creditors, which KGLI-NM intended to contribute to NENACO as additional paid-in capital without issuance of additional shares by NENACO, and offsetting the same with the existing deficit of NENACO to reduce its capital deficiency (see Notes 12 and 22).

The consolidated financial statements of the Group for the year ended December 31, 2009 were authorized for issue in accordance with a resolution of the Board of Directors (BOD) on February 17, 2010.

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**Note 2 - Corporate rehabilitation, equity restructuring and status of operation**

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On March 29, 2004, the BOD approved and adopted a resolution authorizing the Company to take all actions necessary and desirable to rehabilitate the Company, including but not limited to the conversion of its obligations to equity, the amendment of its Articles of Incorporation, and increase or decrease of its authorized capital stock.

On March 29, 2004, the Company filed a Petition with Prayer for Suspension of Debt Payments and Approval of its Proposed Rehabilitation Plan with the Regional Trial Court (RTC) of Manila.

On April 1, 2004, the RTC of Manila issued a Stay Order relative to the Company's petition, which in part, placed on hold the enforcement of all claims, whether for money or otherwise, and whether such enforcement is by action or otherwise of the RTC of Manila, against the Company and prohibited the Company from making any payment of its liabilities outstanding as of the date of filing of the petition for corporate rehabilitation. The RTC of Manila also appointed a Rehabilitation Receiver to closely oversee and monitor the operations of the Company during the proceedings.

On October 4, 2004, the RTC of Manila approved the Company's Rehabilitation Plan, which implements the following: (1) a 10-year Business Plan aimed at restoring operational and business controls to optimize value and deliver quality service; and (2) a Debt Settlement Plan primarily designed to map out the short-term detailed milestones of the critical two years of rehabilitation (2005 and 2006).

On February 6, 2009, the Company filed with the RTC of Manila a motion to terminate proceeding on account of the successful implementation of the Court-Approved Rehabilitation Plan. As of December 31, 2009, the Court is yet to approve the said motion.

On October 16, 2009, the Company requested the court-appointed Rehabilitation Receiver for the approval of the Company to undergo an equity restructuring in order to remove from its financial statements its equity deficit. The Company's equity restructuring program includes the following:

- 1.) Conversion of certain liabilities to additional paid-in capital (APIC);
- 2.) Reduction of its par value from One Peso (P1.00) per share to Twenty Centavos (P0.20) per share; and
- 3.) Offsetting of APIC and reduction surplus with the deficit

On November 24, 2009, the court-appointed Rehabilitation Receiver recommended to the RTC of Manila the implementation of the above-mentioned equity restructuring program. Consequently, on January 18, 2010, the Company received the order from RTC of Manila directing the Company to proceed with the implementation of the equity restructuring program (see Note 26).

On December 22, 2009, as an initial phase of the implementation of the equity restructuring program, KGLI-NM assigned to the Company its various credits against and advances to the Company (see Note 12) as well as its deposits for future stock subscriptions (see Note 22) and the Company converted the same into APIC.

Eventually, the Group foresees that after the full implementation of the said equity restructuring program in early 2010, its deficit or accumulated losses amounting to P3.8 billion as December 31, 2009 would have a zero balance.

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**Note 3 - Summary of significant accounting and financial reporting policies**

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**Basis of preparation***Basis of measurement*

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale (AFS) investments carried at fair value and non-current assets held for sale carried at net realizable value.

*Statement of compliance*

The accompanying consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

*Functional and presentation currency*

The consolidated financial statements are prepared in Philippine Peso (P), which is also the Group's functional currency.

**Changes in accounting policies***a. New standards, interpretations and amendments to the existing standards effective in 2009.*

The following standards have been applied and are relevant in these consolidated financial statements effective 2009.

- Amendments to PFRS 7: Improving Disclosures about Financial Instruments

The amendments improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. It introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures help improved comparability between entities about the effects of the fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk. This is aimed at ensuring that the information disclosed enables users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk.

The adoption of this Amendment resulted in additional disclosures about the Group's financial instruments. The amendment does not change the recognition and measurement of transactions and balances in the consolidated financial statements.

- PAS 1 (Revised 2007), Presentation of Financial Statements

The changes made required information in financial statements to be aggregated on the basis of shared characteristics and introduce a statement of comprehensive income. This enables readers to analyze changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties).

As a result of the application of this Amendment the Group has elected to present single consolidated statements of comprehensive income; previously it presented a consolidated income statement. In addition an analysis of the tax effect of items recognized in other comprehensive income has been included in the notes. The Amendment does not change the recognition or measurement of transactions and balances in the consolidated financial statements.

The following new standards, amendments and interpretations to existing standards are effective in 2009 and adopted appropriately on the Group's consolidated financial statements:

Effective on or after January 1, 2009:

- PAS 23 (Revised), Borrowing Costs

Effective for annual periods beginning on or after January 1, 2009:

- Amendments on Cost of an Investment under PFRS 1 and PAS 27
- Amendments to Share-based Payment Standard under PFRS 2
- PFRS 8: Operating Segments
- Amendments on Puttable Financial Instruments under PAS 32 and PAS 1
- Improvements to PFRS 2008

Effective for annual periods on or after June 30, 2009:

- Amendments to IFRIC 9 and PAS 39 - Embedded Derivatives

Effective on or after July 1, 2009:

- PFRS 3 (Revised), Business Combinations
- PAS 27 (Revised), Consolidated and Separate Financial Statements
- IFRIC 18, Transfers of Assets from Customers

Effective for annual periods on or after July 1, 2009:

- PFRS 1 (Revised), First-time Adoption of Philippine Financial Reporting Standards
- Amendments to PAS 39: Eligible Hedged Items
- IFRIC 17, Distribution of Non-cash Assets to Owners

*b. Future changes in accounting policies*

The Group has opted not to early adopt the following new standards, amendments and interpretations to existing standards that are effective for periods subsequent to 2009.

- Amendments to PFRS 2: Company Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010).

The Amendments to PFRS 2 will clarify the scope of PFRS 2 when an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled. The Amendments will also clarify the interaction of PFRS 2 and other standards. In PFRS 2,

a group has the same meaning as in PAS 27, Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries.

The Group does not expect this Amendment to have an impact on its financial statements.

- Improvements to PFRS 2009 (effective for annual periods beginning on or after January 1, 2010).

Improvements to PFRS 2009 is a collection of amendments to PFRS issued by the FRSC which comprise the latest set of annual improvements. The FRSC uses the annual improvements project to make necessary, but non-urgent, amendments to PFRS that will not be included as part of another major project. The 2009 amendments reflect issues that are included in exposure drafts of; (a) proposed amendments to PFRS in October 2007; (b) proposed amendments to PFRS in August 2008; and (c) January 2009.

The Group has not yet adopted the following Amendments and anticipates that these Amendments will have no significant impact on its consolidated financial statements.

- PFRS 2, Share-based Payment, Scope of PFRS 2 and revised PFRS 3 - This confirms that, in addition to business combinations as defined by PFRS 3 (2008) Business Combinations, contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of PFRS 2.
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - This clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- PFRS 8, Operating Segments - This clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.
- PAS 1, Presentation of Financial Statements - This clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- PAS 7, Statement of Cash Flows - This requires that only expenditures that result in a recognized asset in the consolidated statements of financial position can be classified as investing activities.
- PAS 17, Leases- This eliminates inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of PAS 17.
- PAS 18, Revenue - This provides additional guidance regarding the determination as to whether an entity is acting as a principal or an agent.
- PAS 36, Impairment of Assets - This clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of PFRS 8 (i.e. before the aggregation of segments with similar economic characteristics permitted by PFRS 8.12).

- PAS 38, Intangible Assets - This clarifies the requirements under PFRS 3 (2008) regarding accounting for intangible assets acquired in a business combination. Additionally, this also clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.
- PAS 39, Financial Instruments: Recognition and Measurement - This clarifies that prepayment option, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract.
- Cash flow hedge accounting, amendment that clarifies when to recognize gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss.
- Hedging using internal contracts, amendment clarifies entities should no longer use hedge accounting for transactions between segments in their separate financial statements.
- IFRIC-9, Reassessment of Embedded Derivatives - This confirms that, in addition to business combinations as defined by PFRS 3 (2008), derivatives acquired in the formation of a joint venture and in common control transactions are within the scope of IFRIC 9.
- IFRIC-16, Hedges of a Net Investment in a Foreign Operation - This clarifies that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged.

## **Financial instruments**

### *Initial recognition*

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit and loss (FVPL).

### *Classification of financial instruments*

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS investments, financial assets at FVPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

### *Determination of fair value*

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models. The fair values of the Group's financial instruments are presented in Note 5.

