

Jollibee Foods CORPORATION

#Share the Joy

ANNUAL REPORT 2016





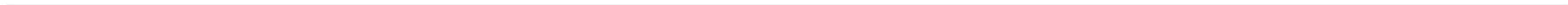
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Jollibee Foods CORPORATION

#Share the Joy

In this digital age, social media has become a part of our everyday lives as we constantly connect with people and share experiences online. In this year's annual report, we showcase the excitement and delight that our products bring our customers, moving them to share their joy online. Just as social media has found its way into our lives, Jollibee Foods Corporation products have, likewise, found their part in our customers' everyday happiness.





Tony Tan Caktiong

April 12, 2017 • 



"I am confident that we will get to where we want to go because we have the best and brightest people, clear and strong vision and mission, core values that drive our excellence, and most importantly because we continue to dream."



1,318,928 Likes

220 Comments

 192 Shares

Chairman's Message

To my fellow JFC shareholders,

2016 was another eventful year for our company, Jollibee Foods Corporation (JFC). With our sights set on our long-term vision of becoming one of the top 5 restaurant companies in the world in terms of market capitalization, we continued to execute on our growth strategies and made important progress in 2016.

- In April, we acquired the remaining 30% stake in Mang Inasal Philippines Inc. (MIPI) owned by Injap Investments, Inc., making JFC the 100% owner of Mang Inasal.
- In May, we entered into an agreement with Cargill Philippines, Inc., a wholly owned subsidiary of Cargill Inc. to build and operate a poultry processing plant in Santo Tomas, Batangas in the Philippines. Cargill and JFC have a 70% and a 30% stake, respectively, in the joint venture, Cargill Joy Poultry Meats Production, Inc.

We partnered with Cargill to explore ways to further improve on our existing world-class chicken products through Cargill's expertise, technology, and quality standards. The facility will provide JFC with dressed and marinated chicken to augment the chicken supply

requirements of the growing needs of our brands. This partnership will meaningfully benefit our customers, our operations as well as the overall Philippine food industry. Even with this joint venture, we will continue to maintain strong relationships with our key chicken suppliers in the country and look forward to sustained long-term supply arrangements with them as our businesses grow together.

The new plant, which started construction in the fourth quarter of 2016, will be the largest of its kind in the Philippines. The plant, which is expected to begin operations in the last quarter of 2017, will create an estimated 1,000 new full time jobs and develop new opportunities in the farming community in Batangas and nearby provinces, as local poultry farmers are contracted to grow chicken to supply the requirements of the processing plant.

- In November, we entered into an agreement through our subsidiary, JSF Investments Pte. Ltd. with our joint venture partner, Viet Thai International Joint Stock Company (VTI) to make our joint venture company, SuperFoods Group a public company by listing it in

“Our Company continued to show strong growth in 2016. Worldwide system wide sales grew by 14.1%, JFC's highest organic growth in at least a decade driven by an 8% growth in same store sales and the highest store network expansion, with 342 new stores in the Philippines and abroad.”

Chairman's Message

"We will continue to aggressively pursue acquisitions and organic growth to accelerate growth and profitability. I am confident that we will get to where we want to go because we have the best and brightest people in our organization, we have a strong and clear vision and mission that have guided us well over the years, core values that enable us to operate with excellence, integrity and fairness while taking risks to grow the business, and most importantly because we continue to dream."

a Stock Exchange in Vietnam with an Initial Public Offering (IPO) on or before July 2019. As part of the agreement, the ownership of SuperFoods Group will be adjusted with JFC, through JSF, increasing its ownership from today's 50% to 60% of the joint venture within 2017. Our partner VTI will own 40%. Our plan is to make Highlands Coffee and Pho 24 the dominant market leaders for their respective segments and true national champion brands of Vietnam. The planned IPO will help raise capital to expand these two brands broadly in Vietnam, in other parts of Asia and eventually around the world.

- JFC also completed in November the transfer of assets in Happy Bee Foods Processing Pte. Ltd. (Happy Bee) in Singapore, making JFC through its wholly owned subsidiary, JWPL, the 100% owner of Happy Foods Processing in Anhui Province in China. This development will allow Happy Foods Processing to focus and further carry out its primary objective of supporting the growth of our biggest and most important brand in China, Yonghe King.

Like acquisitions, divestments are also part of our strategy, enabling us to have a highly focused portfolio of brands with leadership positions in stronger growth markets. During the year, we completed the divestment of our shareholdings in Guangxi San Pin Wang Food and Beverage Management Company Limited, which had 72 stores in the People's Republic of China. We also divested of our shareholdings in Chow Fun Holdings LLC, which had 3 stores in the United States of America.

Overall, our Company continued to show strong growth in 2016. Worldwide system wide sales grew by 14.1%, JFC's highest organic growth in at least a decade driven by an 8% growth in same store sales and the highest store network expansion, with 342 new stores in the Philippines and abroad.

Our Company remains committed to corporate social responsibility through the programs of the Jollibee Group Foundation (JGF). In 2016, JGF launched the Leadership for Agroenterprise Development (LeAD) Training Program, as part of the Farmer



Entrepreneurship Program (FEP). In this leadership program, twenty-two FEP farmer leaders participated and successfully completed the course. The program enabled them to continue developing both the skill and the mindset to explore, persevere, grow as reliable suppliers and lead other farmers. JGF continued to support the Department of Education in effectively implementing its School-Based Feeding Program by constructing ten Busog, Lusog, Talino (BLT) School Feeding Kitchens in different municipalities and cities around the country. The BLT Kitchens served 7,700 undernourished pupils in 60 public schools. JGF also provided scholarships to 90 college students and 150 from technical vocation schools, all underprivileged but deserving youth, giving them the opportunity to complete their education and access employment.

Finally, we will continue to aggressively pursue acquisitions and organic growth to accelerate growth and profitability. I am confident that we will get to where we want to go because we have the best and brightest people in our organization, we have a strong

and clear vision and mission that have guided us well over the years, core values that enable us to operate with excellence, integrity and fairness while taking risks to grow the business, and most importantly because we continue to dream.

We remain committed to creating long term value for our shareholders. I thank our shareholders and other stakeholders — our employees, franchisees and business partners for their unwavering support and confidence in us.

A handwritten signature in black ink, appearing to read 'Tony Tan Caktiong'. The signature is stylized and fluid.

TONY TAN CAKTIONG
Chairman of the Board



Ernesto Tanmantiong

April 18, 2017 • 🌐



"We ended the year with the highest system wide sales growth in 5 years and the highest organic growth in at least a decade. Our plan is to further surpass our historical performance."



1,288,765 Likes

201 Comments

➦ 208 Shares

Chief Executive Officer's Message

To my fellow JFC shareholders,

In 2016, our Company achieved significant progress towards meeting the JFC Group's growth goals. We opened 342 stores, the highest number of store opening in a single year in JFC's history. 244 of the new stores opened are in the Philippines and 98 overseas. This aggressive store opening was made possible by improving the return on investments on our stores and by increasing our organization capability to build and open more stores in better locations and with better quality than ever before – on a worldwide basis. We also renovated 200 existing stores in the Philippines and 150 stores abroad to make our stores even more appealing to our customers. Net of store closures and the divestment of some subsidiaries, the JFC Group's total store network at the end of 2016 reached 3,253 stores, a growth of 6.4% over a year ago.