### *Fair value measurement hierarchy*

The Group categorizes its financial asset and financial liability based on the lowest level input that is significant to the fair value measurement. The fair value hierarchy has the following levels: (a) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Group; (b) Level 2 - inputs that are observable in the marketplace other than those classified as Level 1; and (c) Level 3 - inputs that are unobservable in the marketplace and significant to the valuation.

### **Financial assets**

#### *Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading purposes, financial assets designated upon initial recognition as at FVPL, and derivative instruments. Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Included in this classification are debt and equity securities which have been acquired principally for trading purposes.

Financial assets are designated as at FVPL by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (b) the financial assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy; or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group does not have any financial asset under this category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

The Group's cash and cash equivalents, trade and other receivables, and due from related parties are included in this category.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

#### *HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has not designated any financial asset under this category.

#### *AFS investments*

AFS investments are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. AFS investments are carried at fair value in the statement of financial position. Changes in the fair value of such assets are reported in the "Unrealized gain (loss) on available-for-sale investments" in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired.

On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the statements of comprehensive income. Interest earned on holding AFS investments are recognized in the consolidated statements of comprehensive income using the effective interest rate method.

The Group's investments in golf shares are classified in this category.

### **Financial liabilities**

#### *Financial liabilities at FVPL*

Financial liabilities are classified in this category if these result from trading activities or when the Group elects to designate a financial liability under this category.

The Group has not designated any financial liability at FVPL.

#### *Other financial liabilities*

This classification pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Included in this category are liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes trade and other payables, obligations under finance lease, restructured debt and advances from related parties.

## **Derecognition of financial assets and liabilities**

### *Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: a) the contractual rights to receive cash flows from the asset have expired; b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or c) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through agreement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

### *Financial liability*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in "Other income - net" in the consolidated statements of comprehensive income.

## **Impairment of financial assets**

### *Assessment of impairment*

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

### *Evidence of impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

#### *Impairment on assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in "Other income - net" in the consolidated statements of comprehensive income.

#### *Impairment on assets carried at cost*

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### *Reversal of impairment 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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in "Other income - net" in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

#### **Classification of financial instruments between debt and equity**

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as expenses.

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or another financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

## **Inventories**

Inventories are carried at the lower of cost and net realizable value (NRV). Cost comprises all cost of purchase and other costs incurred in bringing Inventories to their present location or condition. Cost is calculated using the first-in, first-out method for materials and supplies and moving average method for fuel and lubricants. NRV of such inventories is the current replacement cost.

## **Non-current assets held for sale**

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within 12 months from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

## **Property and equipment**

Property and equipment, except land, are carried at cost, excluding day to day servicing less accumulated depreciation, amortization and impairment in value. The initial cost of property and equipment consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

The land is stated at cost less any impairment in value.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when the expenditure have resulted in an increase in an future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures for repairs and maintenance are charged to the operations during the year in which they are incurred.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Dry-docking costs, consisting mainly of main engine overhaul, steel plate replacement of the vessels' hull and related expenditures, are capitalized as part of "Property and equipment - net" account in the consolidated statements of financial position and amortized over a period of two to three years. When significant dry-docking expenditures are incurred prior to the end of the amortization period, the unamortized balance of the original dry-docking costs is expensed in the month of subsequent dry-docking.

Vessels under refurbishment, if any, include the acquisition cost of the vessels, the cost of ongoing refurbishments and other direct costs, less any impairment in value. Construction in-progress, if any, represents structures under construction and is stated at cost, less any impairment value. This includes cost of construction and other direct costs. Vessels under refurbishment and construction in progress are not depreciated until such time that the relevant assets are completed and put into operational use.

Vessel on lay-over, if any, represents vessel for which dry-docking has not been done pending availability of the necessary spare parts. Such vessel, included under the "Property and equipment - net" account in the consolidated statements of financial position is stated at cost less accumulated depreciation and any impairment in value.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property and equipment:

	Estimated Useful Lives in Years
Vessels and improvements	5-30
Leasehold improvements	5 to 20 or lease term, whichever is shorter
Containers	5 to 10
Terminal equipment	10
Furniture, fixtures and other equipment	5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the "Other income - net" in the consolidated statements of comprehensive income in the year the item is derecognized.

Property and equipment that qualifies as non-current assets held for sale are reclassified to current account. The Group does not depreciate such item of property and equipment while it is classified as held for sale.

The property and equipment's residual values, useful lives and depreciation and amortization method are reviewed and adjusted if appropriate, at each financial year end.

#### **Impairment of non-financial assets**

The Group assesses at each financial reporting date whether there is an indication that an item in the property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exists 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **Provisions and contingencies**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

### **Share capital**

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group ordinary shares are classified as equity instruments.

### **Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

The additional specific recognition criteria for each type of revenue as follows:

#### *Revenue from shipping operations*

Revenue from passage and freight is recognized when the related services are rendered. Customer payments for services which have not been rendered are recognized as “Unearned revenue” and are included in “Trade and other payables” account in the consolidated statements of financial position.

#### *Arrastre and stevedoring*

Revenue from arrastre and stevedoring is recognized when related services are rendered.

#### *Food and beverages*

Revenue from sale of food and beverages is recognized upon delivery and acceptance by customers.

#### *Rent*

Rental income from operating leases is recognized on a straight-line basis. Advance collections are recognized as liability and are included in “Deferred credits” account in the consolidated statements of financial position.

#### *Interest*

Interest income is recognized as the interest accrues using effective rate method.

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

#### *Group as lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognized as an expense in the “Direct costs and expenses” and “general and administrative expenses” accounts in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

#### *Group as lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases is recognized as income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

For income tax purposes, rental income and expense are taxable or deductible based on the provisions of the lease contracts.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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.

All other borrowing costs are expensed as incurred.

#### **Retirement benefits**

The Group has a funded, contributory defined benefit retirement plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous financial reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The estimated retirement cost is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

## Foreign currency transactions and translations

The Group determines its own functional currency, and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All differences are taken to the "Other income - net" in the consolidated statements of comprehensive income with the exception of differences on foreign currency borrowings that are regarded as adjustment to interest cost, which are capitalized as part of property and equipment during the construction period.

For income tax reporting purposes, exchange gains and losses are treated as taxable income or deductible expenses in the year realized.

## Income taxes

Income tax expense represents the sum of the current tax expense and deferred tax.

### *Current tax*

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

### *Deferred tax*

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

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

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset, if there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxing authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. The key management personnel of the Group and post-employment benefit plans for the benefit of the Group's employees are also considered to be related parties.

## **Events after the reporting date**

Post year-end events up to the date of the auditors' report that provide additional information about the Group's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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## **Note 4 - Significant accounting judgments, estimates and assumptions**

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The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from these estimates and assumptions used.

Judgments, estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group believes the following represent a summary of these significant judgments, estimates and assumptions and related impact on the consolidated financial statements.

### **Judgments**

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### *Determining functional currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the Philippine Peso. It is the currency that mainly influences the sale of services and the cost of providing the services.

#### *Classifying financial instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

### *Classifying leases*

The determination whether an arrangement contains a lease, is based on its substance. An arrangement is, or contains a lease when the fulfilment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

The Group has entered into operating lease arrangement as a lessor and as a lessee. The Group, as a lessee, has determined that the lessor retains substantial risks and rewards of ownership of these properties, which are on operating lease agreements. As a lessor, the Group retains substantially all the risks and benefits of ownership of the assets.

The Group has also entered into a finance lease agreement covering certain property and equipment. The Group has determined that it bears substantially all the risks and benefits incidental to ownership of said properties which are on finance lease agreements.

The carrying amount of the property and equipment under finance lease as of December 31, 2009 and 2008 amounted to P532.7 million and P334.1 million, respectively (see Note 11).

The rent expense under operating leases charged to operations for the years ended December 31, 2009, 2008 and 2007 amounted to P42.6 million, P50.5 million and P47.8 million respectively.

### *Legal contingencies*

The Group is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Group's management and legal counsel believe that the eventual liabilities under this lawsuits or claims, if any, will not have material effect on the financial statements. Accordingly, no provision for probable losses arising from legal contingencies was recognized in 2009 (see Note 24).

### **Estimates and assumptions**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty, at the financial reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

#### *Determining fair value of financial instruments*

The Group carries certain financial assets and liabilities at fair value, requiring extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair values of financial assets and liabilities including the methods and assumptions applied, and valuation techniques used are set out in Note 5.

#### *Estimating allowance for doubtful accounts*

The Group assesses its receivables at each financial reporting date whether an allowance for doubtful accounts should be provided for potentially uncollectible trade and other receivables. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors that affect collectability and actual results may differ resulting in future changes to the allowance. The Group also makes a collective impairment allowance which is based on the Group's historical loss experience, taking into account other factors such as current industry and economic trends.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The allowance is established by charges to income in the form of provision for doubtful accounts. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. An increase in provision for doubtful accounts would increase the Group's recorded expenses and decrease current assets.