These new stores still excluded 128 new stores from joint ventures where JFC is not the majority owner such as Highlands Coffee, Pho 24, 12 Hotpot and Smashburger. Including these affiliates, the JFC Group opened a total of 470 new stores.

Sales of our businesses continued to be strong. We ended the year with system wide sales of Php149.1 billion, a growth of 14.1% compared with sales in 2015. This is JFC's highest system wide sales growth in 5 years and the highest organic growth in at least a decade. System wide sales measure all sales to consumers, both from company-owned and franchised stores. The sales increase was driven by our global store network expansion which accounted for 6.4% while same store sales growth contributed 8.0%. Same store sales growth pertains to restaurants that were already open for at least 15 months and excludes sales growth from new store openings.

Our Philippine business, which accounted for 80% of our worldwide sales delivered a strong performance in 2016. System wide sales grew by 15.5% supported by strong growth in same store sales and store network. Same store sales growth was 8.3%, driven by higher customer traffic and higher amount of purchases per visit per customer compared with a year ago. Store network grew by 6.7% versus 2015 against a historical organic network growth of about 4%. New product

"JFC delivered strong profit growth. Net income attributable to equity holders of the Parent Company for the full year of 2016 amounted to Php6.2 billion, 25.1% higher compared to 2015. Profit margin increased from 4.9% in 2015 to 5.4% in 2016. Our net income translated to earnings per common share of Php5.747 in the entire year, an increase of 24.4% compared to 2015."

CEO's Message

"We remain focused on delighting our customers with our innovative, superior tasting products at reasonable prices and with our great service. We believe that these efforts will continue to create great value for our stakeholders."

innovations were key business drivers contributing to the Philippine business sales improvement. The Company's focused marketing campaigns and new product launches resulted in market share growth and drove our sales performance in 2016.

All JFC's six brands in the Philippines: Jollibee, Chowking, Greenwich, Red Ribbon, Mang Inasal and the Burger King franchise grew strongly, with each one's system wide sales increasing by double-digit percentage over those of 2015. Each of JFC's owned brand in the Philippines is a market leader in its particular food category segment.

However, our businesses abroad had mixed performance. Southeast Asia grew by 39.4% led by Singapore which delivered a 55.9% growth and Vietnam with 47.4%. The Middle East business rose by 22.1% while the United States increased by 15.6%. China's sales were flat as the business experienced challenges during most part of the year, but was able to recover in the fourth quarter. We look forward to a strong recovery of our Yonghe King business in 2017 with the launch

of new products with high value and taste scores supported by strong marketing campaigns. We remain committed and will continue to build a significant business in the People's Republic of China, the United States and other parts of the world.

In 2016, JFC delivered strong profit growth. Net income attributable to equity holders of the Parent Company for the full year of 2016 amounted to Php6.2 billion, 25.1% higher compared to 2015. Profit margin increased from 4.9% in 2015 to 5.4% in 2016. Our net income translated to earnings per common share of Php5.747 in the entire year, an increase of 24.4% compared to 2015. We declared Php1.86 cash dividends, representing 1/3 of our earnings, in line with our regular cash dividend policy. With our profit performance, JFC achieved a 19.2% return on equity in 2016 compared with 17.0% in 2015.

We continued to have a conservative balance sheet and continued to build our financial resources to execute our growth plans. Our total assets grew by 12.3% to Php72.7 billion. During the year, we generated Php14.8 billion in cash from operations and spent Php6.7 billion



in capital expenditures, mostly for new stores and for the renovation of existing stores and Php2.0 billion for the acquisition of the remaining 30% of Mang Inasal. Despite these investments, JFC's net cash position improved significantly from Php2.4 billion in 2015 to Php5.3 billion in 2016 primarily due to improvement in working capital level.

As I review the details of this report, it became clear to me that these accomplishments would not have happened if not for the efforts of our talented and dedicated team of employees and our franchisees who strongly support our strategy, consistently execute our plans and drive the creation of shareholder value. They make JFC well positioned to continue to prosper and grow in 2017.

Our plans for 2017 and the years ahead call for continuous strong same store sales growth and store network expansion in the Philippines and abroad with the aim of surpassing our historical performance. To support the expansion of our businesses, we will also invest heavily in our commissary facilities and continue to build our organization capability.

While the operating environment continues to be a demanding one with increasing inflation rate in the Philippines and political uncertainties abroad, we remain focused on delighting our customers with our innovative, superior tasting products at reasonable prices and with our great service. We believe that these efforts will continue to create great value for our stakeholders.

On behalf of the Board of Directors, I would like to thank all our shareholders, franchisees, suppliers and other business partners for their continued support. I also offer sincere appreciation to our management and staff for their commitment and dedicated work during the past year.

ERNESTO TANMANTIONG
Chief Executive Officer



mina_villaroel



2,875 likes

mina_villaroel We all love Chickenjoy! Best when shared! 👍 🤔 @bestfriendjollibee. Proud to be part of #ChickenjoyNation #LegaspiFamilyforChickenjoy



Winning the Hearts and Minds of Filipinos

2016 saw Jollibee Philippines maintaining its strong growth momentum while firmly entrenching its position in the hearts and minds of its customers.

Continued strong push on flagship and core products, innovative menu items and network expansion were among the key factors that enabled the company to achieve a double-digit system wide sales growth. Jollibee opened a record 75 new stores bringing its total store network to 978 by year end. This is historically the highest number of stores opened in a single year. Third party research agencies also attested to increased market share with Jollibee maintaining significant lead over its key competitors in terms of brand value, occasion share and penetration.

Jollibee's bestselling product, Chickenjoy, was highlighted in a variety of campaigns that communicated its product superiority and its central role in sharing joy among family members, and a source of pride for citizens of #ChickenjoyNation.

Jollibee launched a new Jollisavers campaign to strongly communicate its great value for money offering, the new Sweet and Spicy BBQ Burger Steak TVC and the swoon-worthy Taste Forever Love campaign featuring James Reid and Nadine Lustre.

Jolly Spaghetti welcomed its new endorsers, Jodi Sta Maria and son Thirdy as they reminded everyone to continue creating sweet-sarap moments with this childhood favorite.

To excite the teens market and the millennials, Jollibee launched the new Chili Cheese Jolly Hotdog with teen endorsers Bailey Mae and Ylona Garcia, introduced exciting flavours of Jolly Crispy Flavored Fries, and launched a Yum thematic campaign that was capped with the introduction of the 2016 pool of Yumbassadors that included young Pinoy achievers like 4th Impact, Marlon Stockinger, Juan Miguel Severo, and entrepreneur Jairus Ferrer, among others.

For Independence Day, Jollibee introduced two limited edition product offerings inspired by classic Pinoy favourites – Adobo Flakes Yum burger and Halo Halo sundae. Jollibee also mounted the first ever Grand Independence Day countdown event and launched the second shirt collaboration with retail giant Uniqlo.

2016 was also the year that Jollibee scored many digital wins. It started off with the launch of the successful Kwentong Jollibee viral short films followed by the Jollidance showdown that both raked in record-breaking views and high engagement. Its series of

Jollibee Viber stickers are regarded as one of the most successful branded stickers in the country. Jollibee also launched the JolliDance Showdown App that made use of augmented reality technology.

Finally, Jollibee continued to honor exemplary families via the 6th Jollibee Family Values Awards, spread cheer to countless children through its Maaga ang Pasko and made a selfless Lola's dream come true via Jollibee's Grand Thank You project.

Jollibee ended the year on a high note as it started its exciting Road to 1000 stores countdown, a milestone the brand is most looking forward to celebrate in 2017 with fellow Filipinos across the archipelago.

“2016 saw Jollibee Philippines maintaining its strong growth momentum while firmly entrenching its position in the hearts and minds of its customers.”



JRUmali



2,875 likes

JRUmali #JollySpaghetti hits the spot 🍝❤️



Spreading Joy Around the World

Jollibee International had another historic year in 2016 with a series of milestone market entries and outstanding in-market performance across the globe. In 2016, the brand opened 33 new stores – the highest in the history of the company, with 3 in the United States, 1 in Canada, 15 in Vietnam, 9 in the Middle East and 5 in Southeast Asia.

2016 marked a number of firsts in North America. Last July, Jollibee opened its first store in the Midwest of the USA, bringing a taste of home to Filipinos in Skokie, Illinois. This resulted in the biggest store opening day sales in Jollibee's history, with customers lining up for more than 8 hours to taste their favorite Chickenjoy. This was followed by a strong opening in Winnipeg with Jollibee's long-awaited entry in Canada last December. Despite the freezing Canadian winter, thousands still flocked to the store with some waiting overnight just to get a taste of their Jollibee favorites.

In the Southeast Asian Region, Jollibee continued to spread the joy of eating by opening 2 new stores in Singapore located in mainstream trade areas with Jollibee Square 2 and Jollibee Changi City Point. Both stores are flocked by Filipinos and Singaporeans alike proving that good food is truly universal. In Brunei, Jollibee launched its first right-hand drive-thru flagship store in the world which resulted in the highest opening day sales in the country's 30-year history. Jollibee

Vietnam also had a historic 2016, adding 15 new stores that expanded our reach in the country. With the focus on the brand's flagship Chickenjoy, Jollibee International experienced outstanding rolling base sales growth in the United States, Vietnam and Brunei. Jollibee Vietnam experienced a superb double-digit growth despite adding 15 new stores, on the back of Chickenjoy and Chili Chicken, a local favorite. Brunei launched its first-ever local endorser led Chickenjoy campaign, propelling the Chicken category's unprecedented growth. The launch of the new Spicy Chickenjoy in Singapore proved to be very successful with the growing patronage of the Singaporeans who culturally love spicy food, ultimately driving upward the total Chickenjoy performance.

With the deepened commitment to its customers, Jollibee International will continue its global expansion and growth. Offering great-tasting food and its signature Alagang Jollibee service, Jollibee continues its journey towards spreading the joy of eating to everyone.

As of December 2016, Jollibee International operated 167 stores, with 35 in the United States, 1 in Canada, 84 in Vietnam, 14 in Brunei, 3 in Hong Kong, 4 in Singapore, and 26 in the Middle East.

“Offering great-tasting food and its signature Alagang Jollibee service, Jollibee continues its journey towards spreading the joy of eating to everyone.”



yassipressman



14,132 likes

yassipressman A wonderful day for bonding with friends! AND PIZZAAAA! How can you not love a pizza with an Overload of toppings? #UltimateBarkadaExperience #UltimateOverload #GreenwichBarkada @GreenwichPizza 🙌🍕



Breaking New Ground, Making New Roads

2016 was a year of many milestones for Greenwich. System wide sales grew 13 percent, improving from last year. The company overtook the competition in new key categories, cementing its market leadership in occasion and value shares versus its top rivals – a clear indicator of Greenwich's taste superiority. The big push came from intensified efforts to expand and develop the store network, develop more capable teams, focus on product quality and variety, and improve operational efficiencies.

The total number of Greenwich stores hit 250 last year, the highest ever in the company's history. Following the opening of its first free-standing pizza-and-pasta destination in 2015, more free-standing stores and more branches were opened in 2016.

More branches were renovated to fit the Pizzeria store concept, providing the levelled-up Greenwich pizza-and-pasta experience to more customers. With almost half of the store network now with the Pizzeria concept, Greenwich's leadership image is reinforced as well.

Another key success factor was the focus on developing the talents in the company. The employees found more engagement and motivation through training, close mentorship, and other developmental opportunities. Employee performance improved further in 2016 with 79 percent of stores now FSC-certified and 20 percent now Gold Stores.

Also contributing to the success of 2016 were innovations in the menu. The launch of new products – Bacon Crispy Thins, Cheesy Bread Sticks, Caramel Bites, and Hawaiian Lemon Slush – improved both customer visits and satisfaction. Reinvented meal packages boosted sales, too. Greenwich Hawaiian Overloaded was included in the Overloaded Meals and the Barkada Bundles were revamped. To top it off, the best-selling Lasagna Supreme hit the P1 billion sales mark last year!

New solutions were instituted to help the Greenwich team raise operational standards. Major investments were made in order to automate workflow and streamline processes. Tools and enhancements in the kitchens, store logistics, finance and point-of-sales, and communication methods enabled faster responses, smarter ways of working, and improved transparency. The result was the growth of a more agile and accountable organization.

Greenwich's delivery business soared to new heights as well. Launching the one-number hotline #5-55-55 kept the growth momentum going as it strengthened order-taking capabilities and improved customer access in an increased number of areas. More payment options also became available. As a result, delivery sales grew by 18 percent last year.

Through the combination of superior product taste, premium store experiences, convenience, accessibility, and leadership, Greenwich will continue on, pushing farther than ever to ensure its path to dominance and unquestionable #1 status in the near future.

“The company overtook the competition in new key categories, cementing its market leadership in occasion and value shares versus its top rivals – a clear indicator of Greenwich's taste superiority.”



Reign Serador

Oct 25, 2016 at 7:34pm · 🌐



I love **Chowking** Lauriat because it has delicious Chinese specials all in one plate! Complete with Chinese-Style Fried Chicken, Egg Fried Rice, Pancit Canton, Siomai, Chicharap and Buchi!
#AlwaysAHappyTummy #TaraLetsChow #Chowking ❤️❤️❤️

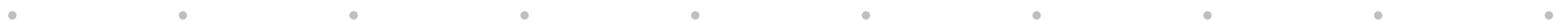


Love



👍❤️ Aimee Manzanilla and 54 others

54 Comments 32 Shares





Chowking WOWs the Philippines in 2016

The Chowking Philippines business rallied with profitable and balanced growth in 2016. The year was truly a WOW accomplishment, with growth and profit from all regional business units in Luzon, Visayas and Mindanao. The business continues to drive three priorities: elevate the brand, grow its flagship products, and achieve excellence in the restaurant.

To elevate the brand, an exciting and integrated mix of TV, radio, digital, billboard, retail trade area and in-store marketing efforts were rolled out. The touchpoints highlighted the uniqueness, deliciousness and good value of Chowking's Chinese flagship products. The brand continued to invest in nationwide product sampling activities to educate Filipinos about Chinese food in a fun and engaging way. Chowking is committed to win over young millennials, as they represent the market of today and the future.