Trade and other receivables, net of allowance for doubtful accounts of P51.9 million and P147 million, amounted to P424.1 million and P263.5 million as of December 31, 2009 and 2008, respectively. The Group made reversal of allowance for doubtful accounts amounting to P2.3 million and written-off several trade receivables amounting to P92.9 million in 2009. Provision for doubtful accounts recognized in 2008 amounted to P20.7 million (see Note 7).

#### *Determining net realizable value of inventories*

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. Inventories stated at NRV amounted to P53.1 million and P41.4 million as of December 31, 2009 and 2008, respectively.

#### *Estimating useful lives of property and equipment*

The useful life of each of the Group's item of property and equipment is estimated based on the period over which the asset is expected to be available for use until it is derecognized. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and 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 asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expenses and decrease the carrying value of property and equipment.

There is no change in the estimated useful lives of property and equipment during the year.

Property and equipment, net of accumulated depreciation, amortization and impairment loss of P2 billion and 2.2 billion, respectively, amounted to P1.4 billion and P1.5 billion as of December 31, 2009 and 2008, respectively (see Note 9).

#### *Estimating residual value of property and equipment*

The residual value of the Group's property and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the assets are already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of scrap steel. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of scrap steel.

There is no change in the estimated residual value of property and equipment during the year.

### *Impairment of non-financial assets*

Impairment review is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

Impairment recognized on non-current asset held for sale amounted to P237 million for the year ended December 31, 2009 (see Note 8). In 2008, the Company recognized a reversal of impairment loss on property and equipment amounted to P70.3 million (see Note 9).

### *Recognizing deferred tax asset*

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred tax assets to be utilized.

The Group has recognized deferred tax asset on its temporary differences to P15.5 million and P54 million in 2009 and 2008, respectively. However, temporary differences for which no deferred tax assets are recognized amounted to P325.5 million and P234.4 million in 2009 and 2008, respectively (see Note 21).

### *Estimating retirement costs*

The determination of the obligation and retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include among others, discount rate and rate of compensation increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations.

The discount rate and the expected rate of return on plan assets are determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Total retirement expense recognized as "Employee benefits" under the "Direct costs and expenses" and "General and administrative expenses" included in the consolidated statements of comprehensive income amounted to P21 million and P10 million in 2009 and 2008, respectively (see Note 17).

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## **Note 5 - Financial instruments - Risk management**

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The Group is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Foreign exchange risks
- Interest-rate risks
- Other market price risk

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

## Principal financial instruments

The Group's principal financial instruments comprise of cash and cash equivalents, obligations under finance lease, restructured debt and advances from a related party. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has other various financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

The following table sets form the carrying value of financial instruments held by category:

### Financial assets

	Loans and receivables		Available-for-sale investments	
	2009	2008	2009	2008
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Cash and cash equivalents	P303,523	P190,549	P -	P -
Trade and other receivables	424,091	263,526	-	-
Available-for-sale investments	-	-	241	251
Long-term receivables from customers*	21,968	22,308	-	-
	<b>P749,582</b>	<b>P476,383</b>	<b>P241</b>	<b>P251</b>

\*Included in "Other non-current assets - net" account in the consolidated statements of financial position.

### Financial liabilities at amortized cost

	2009	2008
	<i>(In Thousands)</i>	
Trade and other payables	P537,120	P442,477
Obligations under finance leases:		
Current portion	89,297	63,662
Non-current portion	314,801	207,965
Restructured debts:		
Current portion	73,900	132,934
Non-current portion	432,191	845,634
Advances from related parties	-	329,455
	<b>P1,447,309</b>	<b>P2,022,127</b>

## Financial instruments measured at fair value

The following sets forth the fair value of financial instruments:

### Financial assets

	Fair value measurement at December 31, 2009 using		
	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>		
Available-for-sale investments	P241	P-	P-

The fair values were determined by reference to market bid quotes as of financial reporting date.

### Credit risks

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

To manage credit risk, the Group has policies in place to ensure that all customers that wish to trade on credit terms are subject to credit verification procedures and approval of the Credit Committee. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts. The Group has policies that limit the amount of credit exposure to any particular customer.

The Group does not have any significant credit risk exposure to any single counterparty. The Group's exposures to credit risks are primarily contributable to cash and collection of trade receivables and advances from related parties. The maximum credit risk exposure of the Group to credit risk corresponds to the carrying amount of the following financial assets as of December 31, 2009 and 2008:

	2009		2008	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Cash and cash equivalents	P303,523	P303,523	P190,549	P190,549
Trade and other receivables	424,091	424,091	263,526	263,526
Available-for-sale financial assets*	241	241	251	251
Long-term receivables from customers*	21,968	21,968	22,308	22,308
	<u>P749,823</u>	<u>749,823</u>	<u>P476,634</u>	<u>P476,634</u>

\* Included in "Other non-current assets - net" account in the consolidated statements of financial position.

The aging analysis of financial assets is as follows:

	Carrying Value	Up to 3 months	Between 3 to 12 months	Between 1 to 2 years	Between 2 to 5 years	Over 5 years
<b>December 31, 2009</b>						
Trade and other receivables	P424,091	P162,773	P261,318	P-	P-	P-
Available-for-sale investment	241	-	-	241	-	-
Long-term receivables from customers*	21,968	-	-	-	-	21,968
	<u>P446,300</u>	<u>P162,773</u>	<u>P261,318</u>	<u>P241</u>	<u>P-</u>	<u>P21,968</u>
<b>December 31, 2008</b>						
Trade and other receivables	P263,526	P260,917	P2,609	P-	P-	P-
Available-for-sale investment	251	-	-	251	-	-
Long-term receivables from customers*	22,308	-	-	-	-	22,308
	<u>P286,085</u>	<u>P260,917</u>	<u>P2,609</u>	<u>P251</u>	<u>P-</u>	<u>P22,308</u>

\* Included in "Other non-current assets - net" account in the consolidated statements of financial position.

### Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group has no borrowings issued at variable rates thus; the Group is not subject to cash flow interest-rate risk. However, borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As of December 31, 2009, P793.7 million of borrowings was at fixed rates ranging from 2.5% to 7.5% for ten years. Interest accrual re-starts only upon signing by the creditors of the settlement agreements. Accrual of interest for 2009 and 2008 amounted to P63.8 million and P53.1 million, respectively.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the following tables are noninterest-bearing and are therefore not subject to interest rate risk.

The following table summarizes the Group's exposure to the effects of future changes in the market interest rates:

	Floating rate instruments	Fixed rate instruments	Interest free instruments	Total
<i>(In Thousands)</i>				
<b>December 31, 2009</b>				
Cash and cash equivalents	P303,523	P-	P-	P303,523
Obligations under finance lease	-	287,654	116,444	404,098
Restructured debts	-	506,091	-	506,091
	<b>P303,523</b>	<b>P793,745</b>	<b>P116,444</b>	<b>P1,213,712</b>
<b>December 31, 2008</b>				
Cash and cash equivalents	P190,549	P-	P-	P190,549
Obligations under finance lease	-	210,833	60,794	271,627
Restructured debts	-	978,568	-	978,568
Advances from related parties	-	-	329,455	329,455
	<b>P190,549</b>	<b>P1,189,401</b>	<b>P390,249</b>	<b>P1,770,199</b>

The following table demonstrates the sensitivity analysis based on the exposure to interest rates for outstanding borrowings and cash and cash equivalents. The analysis is prepared assuming the amounts of these financial instruments outstanding at the reporting date were outstanding for the whole year. A 100% change in basis points is used in reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Change in basis points	Effect on profit before tax	
	2009	2008
100	P4,947,000	P10,050,000
(100)	(4,947,000)	(10,050,000)

### Foreign exchange risk

Currency risk arises when the Group enters into transactions denominated in currencies other than their functional currency.

The Group is not exposed to significant foreign currency risk given that majority of financial assets and liabilities are denominated in the Group's functional currency. As of December 31, 2009 the Group's cash equivalent denominated in US Dollar amounted to P266 million.

The Group has recognized in its other income, foreign exchange revaluation gains/loss of P8.4 million and P4.1 million on its foreign-currency denominated liabilities in 2009 and 2008, respectively. This resulted from the movements of the Philippine Peso against the US Dollar as shown in the following table:

December 31, 2008	P47.647* : USD 1
December 31, 2009	P46.425* : USD 1

\* The exchange rate used to translate the U.S. Dollar amounts into Philippine Peso as quoted through the Philippine Dealing System.

While all of the Group's revenue is neither linked to nor denominated in foreign currencies, minor part of the Group's debt, capital expenditures and operating expenses are denominated in US Dollars.

In translating the foreign currency-denominated monetary liabilities into peso amounts, the Group used the exchange rates as shown on the table above.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar rate, with all variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and monetary liabilities) at December 31, 2009 and 2008.