In growing its flagship products, Chowking also sharpens its unique Chinese positioning. Dominance in the Chinese eat-out categories is key to the brand's long-term growth in a cluttered eat-out market. A tremendous share of 2016 sales growth was delivered

by Pork Chao Fan, Lauriat, Chunky Asado Siopao and Wonton Mami—all are delicious Chinese dishes that Chowking has popularized among Filipinos. Every member of the Chowking organization is committed to serve hot and delicious Chinese food. High standards for quality begin at the commissary and maintained all the way to every Chowking restaurant, every day.

Excellence in all restaurants starts with its strategic locations. Chowking opened 51 new well-located restaurants in 2016. Chowking also renovated and improved existing restaurants. All these carry the modern Chinatown food street design that is worthy of the young market's social media posts. Business channels, especially delivery and drive-thru, also boosted guest experience and sales growth. Standards on food, service and cleanliness in every restaurant are the utmost priority of the store operations team, ensuring a WOW experience for all Chowking guests!

In 2017, Chowking will continue to take WOW ACTION to wow guests with Chowking Sarap moments every day, everywhere!

“Dominance in the Chinese eat-out categories is key to the brand's long term growth in a cluttered eat-out market.”



Saisai Narciso

March 13 at 2:15pm · Pomona · 🌐



Chowking's Meaty Asado Siopao is my go to snack in the US. It has a tasty asado filling and soft bun that makes me crave for more. #favoritesiopao



Love



👍❤️ Hamilton Delara Lara, Kurt Mana-ay and 83 others

41 Comments 38 Shares





Chowking International, Stepping it Up in 2016

The Chowking International business continued to flourish in 2016 with historic store openings accompanied by a focused strategy anchored on its flagship products. Chowking International ended the year with a total of 42 stores in the United States of America (USA) and the Middle East.

In 2016, Chowking USA focused its efforts on building their flagship products in the market alongside complementary items to enhance the overall experience. The brand started the year strong by launching an above-the-line, TV Commercial-led campaign of one of their top sales drivers – the Meaty Asado Siopao. This led to astounding double-digit growth in quantity sold, and drove the growth of the entire brand. This was followed shortly by the first ever above-the-line campaign of Beef Wonton Noodles. The campaign resonated with consumers in the US and ultimately led to unprecedented, double-digit growth for the product, and record-breaking figures in terms of quantity sold per day. Along with the Marketing Campaigns throughout the year, Chowking USA also launched their latest complementary beverage – Jasmine Calamansi Tea – to their growing flagship

products. This was launched in time to maximize the heat of the summer season, eventually leading to growth of both flagship and complementary products.

In the Middle East, Chowking made history, entering yet another market and launching the latest restaurant concept in the Gulf. In March 2016, the brand successfully opened its first store in the Kingdom of Saudi Arabia, the biggest economy in the region, to thousands of OFWs. In Kuwait, Chowking opened its second store, introducing its latest restaurant design concept that will further enhance guests' store experience. Together, these milestones played a crucial role in the growth of the entire region throughout the year.

Amidst the economic slowdown in the Middle East, the future continues to look bright as the brand completes its line-up of proven flagship and core products across its different markets, along with improvements in efficiencies of regional production and supply chain.

Chowking International ended the year with 42 restaurants that are strongly positioned in key cities

in the United States of America (15), United Arab Emirates (19), Qatar (3), Oman (2), Kuwait (2) and Saudi Arabia (1). An aggressive store expansion plan is in place as the brand further strengthens its global presence.

With a clear focus and strategic direction, Chowking International is set to make history and wow its customers for 2017 and the years to come.

“The Chowking International business continued to flourish in 2016 with historic store openings accompanied by a focused strategy anchored on its flagship products.”



MariLim
@mariLim



Yonghe King's Crispy Tender Chicken Thigh Rice is so tasty and chicken is juicy. I can't help but eat two. No kidding, it's true!

↕ 52

♥ 45

↶ 38

21 Mar 2016

Leading in China Market's Fast-Changing Competitive Landscape



2016 was a milestone year for Yonghe King. The year marked Yonghe King's first year as the number one Chinese quick service restaurant brand in the China Net Promoter Score (C-NPS) survey 2016. This award mirrors Yonghe King's success as the top one recommended Chinese quick service restaurant brand, winning the consumer palette and leading the fast changing Chinese market competition.

In this critical turning point of 2016, Yonghe King launched several initiatives with the mission to create pleasant dining experiences for its customers – great-tasting Taiwanese-inspired dishes, exceptional value for money, speed of service, and consistent quality.

Two new flagship dishes, freshly-made Crispy Tender Chicken Thigh Rice and Black Pepper Pork Chop Noodle Soup delivered sizeable growth in the main meal category towards the end of 2016. Yonghe King also introduced Minced Pork Wonton Noodle Soup, which is an upgraded version of its existing Wonton Soup. All these efforts reflected Yonghe King's commitment to offer Taiwanese-inspired food with an excellent and unique product taste. Yonghe King's value platform was also introduced in September 2016 resulting to significant growth in transaction count compared to the first half of 2016, and demonstrating Yonghe King's determination to maximize its influence in the value-for-money segment.

Yonghe King renovated 56 stores in 2016. The new store design brings Yonghe King back to its roots as a Taiwanese brand and features a theme inspired by Taiwan's famous street food culture. This new design concept has also reinvigorated the brand personality and has ensured the brand stays current, appealing to a younger generation of customers.

The final keynote of 2016 is digitalization. The brand's marketing communication model has shifted from a traditional media-focused model to a hybrid of digital and traditional media, which is more targeted, cost-efficient, and engaging. Yonghe King's brand-owned digital platform grew its fan base by 60% in 3 months after a series of focused digital social media marketing efforts. To further monetize on-line traffic, Yonghe King did a national roll out of its in-store digital payment from 2 stores in 2015 to 295 stores in 2016. With the surging demand of mobile digital usage in China, digital payment will be fully capitalized by seamlessly channeling on-line traffic towards off-line.

The new business channel, Delivery, was the highlight of 2016 sales development. With the efforts of collaboratively driving strategic business agenda with the top 3 digital delivery platforms of China, delivery channel registered 44% sales growth in 2016 and has become one of the key growth drivers for Yonghe King. This strategic thrust demonstrates Yonghe King's

speed and agility to capture China market's fast-changing competitive landscape.

All of these efforts led to Yonghe King's achieving a remarkable acceleration of its sales performance in the fourth quarter of 2016, while at the same time achieving improved scores in Food, Service and Cleanliness.

Looking forward to 2017, to move closer to its vision of becoming the number one Chinese restaurant in quick service restaurant industry in terms of business size, Yonghe King will focus on delivering the basic building blocks of its success: great-tasting Taiwanese-inspired food, exceptional value for money, speed of service, and consistent quality. With these fundamentals in place, Yonghe King will grow further through innovations that will allow the brand to exceed customer expectations and to lead in the fast-changing Chinese competitive landscape.

“Delivery channel registered 44% sales growth in 2016 and has become one of the key growth drivers for Yonghe King.”



Ma. Teresa Melendrez Tabilin

Jun 23, 2016 at 9:45 pm · 🌐



My family and I cannot get enough of the Black Forest Cake from **Red Ribbon!** I'm impressed that the cake is soooo chocolatey. The chocolate shavings and chocolate filling are also worth raving about. Plus, they have cherries that make the cake extra special! We always have this cake in our gatherings. 😊



Love



👍❤️ Elsa Canlas and 63 others

69 Comments 54 Shares





Another Year of Sustained Momentum

2016 marked another banner year for Red Ribbon with its achievement of yet another double-digit growth in sales. The year closed with 12% growth driven by strong product sales, launch of the new store design, focus on store renovation and continued excellence in food, safety, cleanliness, and condition.