Peso appreciates (depreciates) by	Effect on profit before tax	
	2009	2008
2%	P5,331,033	P1,912,410
(2%)	(5,331,033)	(1,912,410)

### Liquidity risk

The Group manages its liquidity profile to be able to finance its capital expenditures and service its maturing debt by maintaining sufficient cash during the peak season of the passage business.

The Group regularly evaluates its projected and actual cash flow generated from operations.

The following table sets out the contractual maturities of the Group's financial liabilities as of December 31, 2009 and 2008:

	Carrying Value	Up to 3 months	Between 3 to 12 months	Between 1 to 2 years	Between 2 to 5 years	Over 5 years
<i>(In Thousands)</i>						
<b>December 31, 2009</b>						
Trade and other payables	P537,120	P356,042	P181,078	P-	P-	P-
Obligations under finance lease	404,098	25,658	63,639	75,690	215,004	24,107
Restructured debt	506,091	40,980	217,895	80,451	166,765	-
	<u>P1,447,309</u>	<u>P422,680</u>	<u>P462,612</u>	<u>P156,141</u>	<u>P381,769</u>	<u>P24,107</u>
<b>December 31, 2008</b>						
Trade and other payables	P442,477	P272,634	P169,843	P-	P-	P-
Obligations under finance lease	271,627	16,534	47,128	95,120	98,999	13,846
Restructured debt	978,568	15,780	90,980	231,743	640,065	-
	<u>P1,692,672</u>	<u>P304,948</u>	<u>P307,951</u>	<u>P326,863</u>	<u>P739,064</u>	<u>P13,846</u>

The corresponding maturities of trade and other payables are as follows:

	Carrying Value	Current	31 - 60 days	61 - 90 days	>90 days but not > 360 days
<i>(In Thousands)</i>					
<b>December 31, 2009</b>					
Trade	P352,619	P136,229	P46,349	P24,945	P145,096
Accrued taxes expenses	138,936	93,045	6,975	2,934	35,982
Unearned passage and freight revenue	30,086	30,086	-	-	-
Others	15,479	15,479	-	-	-
	<u>P537,120</u>	<u>P274,839</u>	<u>P53,324</u>	<u>P27,879</u>	<u>P181,078</u>
<b>December 31, 2008</b>					
Trade	P282,533	P101,025	P33,894	P18,325	P129,289
Accrued taxes expenses	133,622	84,411	5,552	3,105	40,554
Unearned passage and freight revenue	16,799	16,799	-	-	-
Others	9,523	9,523	-	-	-
	<u>P442,477</u>	<u>P211,758</u>	<u>P39,446</u>	<u>P21,430</u>	<u>P169,843</u>

#### Capital risk management objectives and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for others stakeholders and produce adequate and continuous opportunities to its employees; and
- To provide an adequate return to shareholders by pricing products/services commensurately with the level of risk

The Group sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Since the Group is undergoing Corporate Rehabilitation, its strategy, which is consistent from 2004, was to improve and eventually achieve a positive capital ratio, in order to secure access to finance at a reasonable cost by maintaining a credit worthy rating.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position. The capital ratios are as follows:

	<u>2009</u>	<u>2008</u>
Assets financed by:		
Creditors	<b>61%</b>	102%
Stockholders	<b>39%</b>	(2%)

The improvement in the capital ratio during the year resulted primarily from the equity restructuring of the Company recognizing conversion of certain liabilities to APIC (see Note 2) and a favorable result of its operations during the year.

The Group is not subject to externally imposed capital requirements.

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#### **Note 6 - Cash and cash equivalents**

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	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Cash on hand	<b>P14,923</b>	P7,321
Cash in bank	<b>22,517</b>	41,341
Short-term investments	<b>266,083</b>	141,887
	<b><u>P303,523</u></b>	<u>P190,549</u>

Cash in bank earns interest at the prevailing bank deposit rates. Short-term investments pertain to placement in special savings deposit with maturity of less than 90 days and have interest rates of 0.75% in 2009 for US Dollar placements and 3.55% to 4.80% in 2008 for Peso placements. Interest income from these placements and interest from regular bank savings account are included in the "Other income - net" line item in the consolidated statements of comprehensive income (see Note 19).

#### Non-cash transactions and financing facilities

During the 2009 financial year, the Group acquired P219.3 million (2008: P259.3 million) of equipment under a finance lease. This acquisition was reflected in the cash flow statement over the term of the finance lease *via* lease repayments (see Note 9). The Group has also converted certain restructured debts, advances from related parties and deposits for future stock subscription to equity of P948.6 million (see Notes 12 and 22).

Summary of significant non-cash transactions and its effect in the cash flow statements are as follows:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
<i>Operating activities</i>		
Income tax paid through tax credits	<b>P29,204</b>	P9,134
<i>Investing activities</i>		
Acquisition cost of property and equipment under finance lease	<b>219,295</b>	259,307
<i>Financing activities</i>		
Liabilities under finance leases not yet paid	<b>214,901</b>	P229,894
Debts converted into equity	<b>948,643</b>	-

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**Note 7 - Trade and other receivables - net**


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	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Trade	<b>P388,892</b>	P348,020
Advances to officers and employees	<b>32,624</b>	19,775
Due from customers and suppliers	<b>13,730</b>	9,203
Others	<b>35,795</b>	33,527
	<b>471,041</b>	410,525
Less: Allowance for doubtful receivables	<b>46,950</b>	146,999
	<b>P424,091</b>	<b>P263,526</b>

Receivables amounting to P60 million as of December 31, 2009 and 2008 were assigned to secure certain long-term debts of the Group (see Note 12). The credit terms of trade receivables range from 30 to 90 days.

Book values approximate to fair value at December 31, 2009 and 2008.

The aging of trade receivables is as follows:

Account	Carrying Value	Current	31 - 60 days	61 - 90 days	91 - 360 days	> 360 days
Trade	P388,892	P44,377	P39,923	P47,780	P209,863	P46,950
Advances to officers and employees	32,624	7,592	1,987	7,319	15,726	-
Due from customers and suppliers	13,730	1,625	1,806	1,984	8,315	-
Others	35,795	5,015	2,998	4,423	23,359	-
	471,041	58,609	46,714	61,506	257,263	46,950
Allowance for doubtful accounts	(46,950)	-	-	-	-	(46,950)
<b>As at December 31, 2009</b>	<b>P424,091</b>	<b>P58,609</b>	<b>P46,714</b>	<b>P61,506</b>	<b>P257,263</b>	<b>P-</b>
Trade	P348,020	156,425	31,579	16,996	21,788	121,232
Advances to officers and employees	19,775	19,719	56	-	-	-
Due from customers and suppliers	9,203	3,062	469	128	4,789	755
Others	33,527	3,506	-	2,462	-	27,559
	410,525	182,712	32,104	19,586	26,577	149,546
Allowance for doubtful accounts	(146,999)	-	-	-	-	(146,999)
<b>As at December 31, 2008</b>	<b>P263,526</b>	<b>P182,712</b>	<b>P32,104</b>	<b>P19,586</b>	<b>P26,577</b>	<b>P2,547</b>

The movements in the allowance for doubtful receivables are as follows:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
At January 1	P146,999	P128,556
Add: Provisions	-	20,700
Less: Accounts written-off	97,885	2,257
Reversal of allowance	<u>2,164</u>	<u>-</u>
At December 31	<u>P46,950</u>	<u>P146,999</u>

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**Note 8 - Non-current assets held for sale**

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On December 21, 2009, the President of the Group determined the feasibility of the sale of the Group's two vessels, namely "M/V St. Joseph the Worker" and "M/V San Paolo" pursuant to the re-fleeting program of the Group, and approved the said sale considering the uncontrollable surge in repair charges and anticipated loss to continue operating these vessels. These activities do not fit with the overall strategic objectives of the Group and therefore the management is seeking to dispose-off the vessels.

The decision to sell those assets has met the criteria for recognizing them as non-current assets held for sale and a sale is expected to occur in the near future. Accordingly, the Group reclassified the carrying values of the said vessels to "Non-current assets held for sale" account in the consolidated statements of financial position after recognizing an impairment loss of P237 million writing down their carrying amounts to P322.8 million as their net realizable values.

## Note 9 - Property and equipment - net

	Land	Vessels and Improvements	Leasehold Improvements	Containers	Terminal Equipment	Furniture, Fixtures and Other Equipment	Total
<i>(In thousands)</i>							
<b>Cost</b>							
At January 1, 2008	P3,064	P1,605,463	P281,412	P719,318	P324,191	P297,729	P3,231,177
Additions	-	543,803	1,000	44,266	35,393	14,908	639,370
Adjustments	-	(157,408)	-	(80)	-	(275)	(157,763)
At December 31, 2008	3,064	1,991,858	282,412	763,504	359,584	312,362	3,712,784
Additions	-	491,500	18,881	139,139	47,632	28,343	725,495
Adjustments	-	(50,175)	-	(1,712)	-	(20)	(51,907)
Reclassification to non-current held for sale	-	(961,623)	-	-	-	-	(961,623)
At December 31, 2009	3,064	1,471,560	301,293	900,931	407,216	340,685	3,424,749
<b>Accumulated depreciation and amortization</b>							
At January 1, 2008	-	732,386	226,967	705,979	292,226	276,350	2,233,908
Depreciation and amortization	-	181,787	5,076	11,284	7,141	9,125	214,413
Adjustments	-	(157,408)	-	(80)	-	(260)	(157,748)
Adjustments on disposal	-	-	-	(13,567)	-	-	(13,567)
Reversal of impairment	-	(70,306)	-	-	-	-	(70,306)
At December 31, 2008	-	686,459	232,043	703,616	299,367	285,215	2,206,700
Depreciation and amortization	-	180,766	5,353	22,814	10,640	13,679	233,252
Adjustments	-	(46,647)	-	(1,712)	-	(22)	(48,381)
Reclassification to non-current held for sale	-	(401,804)	-	-	-	-	(401,804)
At December 31, 2009	-	418,774	237,396	724,718	310,007	298,872	1,989,767
<b>Net book value</b>							
December 31, 2009	<b>P3,064</b>	<b>P1,052,786</b>	<b>P63,897</b>	<b>P176,213</b>	<b>P97,209</b>	<b>P41,813</b>	<b>P1,434,982</b>
December 31, 2008	P3,064	P1,305,399	P50,369	P59,888	P60,217	P27,147	P1,506,084
December 31, 2007	P3,064	P873,077	P54,445	P13,339	P31,965	P21,379	P997,269

Vessels and improvements, containers and terminal equipment include assets acquired under finance lease arrangements (see Note 11). The related depreciation for these leased assets was computed based on the Group's depreciation policy for owned assets.

Included in the total additions are those assets acquired under finance lease agreements with total costs of P219.3 million in 2009 and P259.3 million in 2008.

Depreciation and amortization are recognized and presented in the following accounts in the consolidated statements of comprehensive income:

	2009	2008	2007
<i>(In Thousands)</i>			
Direct costs and expenses (see Note 15)	<b>P222,952</b>	P205,360	P191,764
General and administrative expenses (see Note 16)	<b>10,300</b>	9,053	13,038
At December 31	<b>P233,252</b>	P214,413	P204,802

In 2008, the Group's operating vessels turned out to be operating at higher utilization rates relative to its projections which prove to be less drastic than initially expected by management. As a result, management re-assessed its previous impairment analysis. This favorable change requires the Group to re-estimate the recoverable amount of the vessels. The favorable change in the estimates used to determine the recoverable amount of the vessels since the last impairment loss was recognized. As a result, the Group recognized a reversal of the impairment loss amounting to P70.3 million in the consolidated statements of comprehensive income (see Note 19).

The recoverable amount was based on the value in use and was determined at the cash-generating unit level (i.e., business operations of each vessel). In determining the value in use for the cash-generating unit, the cash flows projected to be generated by each vessel was discounted using the Group's weighted average cost of capital, on a pretax basis.

During the year, the Group reclassified certain vessels with carrying value of P559.8 million to non-current assets held for sale (see Note 8).

The following properties are mortgaged to secure certain obligations of the Group as of December 31, 2009 and 2008 (see Notes 11 and 12):

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
<b>Non-current assets held for sale:</b>		
M/S San Paolo	<b>P121,271</b>	P-
<b>Property and equipment:</b>		
Land*	-	3,064
Vessels and improvements - at net book value		
M/S St. Joseph the Worker *	-	300,279
M/S St. Peter the Apostle *	-	201,941
M/S San Paolo	-	127,481
M/V San Sebastian*	-	19,449
M/V San Agustin Uno **	<b>266,771</b>	274,180
M/V San Rafael Dos **	<b>136,373</b>	-
Containers **	<b>128,863</b>	59,888

\* These properties were released as securities to the obligations to it has been attached (see Note 12)

\*\* Properties under finance lease (see Note 11)

In 2009, the carrying values of the Company's property and equipment were reviewed for impairment. Based on this review, management believes that there is no indication that the Company's property and equipment are impaired and the carrying value approximates its fair value or recoverable value.

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#### **Note 10 - Trade and other payables**

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	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Trade	<b>P352,619</b>	P282,534
Accrued taxes, interest and other expenses	<b>138,936</b>	133,622
Unearned passage and freight revenue	<b>30,086</b>	16,799
Others	<b>15,479</b>	9,522
	<b><u>P537,120</u></b>	<b><u>P442,477</u></b>

Terms of trade payables range from 30 to 90 days.

Book values approximate to fair value at December 31, 2009 and 2008. Maturity analysis of the trade and other payables is disclosed in Note 5.

## Note 11 - Obligations under finance lease

The Group entered into various finance lease arrangements with third parties for the lease of containers and vessels. The lease agreements provide for the transfer of ownership to the Group at the end of the lease term, which among other considerations met the criteria for a finance lease. Therefore, the leased assets were capitalized.

The future minimum lease payments on the obligations under finance lease together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments	Interest	Present value
	<i>(In Thousands)</i>		
Not later than one year	P95,844	P6,547	P89,297
Later than one year and not later than five years	300,867	10,174	290,693
Later than five years	24,108	-	24,108
<b>December 31, 2009</b>	<b>P420,819</b>	<b>P16,721</b>	<b>P404,098</b>
	Minimum lease payments	Interest	Present value
	<i>(In Thousands)</i>		
Not later than one year	P67,056	P3,394	P63,662
Later than one year and not later than five years	199,433	5,314	194,119
Later than five years	13,846	-	13,846
<b>December 31, 2008</b>	<b>P280,335</b>	<b>P8,708</b>	<b>P271,627</b>

The obligations under finance leases are presented in the consolidated statements of financial position as follows:

	Carrying value		Fair value	
	2009	2008	2009	2008
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Current	P89,297	P63,662	P125,321	P52,690
Non-current	314,801	207,965	331,788	139,500
	<b>P404,098</b>	<b>P271,627</b>	<b>P457,109</b>	<b>P192,190</b>

The fair value of obligations under finance lease based on cash flows discounted using a rate based on the credit rating of those computing the discount rate applied was in the range of 3.75% and 6.25% for 2009 and 2008.

The net carrying amounts of property and equipment held by the Group under finance leases are summarized as follows (see Note 9):

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Containers	<b>P157,450</b>	P 77,281
Vessel	<b>407,007</b>	278,582
	<u>564,457</u>	<u>355,863</u>
Less: Accumulated depreciation	<b>32,450</b>	21,756
Total	<b><u>P532,007</u></b>	<b><u>P334,107</u></b>

The interest expense recognized related to this account amounted to P40.4 million in 2009 and P16.4 million in 2008 under “Interest and financing charges” line item in the consolidated statements of comprehensive income (see Note 20).

#### **Note 12 - Restructured debts**

Relating to the Group’s rehabilitation (see Note 2), certain liabilities outstanding as of October 4, 2004, which relate to transactions entered into by the Group prior to March 29, 2004, were reclassified to “Restructured debts” account in the Group’s consolidated statements of financial position.

The carrying value and fair value of restructured debts are as follows:

	Carrying value		Fair value	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Current	<b>P73,900</b>	P135,205	<b>P132,934</b>	P186,899
Non-current	<b>432,191</b>	509,268	<b>845,634</b>	1,188,925
Total restructured debts	<b><u>P506,091</u></b>	<u>P644,473</u>	<b><u>P978,568</u></b>	<u>P1,375,824</u>

The fair value of restructured debts based on cash flows discounted using a rate based on the credit rating of those computing the discount rate applied was in the range of 3.75% and 6.25% for 2009 and 2008.

The secured and unsecured portions of the restructured debts are as follows:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Secured	<b>P 73,925</b>	P442,645
Unsecured	<b>432,166</b>	535,923
Total	<u>506,091</u>	<u>978,568</u>
Less: Current portion	<u>73,900</u>	<u>132,934</u>
Non-current portion	<b><u>P432,191</u></b>	<b><u>P845,634</u></b>

Prior to restructuring, the outstanding debts arising from the following obligations are now presented at discounted values as follows:

	2009	2008
	<i>(In Thousands)</i>	
Trade and other payables	P351,348	P 445,295
Long-term debt	110,178	473,721
Notes payable	43,035	55,691
Obligations under finance leases	1,530	3,861
	<b>P506,091</b>	<b>P978,568</b>

The effective interest of the debts ranges from 6.69% to 15.21% for both 2009 and 2008.