Red Ribbon posted strong sales achievement across all its product categories. The Cakes category's stellar performance was propelled by the launch of its superior and best-yet version of Triple Chocolate Roll and the game-changing Rainbow Chocolate Dedication Cake, coupled by the introduction of Chocolate Indulgence and Limited Time Offer Cakes (Cookie Crush, CaraMelt With You, Graduation Cake, Special Occasion Black Forest). On the other hand, aggressive support for Cake Slices and improvements on Cheese Ensaimada together with the news and excitement from Salted Caramel and Strawberry Cheesecake Ensaimada drove the hard-earned growth for the Pastries and Breads line.

In terms of store network, Red Ribbon ended the year with 397 stores, 49 of which already adopted the new store design. Noteworthy was the opening last October of its very first flagship store in SM Megamall.

The flagship store represents the best of what Red Ribbon offers and elevates the shopping / customer experience to a new level.

Committed to the strictest standards of quality and service, the stores continued to prioritize Food, Safety, Cleanliness, and Condition (FSC) as it earned the highest percentage of gold standard stores in the JFC network. The Commissary equally stepped up its focus on product safety and quality by securing 3rd party certification on Hazard Analysis and Critical Control Points (HACCP) for all its five qualified commissaries. These are living testaments to Red Ribbon's relentless pursuit of excellence in product and service.

Efficient and wise use of resources was ensured by regulating use of discounts, tightening control on usage, and reducing product spoilage and rejects. These all contributed to improvement in financial governance that led to profitability gains.

To ensure that the organization remained strong and engaged, employee training intensified in 2016 as Red Ribbon had the most number of training programs that catered to a much wider segment of the organization. Moreover, the continued focus on Red Ribbon's unique

brand of customer service and Every Moment Sweeter, led to doubling of customer commendations.

2016 marked yet another year of sustained momentum. With its business fundamentals in place, Red Ribbon is ready to mark another record year in 2017.

"The year closed with 12% growth driven by strong product sales, launch of the new store design, focus on store renovation and continued excellence in food, safety, cleanliness, and condition."



Katherine Bernal

Jun 23, 2016 at 9:45 pm · 🌐



I LOVE the **Red Ribbon** Mango Supreme cake. From the first bite, you could really tell that the cake is generously filled with real Philippine mangoes unlike other mango cakes in the USA. Great job, Red Ribbon #MangoCake #RealMangoes #Happiness



Love



👍❤️ Joey Dungca, Mary Rose Galez and 161 others

42 Comments 59 Shares





Delivering Memorable Sweet Moments

Red Ribbon USA has remained steadfast to deliver memorable sweet moments in 2016. With 33 stores as of December 2016, revenue and system wide sales grew robustly driven by same store sales growth of 4.7%.

As part of Red Ribbon's strategic plan to position the brand for everyday snacking, it launched an advertising campaign featuring its mamon variants - butter, mocha and ube. The advertising campaign generated a 5% increase in volume for the total mamon line. Another key initiative was to grow savory pastries line by advertising its top-selling Chicken Empanada, and introducing a new variant, Pork Empanada, which significantly contributed to the 22% volume growth of the savory pastries line.

Red Ribbon cakes continued to play a vital role in Red Ribbon's success. Red Ribbon continued to advertise and communicate its flagship Mango Supreme Cake as the only cake overflowing with real mangoes. This led to its 7% growth in volume last 2016. To own red-letter day celebrations, the brand introduced specially designed Mango Supreme Cakes, which resulted to an astounding 73% volume growth on Valentine's and 38% growth on Mother's Day.

Lastly, the redesign of Dedication Cakes and launch of Ube Coconut Cake, Ube Brazo de Mercedes Roll, and Black Forest Quarter Cake helped contribute additional revenues of \$150 thousand for the brand.

An integral part of Red Ribbon's success was commissary excellence. Faced with rising labor costs, commissary profits still exceeded budget by 34.8% and surpassed last year's income by an impressive 116%.

The store team's unwavering passion for excellence was instrumental to the brand's success. The stores garnered a rating of 88% in FSC certification, 45% of which has a gold rating. Red Ribbon also had store renovations that helped improve the overall customer experience in key cities like West Covina, Carson, Panorama, Daly, Anaheim, Glendale, and Mira Mesa.

Last December 2016, Red Ribbon celebrated a milestone with its Chicago store opening, its first store in the state of Illinois. The store opening set remarkable all-time high sales, shattering previous years' records. Chicago's December sales accounted for 12% of total system wide sales.

Red Ribbon is dedicated and committed to continue to win the hearts of Filipino-Americans in the USA. With high quality products and superb customer service, Red Ribbon USA will surely make more memorable, sweet moments in the years to come!

“The store team's unwavering passion for excellence was instrumental to the brand's success. The stores garnered a rating of 88% in FSC certification, 45% of which has a gold rating.”



Zhiyao WU 武志耀

May 19, 2016 at 9:03 am · 🌐



We made a good decision of trying **Hong Zhuang Yuan's** Lean Pork and Preserved Congee! It has a thick consistency that I love, and very tasty. Good value and nice service. It's a must try!



宏狀元
Hong Zhuang Yuan

Love



👍❤️ Vicky Woo and 54 others

75 Comments 34 Shares





2016: Another Banner Year for Hong Zhuang Yuan

2016 was another banner year for Hong Zhuang Yuan, marking its second consecutive year of double-digit growth in same store sales. Delivery business, which grew by 37% and accounted for 30% of system wide sales continued to be the main driver of Hong Zhuang Yuan's sales growth. This is also the second consecutive year that Hong Zhuang Yuan received the award for the "Most Welcome Delivery Brand in Beijing" given by Baidu, which is one of the three major digital delivery platforms in the People's Republic of China.

Hong Zhuang Yuan continued to strengthen its iconic products, such as Lean Pork & Preserved Egg Congee, Five Black Congee, and Sautéed Assorted Vegetable served with Pancake. The brand continued with its seasonal product launch activities aimed at satisfying ever changing customer needs. For winter season menu, Hong Zhuang Yuan launched the improved freshly-made Lean Pork & Preserved Egg Congee to further strengthen the brand's leading position in the congee category. Hong Zhuang Yuan took advantage of social media to connect and communicate new product launches with their customers.

To ensure product quality and consistency, Hong Zhuang Yuan upgraded its commissary. Some machines were replaced with new ones that improved cost efficiencies and increased production capacity to respond to Hong Zhuang Yuan's 2017 expansion plans.

Hong Zhuang Yuan opened 3 brand new restaurants and renovated 5 stores. The new stores featured a new store design concept with an open kitchen showcasing the brand's freshly prepared congee and other products, attracting more customers and encouraging them to order more products.

All these efforts strengthened Hong Zhuang Yuan's brand positioning of being the only Chinese neighborhood restaurant that "feels like home," offering delicious, everyday good value for money "comfort food" and bringing delightful, comfortable eating experience.

2017 will be another exciting and busy year for Hong Zhuang Yuan as it continues to broaden its menu offering, improve store experience and open more stores.

"Delivery business, which grew by 37% and accounted for 30% of system wide sales continued to be the main driver of Hong Zhuang Yuan's sales growth."



Risel De Vera

Oct 26, 2016 at 11:57 am · 🌐



Mang Inasal's Chicken Inasal is really delicious and has large portions. Real value for money!



Love



👍❤️ Billy Contawe and 186 others

53 Comments 43 Shares



Bilis, Lakas, Talas: Mang Inasal's Tireless Journey towards Improvement Caps off 2016 with Sustained Growth



Guided by the company's four pillars—Organizational Strength, Operational Excellence, Brand Dominance, and Sustained Business Growth—Mang Inasal employed agility, stronger core knowledge and skills, and acuity in business strategy development to round up another successful year.

Professional development programs boosted the company's Employee Engagement score from 82% in 2015 to a record 86% for 2016.

Key relationships with franchise partners were also fortified through the establishment of the first Franchise Business Conference and the launch of the Franchise Advisory Council.

Steps to sustain operational excellence were taken through training programs in Quality Management Systems while internal review processes underwent major improvements and reinforcement. Furthermore, the company boasted of 75% Food, Service, Cleanliness, and Condition (FSC) Certified stores, and 25% Gold Certified stores in 2016.

The Mang Inasal Commissary was also beefed up to accommodate the company's fast expansion across the country. The HACCP-certified Commissary now boasts of 99.2% inventory record accuracy, the highest among all commissaries in Jollibee Foods Corporation.

Mang Inasal worked to strengthen its brand communications through powerful marketing, advertising, and digital campaigns. These consolidated efforts resulted in impressive growth: Chicken Inasal posted 19% Average Daily Quantity (ADQ) growth; Pinoy Halo-Halo, 29% ADQ growth; and Pinoy Snack Sarap with 31% ADQ and 18% Daypart Transaction Count (TC) growth.

Brand love efforts elevated the company's profile and reached more loyal customers by reinforcing Mang Inasal's position as the QSR that truly understands unique Pinoy dining quirks as seen in the Sarap ng Kaing Pinoy campaign featuring Coco Martin, who was also introduced as Mang Inasal's newest brand ambassador. Mang Inasal reaped awards for 2016 campaigns including the Chicken Inasal, Pinoy Halo-Halo, the Buwan ng Wika initiative and Pinag-Isang Puso with Team Gilas. The Chicken Inasal campaign bagged the PANAta silver award for Integrated Program, Brand Category.

2016 also saw the launch of the Gawad Pilipinoy Awards which aims to recognize individuals who make positive impact in their communities through selfless advocacies. Teacher and BangKarunungan founder Adrian Karl L. Cobardo was named as the first-ever honoree.

Through these combined efforts and strategic initiatives, Mang Inasal maintained its position as the #1 Pinoy Branded Eat-Out and #4 in Total Branded Eat-Out in Metro Manila according to the 2016 Kantar Panel.

The company also capped off 2016 with the opening of 35 new stores and 60 renovated stores. Mang Inasal continued to post remarkable system wide rolling base sales growth, 37 consecutive months of double-digit growth and 46 consecutive months of positive growth in transaction count.

As 2017 unfolds, Mang Inasal's renewed strength empowers the company to achieve, deliver, and do more for its key stakeholder: the Filipino customers.

“Mang Inasal employed agility, stronger core knowledge and skills, and acuity in business strategy development to round up another successful year.”



joycepring



2,099 likes

joycepring In with this Whopper! Thick, juicy patty...just what I need! Yummmeeh! #iLoveYou #BurgerKing



Burger King Philippines: 2016 Gold Crown Franchisee of The Year

Burger King Philippines bagged the 2016 Gold Crown Franchisee of the Year in the Asia Pacific Franchisee Convention held in Orlando, Florida, USA. Burger King Philippines was given due recognition for being best in overall profit, sales growth, and management systems. The award came at the tail-end of a year of revved up efforts to accelerate growth in all facets of the business.

The brand came charging by exceeding its Rolling Base (RB) Sales target and maintaining its position by holding on to its number 1 ranking in Burger King Asia Pacific, and ranking number 2 in the Jollibee Foods Corporation (JFC) system. It also boasts of posting its first double digit RB transaction count growth on record. These resulted into 12 consecutive months of positive net operating income.

Burger King Philippines broke records in Network Development by opening 18 new stores, the highest in the company's history. It broke ground in new territories in Tarlac, Iloilo, Zamboanga, and Davao; with the latter 2 raising the bar on first 3-day sales records.

Staying true to its mission of delivering the best burger experience, the brand also remodeled 4 stores, namely, E.Rodriguez, Timog, Shell NLT, and SM Bacoor. Two new design concepts, 20/20 Prime and 20/20 Garden Grill, were also introduced into the market with UP Town Center being the first 20/20 Prime Concept branch. The brand has also introduced new Digital Menu Boards in key branches.

Burger King further strengthened its flagships with the Whopper and 4-Cheese Whopper. These were promoted in strategic channels such as TV, digital, billboard and bus ads, and in-store merchandising; highlighting the taste superiority of Burger King's flame-grilled burgers and great value-for-money; challenging the other burgers of competition. Burger King further challenged competition's top burger product with its own Flamed-Grilled Cheeseburger. Ten new products were also launched to drive brand excitement and menu variety, like the Chicken Fries, Cookie Overload Sundaes, Bacon 4-Cheese Whopper, Meat Beast Whopper, Mushroom Mozzarella Angus Steakhouse, and Monster Bacon Angus Steakhouse. Quarterly King Deal Coupons also drove more traffic into the restaurants while reinforcing its value proposition.

Burger King garnered several awards from the industry. It earned its first Boomerang Award with "The BK Channel" winning as the Best Digital Campaign. The brand also took home Silver in JFC's Marketing Excellence Awards and was named Favorite Fast Food Burger at the 2016 Choice Awards for the second year in a row.

The brand's impressive growth also translated into the other business channels, specifically Delivery and Drive Thru, which also resulted to double-digit growths. 2016 also marked the brand's partnership with Food Panda for its online delivery services.

In its drive to achieve world class operations, Burger King Philippines still holds the highest Quality-Service-Cleanliness (QSC) performance in JFC. This is largely due to key projects like BK Guru and Enhanced Certified Training Restaurant (CTR) Program.

With a very successful 2016, Burger King continues to look forward to breaking new ground in various aspects of the business in the succeeding year.

"Burger King Philippines was given due recognition for being best in overall profit, sales growth, and management systems. The award came at the tail-end of a year of revved up efforts to accelerate growth in all facets of the business."



Michael Regencia, onion farmer

Jan 7, 2016 at 7:34pm · 🌐



My life changed significantly because of Jollibee Group Foundation's **Farmer Entrepreneurship Program**. Through the program, our farmers' cooperative learned how to manage our production and supply to institutional buyers such as Jollibee Foods Corporation. We can now earn more and improve the lives of our families!



Love



Bart De Vera and 212 others

16 Comments

42 Shares



Jollibee Group Foundation: Helping Communities Gain Access to Food

As the corporate social responsibility arm of one of the largest food service companies in the world, Jollibee Group Foundation (JGF) continued to collaborate with partners to enable communities to work together and help families put food on their tables.