The fair values of both current and non-current restructured debts are based on cash flows discounted using rates based on the applicable market rate. The discount rate applied were within the range 4.07% to 6.25% in 2009 and 5.75% to 7.20% in 2008.

The terms of the restructured debts are as follows:

Facility	Long-term Notes
Payment term	<ul style="list-style-type: none"> <li>▪ Ten years, inclusive of four years grace period on principal repayment</li> </ul>
Interest rates	<ul style="list-style-type: none"> <li>▪ 5.0% per year from Year 1 (2005) to Year 4 on secured debt and past due lease/rentals equipment/container vans. The interest rate beginning Year 5 will be increased to 7.5%; and the accrual of the 2.5% interest differential shall begin in Year 5, but shall be paid in Year 10.</li> <li>▪ 2.5% per year on unsecured obligations.</li> </ul>
Interest payments	<ul style="list-style-type: none"> <li>▪ Interest due in Year 1 will be paid in 5-year redeemable preferred shares.</li> <li>▪ Cash payment on interest and dividends shall start in Year 2 and shall be remitted on a quarterly basis.</li> </ul>
Principal repayment	<ul style="list-style-type: none"> <li>▪ Payment to start in Year 5 on a quarterly basis under the following annual distribution (as percentage of the beginning principal balance): <ul style="list-style-type: none"> <li>Year 5 to 8      15% each year</li> <li>Year 9 to 10    20% each year</li> </ul> </li> </ul>
Security	<ul style="list-style-type: none"> <li>▪ Secured creditors will keep the properties that they hold as security to their credits.</li> </ul>

Certain restructured debts are secured over the Group's freehold properties and trade receivables (see Notes 7 and 9).

The terms of the approved Rehabilitation Plan provide that interest expense for the first year of rehabilitation will be settled through the issuance of redeemable preferred shares. However, on June 20, 2007, the Group filed with the RTC of Manila a motion to alter/modify such provision for settlement of interest for Year 1, due to its difficulty in obtaining the preferred shares' subscription requirement from the SEC and raising enough funds to create a sinking fund for the eventual redemption of the above-mentioned preferred shares.

Under the petition, the Group proposes that instead of issuing redeemable preferred shares as payment for the interest for Year 1 of its restructured debt obligations, the said interest with terms and conditions substantially the same as the key features of the preferred shares, shall be settled as follows:

- a) the Year 1 interest shall be payable on year five (5);
- b) the Year 1 interest will earn interest at rates of five percent (5%) per annum for the secured creditors and two point five percent (2.5%) per annum for the unsecured creditors;
- c) in case the Group has excess cash, it will pay the said Year 1 interest prior to the payment of unscheduled principal amortization; and
- d) the Year 1 interest may, at the option of the creditor, be convertible into common shares of the Group within the five-year period.

As of December 31, 2009, the above-mentioned petition has yet to be approved by the RTC of Manila.

As provided in the Rehabilitation Plan, all unpaid interest as of March 31, 2004 and interest accruals at new interest rates shall form part of the principal. Interest accrual for each creditor shall start on the date of the signing of the respective executory documents. The court-appointed Rehabilitation Receiver is also of the opinion that interest should indeed start to accrue at the time of the signing of the new settlement agreement. For the years ending December 31, 2009 and 2008 the Group only accrued interest for those creditors who have signed the new settlement agreement, which amounted to P37.0 million and P24.2 million, respectively.

As discussed in Note 2, as an initial phase of the implementation of the equity restructuring program, KGLI-NM assigned to the Group its various credits against and advances to, as well as its deposits for future subscription with, the Group, and the Group converted the same into APIC. Accordingly, the Company's restructured debts acquired by KGLI-NM in 2008 amounting to P419.3 million (net of unamortized discount of P94.5 million) were converted into equity. As a result of this conversion, the Group recognized a gain of P270.1 million, included in the "Other income - net" in the consolidated statements of comprehensive income, and an increase in additional paid-in capital account of P243.7 million.

Total interest and finance charges recognized by the Group relating to restructured debts amounted to P198.9 million and P145 million (includes discount amortization of P175.5 million and P108.3 million) in 2009 and 2008, respectively (see note 20).

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**Note 13 - Share capital**

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	Number of shares		Amount	
	2009	2008	2009	2008
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Authorized - P1 par value per share	<u>4,000,000</u>	<u>4,000,000</u>	<u>P4,000,000</u>	<u>P4,000,000</u>
Issued and fully paid	<u>3,025,733</u>	<u>3,025,733</u>	<u>P3,025,733</u>	<u>P3,025,733</u>

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**Note 14 - Revenue**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Freight	<b>P1,433,121</b>	P1,066,188	P1,039,827
Passage	<b>680,405</b>	687,393	753,949
Food and beverage	<b>256,854</b>	129,897	111,272
Others	<b>73,531</b>	97,309	111,187
	<b><u>P2,443,911</u></b>	<b><u>P1,980,787</u></b>	<b><u>P2,016,235</u></b>

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**Note 15 - Direct costs and expenses**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Fuel, oil and lubricants	<b>P875,892</b>	P840,617	P743,138
Depreciation and amortization (see Note 9)	<b>222,952</b>	205,360	191,764
Personnel costs (see Note 17)	<b>163,960</b>	135,379	144,182
Cargo handling and port charges	<b>144,803</b>	54,032	85,187
Repairs and maintenance	<b>124,612</b>	133,015	134,478
Cost of food and beverages	<b>98,085</b>	65,699	63,813
Outside services	<b>66,224</b>	32,069	15,526
Rent (see Note 23)	<b>40,639</b>	48,640	46,623
Insurance	<b>33,476</b>	20,247	25,794
Advertising and promotion	<b>26,880</b>	29,880	26,439
Communication, light and water	<b>22,611</b>	20,924	31,930
Materials and supplies used	<b>19,492</b>	23,195	17,846
Food and subsistence	<b>13,639</b>	13,284	13,721
Commission	<b>8,753</b>	9,366	24,791
Professional and legal fees	<b>3,896</b>	3,834	21,136
Others	<b>53,132</b>	59,898	96,856
	<b><u>P1,919,046</u></b>	<b><u>P1,695,439</u></b>	<b><u>P1,683,224</u></b>

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**Note 16 - General and administrative expenses**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Personnel costs	P76,145	P53,628	P53,654
Professional and legal fees	19,547	15,360	16,318
Entertainment, amusement and recreation	12,798	7,997	9,247
Transportation and travel	12,755	4,584	8,698
Depreciation and amortization	10,300	9,053	13,038
Repairs and maintenance	10,019	4,641	3,750
Communication, light and water	9,725	10,748	7,647
Corporate rehabilitation costs	4,208	4,054	7,343
Outside services	3,898	1,584	2,249
Materials and supplies used	2,299	3,269	3,366
Rent	1,920	1,859	1,218
Taxes and licenses	1,337	1,073	750
Insurance	707	337	1,414
Advertising and promotion	297	31	1,457
Provision for doubtful accounts	-	2,248	-
Provision for inventory write-down	-	29,644	-
Others	12,847	7,006	5,415
	<u>P178,802</u>	<u>P157,116</u>	<u>P135,564</u>

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**Note 17 - Personnel costs**

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Personnel costs included in:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Direct costs and expenses (see Note 15)	P163,960	P135,379	P144,182
General and administrative expenses (see Note 16)	76,145	53,628	53,654
	<u>P240,105</u>	<u>P189,007</u>	<u>P197,836</u>

Details of personnel costs are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Salaries and wages	P154,179	P141,511	P144,182
Retirement costs (see Note 18)	21,041	9,800	15,357
Other employee benefits	64,885	37,696	39,837
	<u>P240,105</u>	<u>P189,007</u>	<u>P199,376</u>

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## Note 18 - Retirement benefits

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The retirement benefit cost is equivalent to one hundred percent (100%) of the employee's monthly salary as of the date of retirement multiplied by the total years of credited service. This may be given in lump sum or in yearly installments but not exceeding five annual installments, at the Group's option.

Each employee and the Group shall contribute regularly to the Plan as follows:

- Employee - 2% of total annual basic salary, such contribution shall be made through equal deductions by the Group from the participant's salary on each payday.
- Group - 6% of the participant's total annual basic salary, such contributions shall be paid by the Group to a designated Trustee once a month but not later than the 10th day of the following month.

The following tables summarize the components of retirement costs included in "Direct costs and expenses" and "General and administrative expenses" in the statement of comprehensive income and "Estimated retirement costs" in the consolidated statements of financial position, which are based on the latest actuarial valuation of 2009:

Movements in the retirement costs are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Composition of estimated retirement costs:*			
Current service cost	<b>P4,350</b>	P3,783	P3,998
Interest cost on benefit obligation	<b>4,849</b>	5,244	3,451
Expected return on plan assets	<b>(530)</b>	(202)	(152)
Net actuarial loss (gain) recognized	<b>4,569</b>	(6,793)	(108)
Amortization of transitional liability	<b>9,620</b>	9,380	9,658
	<u><b>22,858</b></u>	<u>11,412</u>	<u>16,847</u>
Less: employee share	<u><b>1,817</b></u>	<u>1,612</u>	<u>1,490</u>
	<u><b>P21,041</b></u>	<u>P9,800</u>	<u>P15,357</u>

\* Included in personnel costs in Note 17

Movements in the estimated retirement costs are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Estimated retirement costs:			
Balance beginning	<b>P17,655</b>	P24,678	P16,744
Retirement costs			
Employer	<b>21,041</b>	9,800	15,357
Employee	<b>1,817</b>	1,612	1,490
Actual contributions	<b>(7,272)</b>	(18,435)	(2,502)
Payments made out of Group funds	<u>-</u>	<u>-</u>	<u>(6,411)</u>
Balance ending	<u><b>P33,241</b></u>	<u>P17,655</u>	<u>P24,678</u>

Movements in the present value of retirement obligation (PVRO) are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Balance beginning	<b>P53,835</b>	P54,058	P53,280
Current service cost	<b>4,350</b>	3,783	3,998
Interest cost on benefit obligation	<b>4,849</b>	5,244	3,451
Actuarial loss (gain)	<b>5,131</b>	(5,750)	(260)
Benefits paid	<b>(8,008)</b>	(3,500)	(6,411)
	<b><u>P60,157</u></b>	<u>P53,835</u>	<u>P54,058</u>

Movement in the fair value of plan assets (FVPA) is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Balance beginning	<b>P26,481</b>	P10,103	P7,601
Actual return on plan assets	<b>1,132</b>	1,213	-
Actual contributions	<b>7,272</b>	18,435	2,502
Benefits paid	<b>(8,008)</b>	(3,270)	-
	<b><u>P26,877</u></b>	<u>P26,481</u>	<u>P10,103</u>

The reconciliation of the PVRO and FVPA to the estimated retirement costs recognized in the Group's statements of financial position is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
PVRO	<b>P60,157</b>	P53,835	P54,058
FVPA	<b>(26,877)</b>	(26,481)	(10,103)
Unfunded PVRO	<b>33,280</b>	27,354	43,955
Unamortized transitional liability	<b>(39)</b>	(9,699)	(19,277)
Estimated retirement costs	<b><u>P33,241</u></b>	<u>P17,655</u>	<u>P24,678</u>

The allocation of the fair value of the beneficial trust fund's assets for the Group's defined benefit plan as follows:

	<u>2009</u>	<u>2008</u>
		<i>(In Thousands)</i>
Cash in banks	<b>P900</b>	P568
Investments in temporary placements	<b>13,167</b>	5,397
Receivables	<b>12,810</b>	20,516
Balance at December 31	<b><u>P26,877</u></b>	<u>P26,481</u>

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used to determine pension benefit obligation are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Discount rate	<b>9.00%</b>	9.00%	9.72%
Rate of increase in compensation	<b>3.00%</b>	3.00%	3.00%
Expected return of plan assets	<b>2.00%</b>	2.00%	2.00%

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**Note 19 - Other income - net**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Income from reversal of liabilities	<b>P583,835</b>	P59,105	P279,958
Excess of original value over the discounted value of obligations under finance lease	<b>13,787</b>	12,193	-
Interest income	<b>2,458</b>	3,540	3,816
Impairment (loss)/gain of non-current assets held for sale/property and equipment	<b>(237,009)</b>	70,196	(70,306)
Foreign exchange gain (loss) and others - net	<b>(8,331)</b>	(4,088)	46,151
	<b><u>P354,740</u></b>	<b><u>P140,946</u></b>	<b><u>P259,619</u></b>

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**Note 20 - Interest and financing charges**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Restructured debts (see Note 12)	<b>P198,922</b>	P145,009	P214,654
Obligations under finance lease (see Note 11)	<b>40,354</b>	16,374	6,131
Notes payable	-	-	15,365
	<b><u>P239,276</u></b>	<b><u>P161,383</u></b>	<b><u>P236,150</u></b>

Interest and financing charges include amortization of discounts amounted to P175.5 million, P108.3 million and P179.2 million in 2009, 2008 and 2007, respectively (see Note 12).

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**Note 21 - Income taxes**

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<i>(In Thousands)</i>	
Current tax	<b>P37,724</b>	P9,134	P12,366
Deferred tax:			
Origination of temporary difference	<b>11,675</b>	(93,436)	(65,006)
Changes in tax rate	-	7,637	(24,156)
	<b><u>P49,399</u></b>	<b><u>(P76,665)</u></b>	<b><u>(P76,796)</u></b>

Based on the re-assessment made by management in 2009, the Group recognized the previously unrecognized deferred tax assets amounting to P15.5 million arising from allowance for doubtful accounts in previous years. The improvement on the results of the Group's operations makes management believe that the Group will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria.

Details of the deferred tax and amounts recognized in profit or loss and in other comprehensive income are as follows:

	Asset	Liability	(Charged)/ Credited to profit and loss	Charged to equity
<i>(In Thousands)</i>				
<b>December 31, 2009</b>				
Allowance for doubtful accounts	P15,517	P-	P15,517	P-
NOLCO	-	-	(P28,160)	-
Excess of original value over the discounted value financial liabilities	-	126,300	968	-
Change in fair value of AFS investments	-	4	-	(4)
	<b>P15,517</b>	<b>P126,304</b>	<b>(P11,675)</b>	<b>(P4)</b>
<b>December 31, 2008</b>				
NOLCO	P28,160	P-	P28,160	P-
MCIT	25,807	-	25,807	-
Excess of original value over the discounted value financial liabilities	-	126,993	33,789	-
Change in fair value of AFS investments	-	8	-	(267)
Unrealized foreign exchange gain	-	-	(1,957)	-
	<b>P53,967</b>	<b>P127,001</b>	<b>P85,799</b>	<b>(P267)</b>

The following are the Group's other deductible temporary differences for which deferred tax assets have not been recognized because management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized:

	2009	2008
<i>(In Thousands)</i>		
Provision for impairment loss	<b>P237,009</b>	P-
Estimated retirement costs	<b>32,403</b>	17,419
Unearned passage and freight revenue	<b>30,086</b>	16,799
Unrealized foreign exchange loss	<b>13,999</b>	2,507
Accrued sick leave	<b>7,782</b>	7,379
Provision for inventory obsolescence	<b>4,239</b>	4,234
Allowance for doubtful accounts	-	147,017
Interest expense under PAS 39, net of accretion	-	30,681
NOLCO	-	8,414
	<b>P325,518</b>	<b>P234,450</b>

Reconciliation between the income tax expense computed at statutory income tax rates of 30% and 35% in 2009 and 2008, respectively, and the provision for income tax expense as shown in the consolidated statements of comprehensive income is as follows:

	<u>2009</u>	<u>2008</u> <i>(In Thousands)</i>	<u>2007</u>
Profit before tax	<b>P461,527</b>	P107,795	P220,916
Tax effect of income at statutory rate	<b>138,458</b>	37,729	77,321
Tex effect of:			
Non-taxable income	<b>(175,480)</b>	-	(69,120)
Income subjected to final tax	<b>(746)</b>	(1,262)	(278)
Non-deductible expense	<b>452</b>	763	141
Unrecognized DTA	<b>102,232</b>	(10,217)	33,042
Expired portion of MCIT	-	3,760	-
Expired NOLCO	-	25,248	(93,746)
Recognition of previously unrecognized DTA	<b>(15,517)</b>	(140,323)	-
Effect of change in tax rate	-	7,637	(24,156)
	<b><u>P49,399</u></b>	<b><u>(P76,665)</u></b>	<b><u>(P76,796)</u></b>

On May 24, 2005, Republic Act No. 9337 (the Act) was enacted, to be effective commencing on November 1, 2005. Among the significant changes in the Act include the increase in the regular corporate income tax for domestic corporations from 32% to 35% beginning November 1, 2005 and the reduction of the same to 30% beginning January 1, 2009. Under the Act, all other laws, acts, decrees, executive orders, issuances and rules and regulations or parts thereof which are contrary to and inconsistent with any provisions of the Act were repealed, amended or modified.

#### **Note 22 - Related party transactions**

The related parties, domiciled in the Philippines, are as follows:

<b>Name of Related Party</b>	<b>Related Party Relationship</b>	<b>Form of business structure</b>	<b>Operation and principal activity</b>
NHMC	Ultimate parent	Corporation	Holding and management company
KGLI-NM	Immediate parent	Corporation	Holding company
Negros Navigation Ocean Link Training Center, Inc. (Ocean Link)	A subsidiary of the Company's ultimate parent	Corporation	Training center/ Institute
Ocean Wave Cruisers International Manning Agency, Inc. (Ocean Wave)	A subsidiary of the Company's ultimate parent	Corporation	Manning agency
Express Lead Time Solutions, Inc. (Express Lead)	A subsidiary of the Company's ultimate parent	Corporation	Logistics/ Trucking
I-Travel Xpress, Inc. (I-Travel)	A subsidiary of the Company's ultimate parent	Corporation	Travel agency

The following summarizes the transactions and balances made within the period:

Nature of transaction	Note	Year	Trade and other receivables	Restructured debt (Note 12)	Advances from related parties	Deposit for future stock subscription	Additional paid-in capital	Profit and (loss) for the year
Conversion to APIC	(i)	2009 2008	P- -	(P419,282) -	(P329,455) -	(P641,060) -	P948,643 -	P583,835 -
Liabilities and deposits acquired	(ii)	2009 2008	- -	- 419,282	- 329,455	- 100,000	- -	- -
Additional deposit	(iii)	2009 2008	- -	- -	- -	360,750 180,310	- -	- -
Management fee	(iv)	2009 2008	- -	- -	- -	- -	- -	(4,210) -
Cash advances	(v)	2009 2008	P20,764 -	- -	- -	- -	- -	- -
<b>Total</b>		<b>2009</b>	<b>P20,764</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P948,643</b>	<b>P579,625</b>
Total		2008	P-	P419,282	P329,455	P280,310	P-	P-

Notes:

- (i) As discussed in Note 2 to the financial statements, as an initial phase of the implementation of the equity restructuring program, KGLI-NM assigned to the Group its various credit against and advances to, as well as deposits for future stock subscription with, the Group, and the Group converted the same into APIC. Accordingly, the Group's restructured debts, advances and deposits acquired by KGLI-NM in 2008 and additional deposit made in 2009 amounting to P419.3 million (net of unamortized discount of P94.5 million), P329.5 million (net of unamortized discount of P48.2 million) and P33.1 million, respectively, were converted to equity. As a result of this conversion, the Group recognized a gain from equity restructuring for a total of P583.8 million, included in the "Other income - net" in the statements of comprehensive income, and an increase in additional paid-in capital account of P948.6 million.
- (ii) In 2008, pursuant to the Investment Agreement as discussed in Note 1, KGLI-NM acquired certain debts of the Group's creditors, subject to the same credit arrangements.
- (iii) In 2008, KGLI-NM made an additional deposit to the Group amounting to P180.3 million. Another deposit was made in the amount of P360.8 million.
- (iv) This represents consultancy fee in accordance with the Investment Agreement provision as disclosed in Note 1 in consideration of the technical and consulting services provided by KGLI-NM. Consultancy fee is based on ten percent (10%) of the net income before taxes of the Group.
- (v) Advances to related parties account represents reimbursable expenses assumed by the Group from its affiliates, which are interest free and re-payable upon demand. Details of the advances are as follows:

	2009	2008
	<i>(In Thousands)</i>	
NHMC	P10,046	-
I-Travel	5,792	-
Ocean Link	2,981	-
Express Lead	1,916	-
Ocean Wave	29	-
	<b>P20,764</b>	<b>P-</b>

Compensation of key management personnel of the Group is as follows:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Short-term employee benefits	<b>P26,998</b>	P25,904
Retirement costs	<b>1,932</b>	1,391
	<b><u>P28,930</u></b>	<b><u>P27,295</u></b>

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#### **Note 23 - Lease commitment**

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The future aggregate minimum lease payments under several operating leases are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>		
Within one year	<b>P 3,170</b>	P 7,587	P37,773
Within two to four years	<b>11,856</b>	13,065	115,101
Five years and onwards	<b>966</b>	—	78,401
	<b><u>P 15,922</u></b>	<b><u>P 20,652</u></b>	<b><u>P231,275</u></b>

The Group paid operating lease rentals in respect of office and equipment of P42.6 million, P50.5 million, and P49.4 million in 2009, 2008 and 2007, respectively.

Below are the terms of the significant lease agreements:

- In 2007, a lease contract was entered with Bank of Commerce (lessor) for the lease of the latter's land with a total area of 14,655 square meters at Barangay Banago, Bacolod City. The agreement required for the payment of an advance deposit and rental, which is presented as part of "Other non-current assets - net" account in the consolidated statements of financial position. The contract is valid up to August 2012 with a monthly rental of P0.3 million starting on August, 2007. The contract provides for an annual escalation of 5% beginning in August 2008. In 2009, the contract was pre-terminated due to the change of lessor and now the property is being leased out from 426 Holdings, Inc. with the same terms and condition.

Total rentals charged to rental expense during the period of 2009 amounted to P3.4 million, P3.2 million in 2008 and P4.2 million in 2007.

- On April 1, 2001, the Group entered into an agreement with GE Sea Co. (lessor) for the lease of 1,516 units of 20-footer dry freight containers for three years commencing on the date of delivery of the containers at rates agreed upon by both parties. Thereafter, the lease shall, unless negotiated 90 days prior to termination, remain in full force until terminated by either party. In 2009, the Group acquired the leased properties from GE Sea Co., which automatically terminated the lease contracts.

Total rentals charged by GE Sea Co. to operations amounted to P1.3 million in 2009, P10.5 million in 2008 and P9.2 million in 2007.

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#### **Note 24 - Provisions and contingencies**

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##### Tsuneishi Heavy Industries, Inc. (Tsuneishi)

On February 9, 2004, Tsuneishi filed against the Group a complaint, with a prayer for the issuance of a Writ of Preliminary Attachment, with the RTC of Cebu for unpaid liabilities of the

Group totaling P36.0 million in connection with drydocking and repairs services rendered. Thereafter, on March 19, 2004, Tsuneishi served a Writ of Attachment and Levy against a vessel of the Group, M/S St. Peter the Apostle, which caused the temporary grounding of such vessel since the Philippine Ports Authority would no longer issue any clearance for the vessel to sail. Due to the issuance by the RTC of Manila of the Stay Order in the rehabilitation proceedings, Tsuneishi, on April 6, 2004, amended its complaint to make it an admiralty case and included a further claimed of P69.0 million for drydocking and repair charges for the grounded vessel. The RTC of Cebu ordered all law enforcement agencies and institutions to attach and seize five vessels of the Group, namely: M/S St. Peter the Apostle, M/S Princess of Negros, M/V San Sebastian, M/V Nossa Senhora de Fatima and M/S St. Joseph the Worker. A series of business interruptions occurred, although the Group was able to obtain a clearance from the Maritime Industry Authority.

In order to protect its interest, Tsuneishi, on April 29, 2004, obtained a Temporary Restraining Order (TRO) from the Court of Appeals (CA), enjoining the implementation of the Stay Order, which prevented the Group's vessels from sailing. However, on May 5, 2004, the Supreme Court issued a TRO enjoining the CA and Tsuneishi from implementing the TRO dated April 29, 2004.

On October 6, 2004, the CA promulgated a Decision in C.A. G.R. S.P. No. 83526 dismissing the petition of Tsuneishi, which effectively upheld the Stay Order issued by the RTC of Manila against the maritime liens of Tsuneishi, as well as the admiralty jurisdiction of the RTC of Cebu.

On December 10, 2008, the Supreme Court issued a Decision, affirming the above-mentioned decision of the CA in C.A. G.R. S.P. No. 83526.

In 2008, such liability to Tsuneishi amounting to P104.6 million was already settled through the acquisition made by KGLI-NM (see Notes 12 and 22).

#### Others

In the normal course of business, other than the matters discussed in Note 2, the Group has contingent liabilities arising from labor cases filed by former employees for alleged illegal transfer, suspension and dismissal which are pending before the courts and are presently being contested. Based on the advice of its legal counsel, an adverse judgment in any of these cases, if any, will not have any significant effects on the financial condition, results of operations or cash flows of the Group as of December 31, 2009.

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#### **Note 25 - Presentation of financial statements**

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Certain data in the 2008 financial statements were reclassified to conform to the current year's presentation.

	Note	Before reclassification/ restatement	Reclassification/ restatement	After reclassification/ restatement
<i>(In Thousands)</i>				
Assets				
Current assets	(i)	P509,348	P22,818	P532,166
Liabilities				
Current liabilities	(i)	634,510	22,818	657,328
Profit and loss				
Other income	(ii)	32,626	108,320	140,946
Interest and financing charges	(ii)	53,063	108,320	161,383
Equity				
Share capital		2,960,810	64,923	3,015,733
Additional paid-in capital		890,932	(64,923)	826,009

- (i) This relates to the Group's input VAT reclassified to present as part of its current assets.
- (ii) Discount amortization was reclassified to form part of the Group's interest and financing charges.

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**Note 26 - Events after financial reporting date**

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On January 18, 2010, the RTC of Manila issued an order directing NENACO to proceed with the implementation of its intended equity restructuring program mentioned in Note 2.