Farmer Entrepreneurship Program (FEP)

In 2016, JGF launched the FEP Leadership for Agroenterprise Development (LeAD) Training Program for farmer leaders so they can continue to develop both the skill and the mindset to grow as reliable suppliers, and lead other farmers. Twenty-two farmers successfully completed the course and have applied what they learned to strengthen their organizations and increase the volume that they supply.

The program continued to help smallholder farmers increase their income by enabling them to become entrepreneurs and linking them to the supply chain of institutional buyers such as Jollibee Foods Corporation (JFC). In 2016, twelve farmer groups supplied various vegetables including white onions, hot peppers, salad tomatoes, bell peppers, and calamansi. Deliveries were made to the JFC commissary as well as directly to Chowking stores in Cebu. The farmers' transactions reached a combined total of almost 800 metric tons, amounting to P36M.

Busog, Lusog, Talino School Feeding Program (BLT)

JGF sustained its support to the Department of Education (DepEd) in effectively implementing its School-Based Feeding Program by constructing BLT School Feeding Kitchens. The BLT Kitchens centralized food production for a cluster of schools so that more children can be served nutritious food with less time and effort. By the end of 2016, JGF had constructed 10 kitchens in different municipalities and cities in Luzon, Visayas and Mindanao, which served 7,700 undernourished pupils in 60 public schools. This brings to more than 170,000 the total number of pupils who benefitted from BLT.

An essential component of this initiative was the promotion of school feeding standards, which were inspired by the same food safety and cleanliness guidelines used by JFC stores around the world. This helped ensure that the food served to children are nutritious and safe. As part of this advocacy, JGF held the 2nd BLT Excellence Awards, which recognized schools from across the country for their efforts to exceed these standards.

Project ACE Scholarships

JGF also provided scholarships to underprivileged but deserving youth so that they can complete their tertiary education and access employment. In 2016,

scholarships were granted to 90 college students and 150 from technical vocational schools. College scholars also acquired work experience in Jollibee, Chowking and Greenwich restaurants, while tech-voc scholars did their on-the-job training in the JFC commissary and service providers of JFC restaurants.

Recognition

For its efforts, JGF was recognized with three Gold Anvil Awards by the Public Relations Society of the Philippines. The awards were for FEP, BLT, and Stories of Change videos, which tell the story of the Foundation's work through the compelling experiences of its partners and partner-beneficiaries.

“As the corporate social responsibility arm of one of the largest food service companies in the world, Jollibee Group Foundation continued to collaborate with partners to enable communities to work together and help families put food on their table.”

Board Of Directors and Corporate Management Team*

DIRECTORS¹

ANG NGO CHIONG+
Chairman Emeritus

TONY TAN CAKTIONG
Chairman of the Board

WILLIAM TAN UNTIONG
Director / Corporate Secretary

ERNESTO TANMANTIONG
Director / CEO and President

JOSEPH C. TANBUNTIONG
Director / Treasurer

ANG CHO SIT
Director

ANTONIO CHUA POE ENG
Director

MONICO V. JACOB
Independent Director

CEZAR P. CONSING
Independent Director

(RET) CHIEF JUSTICE ARTEMIO V.
PANGANIBAN
Director

WASHINGTON Z. SYCIP
Independent Advisor

¹ ATTY. VALERIE F. AMANTE
Assistant Corporate Secretary / VP and
Head, Corporate Legal and Corporate
Ethics

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Chairman of the Board

ERNESTO TANMANTIONG
Chief Executive Officer and President

YSMAEL V. BAYSA
Chief Financial Officer

WILLIAM TAN UNTIONG
Chief Real Estate Officer

DANIEL RAFAEL RAMON Z. GOMEZ III
Chief Marketing Officer

HEADS OF PHILIPPINES UNITS

JOSEPH C. TANBUNTIONG
Head, Country Business Group -
Philippines

JUSTO S. ALANO III
President, Jollibee Business

ROWEL D. VIJANDRE
President, Chowking Business

ALBERT C. CUADRANTE
President, Greenwich Business

ZINNIA CARMENCITA S. RIVERA
General Manager, Red Ribbon Business

JOSE ALEXANDER P. SUBIDO
General Manager, Mang Inasal Business

JOAN K. AQUINO
General Manager, Burger King Business

HEADS OF INTERNATIONAL UNITS

CHIN SENG YUE
Chief Human Resources Advisor

DR. POLLY YANG
VP - Corporate Research and Development

CARLSON CHOI
Chief Digital Officer, International Business

CARL BRIAN TANCAKTIONG
Chairman, JFC China

SHIRLEY CHANG
President, JFC China

KAREN ZHAO
Managing Director, Dunkin' Donuts
China Business

SHIN-MIN TSAI
General Manager, Happy Bee Foods
Processing Pte., Ltd.

DENNIS M. FLORES
Head - International Business EMEAA

JOSE MA. A. MIÑANA, JR.
Head, Country Business Group -
North America

MARIBETH DELA CRUZ
General Manager, Philippine Brands -
North America

HEADS OF CORPORATE UNITS

FERNANDO S. YU, JR.
Chief Business Support Officer

SUSANA K. TANMANTIONG
Chief Procurement Officer

ANASTACIA S. MASANCAY
VP - Special Projects

LORNA D. ATUN
AVP - Corporate Audit

JOLLIBEE GROUP FOUNDATION, INC.

GRACE A. TAN CAKTIONG
President, Jollibee Group Foundation, Inc.

* As of March 31, 2017

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Selected Financial Data

(in P'000, except Number of Stores, Personnel, Ratios, Per Share Data and Outstanding Shares)

FOR THE YEAR	2014	2015	2016
Consolidated System Wide Sales	117,897,939	130,732,986	149,142,102
Revenues	90,671,238	100,779,718	113,907,762
Net Income	5,488,942	5,046,333	6,053,509
Net Income (Attributable to Equity Holders of the Parent)	5,361,979	4,928,236	6,164,735
Payroll and Benefits	14,293,625	15,194,356	16,620,964
Personnel	39,929	43,238	27,674
Number of Stores			
Jollibee*	983	1,055	1,145
Greenwich	211	231	250
Chowking*	457	485	521
Red Ribbon*	358	406	430
Yonghe King	310	321	310
Hong Zhuang Yuan	42	42	43
Mang Inasal	456	460	465
Burger King	43	56	74
Dunkin' Donuts	-	-	15
Jinja Bar	3	3	-
San Pin Wang	50	59	-
* Domestic and International			
AT YEAR-END			
Total Assets	54,118,680	64,763,048	72,728,352
Total Property & Equipment	13,363,567	14,547,152	16,655,567
Total Equity	28,078,022	31,756,590	34,281,404
Current Ratio	1.26	1.29	1.27
Debt Ratio	0.49	0.52	0.53
PER SHARE DATA			
Basic Earnings Per Share	5.08	4.62	5.75
Diluted Earnings Per Share	4.96	4.53	5.64
Cash Dividend	1.64	1.77	1.86
Book Value	26.37	29.69	31.89
SHARE INFORMATION			
Outstanding Shares (net of Treasury Shares)	1,064,592,974	1,069,702,070	1,074,853,965

Statement of Management's Responsibility for Financial Statements

The management of JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES (the Jollibee Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Jollibee Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Jollibee Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Jollibee Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Jollibee Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:



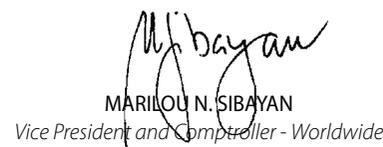
TONY TAN CAKTIONG
Chairman of the Board



ERNESTO TANMANTIONG
President and Chief Executive Officer



YSMAEL V. BAYSA
Chief Financial Officer



MARILOU N. SIBAYAN
Vice President and Comptroller - Worldwide

REPUBLIC OF THE PHILIPPINES)
CITY OF PASIG)S.S

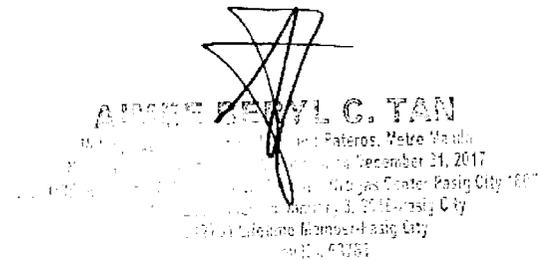
Before me, a notary public in and for the city named above, personally appeared the following:

Name	Competent Evidence of Identity
Tony Tan Caktiong	SSS Number: 03-5003942-0
Ernesto Tanmantiong	SSS Number: 03-6292699-0
Ysmael V. Baysa	SSS Number: 03-4228219-1
Marilou N. Sibayan	SSS Number: 03-9964176-9

Who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took on oath before me as to such instrument.

Witness my hand and seal this April 05, 2017.

Doc. No. 49
Page No. 11
Book No. 3
Series of 2017



ARLENE RERYL C. TAN
Notary Public for the City of Pasig, Metro Manila
My Commission Expires on December 31, 2017
Notary Office: Jollibee Center, Pasig City 1601
Mobile: 0917-888-8888, 0917-888-8889, 0917-888-8890
E-mail: arlene@arlene.com.ph
Notary License Number: Pasig City
No. 14, 63184

www.jollibee.com.ph

Jollibee Plaza Bldg. F. Ortigas Jr.
Road, Pasig City, Philippines

Independent Auditor's Report

The Board of Directors and Stockholders
Jollibee Foods Corporation and Subsidiaries

Opinion

We have audited the consolidated financial statements of Jollibee Foods Corporation (the Parent Company) and its subsidiaries (the Jollibee Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Jollibee Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

(1) Recoverability of goodwill and intangible asset with indefinite life

Goodwill and intangible asset with indefinite life accounts for 11.8% of the Jollibee Group's consolidated assets as of December 31, 2016. They relate to several cash generating units (CGUs) mainly from Jollibee Group's acquisitions in the Philippines, the People's Republic of China and the United States of America. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Jollibee Group is required to perform an annual impairment test on the amount of goodwill and intangible asset with indefinite life. These annual impairment tests are significant to our audit because the amounts are material to the consolidated financial statements. In addition, the determination of the recoverable amount of the CGUs to which the goodwill and intangible asset with indefinite life belong, involves significant assumptions about the future results of business such as long-term revenue growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) and discount rates which are applied to the cash flow forecasts.

Refer to Note 14 to the consolidated financial statements for the details on goodwill and intangible asset with indefinite life and the assumptions used in the forecasts.

Audit response

We obtained an understanding of the Jollibee Group's impairment assessment process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the revenue growth, gross margins and discount rates. We compared the forecasted long-term revenue growth rates and EBITDA against the historical data of the CGUs and inquired from management and operations personnel about the

plans to support the forecast. Furthermore, we tested the parameters used in the determination of discount rate against market data. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with the WACC of comparable companies where the CGUs operate. We also reviewed the Jollibee Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible asset with indefinite life.

(2) Recoverability of investments in and advances to joint ventures

The Jollibee Group has investments in and advances to joint ventures domiciled in foreign countries which account for 13.6% of the Jollibee Group's consolidated total assets as of December 31, 2016. Under PAS 36, *Impairment of Assets*, the Jollibee Group is required to assess whether there are facts and circumstances indicating that the carrying amounts of investments in and advances to joint ventures exceed the recoverable amounts. Should there be indicators, the Jollibee Group is required to perform an impairment test on the amount of investments and advances. These impairment tests are significant to our audit because the amounts are material to the Jollibee Group's consolidated financial statements. In addition, the determination of the recoverable amount of the investments in and advances to joint ventures involves significant assumptions about the future results of the joint ventures' operations such as long-term revenue growth rates, EBITDA and discount rates which are applied to the cash flow forecasts.

Refer to Note 11 to the consolidated financial statements for the details of investments in and advances to joint ventures and Note 4 for the discussion of management's judgments and estimates.

Audit response

Our audit procedures included understanding the processes and controls involved in determining whether there are impairment indicators including performing the recoverability test when applicable. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include long-term revenue growth rates, EBITDA and discount rates. These assumptions were compared against the historical data of the joint ventures and inquired from management about the plans to support the forecast. We tested the parameters used in determining the discount rate against market data. Moreover, we reviewed the WACC used in the impairment test by comparing it with WACC of comparable companies in the regions where these joint ventures operate.

(3) Provisions and contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. This matter is significant to our audit because the estimation of the potential liability resulting from these litigations, claims and disputes requires significant management judgment. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and application of laws and rulings.

Please see Note 17 for the disclosures about provisions and Note 29 for the disclosures about contingencies of the Jollibee Group.

Audit response

Our audit procedures included understanding the Jollibee Group's processes and controls over the identification and evaluation of litigations, claims and disputes. We involved our internal specialist in evaluating management's assessment on whether provisions on the contingencies should be recognized, and the estimation of such amount. We also discussed the status of the litigations, claims and disputes with management. In addition, we obtained correspondences with the relevant government agencies, replies from third party legal counsels, and any relevant laws and rulings on similar matters.

(4) Recoverability of deferred income tax assets

The Parent Company and certain subsidiaries (foreign and local) have recognized deferred tax assets amounting to ₱2,894.1 million as of December 31, 2016. Of that amount, around 54.2% relates to net operating loss carryover and excess minimum corporate income tax over regular corporate income tax. Management estimated the recoverability of these deferred tax assets based on the forecasted taxable income taking into account the period in which they can be claimed in the Philippines and in the People's Republic of China. The analysis of the recoverability of deferred tax assets is significant to our audit because the assessment process requires use of management judgment. It is also based on assumptions of future revenues and expenses as well as management's plans and strategies of the relevant taxable entities, including the Parent Company and certain subsidiaries.

Refer to Note 24 to the consolidated financial statements for the details of the deferred tax assets and Note 4 for the discussion of management's judgments and estimates.

Audit response

We obtained an understanding of the Parent Company and its subsidiaries' deferred income tax calculation process and, together with our internal specialist, the applicable tax rules and regulations. We reviewed management's assessment on the availability of future taxable income in reference to financial forecasts and tax strategies. We evaluated management's forecast by comparing forecasts of future taxable income against approved budgets, historical performance of the relevant entities like past growth rates and with relevant external market information such as inflation. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Jollibee Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Jollibee Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Jollibee Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Jollibee Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Jollibee Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Jollibee Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

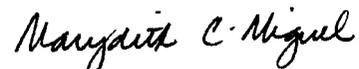
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.



Marydith C. Miguel

Partner

CPA Certificate No. 65556

SEC Accreditation No. 0087-AR-4 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 102-092-270

BIR Accreditation No. 08-001998-55-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908731, January 3, 2017, Makati City

April 5, 2017

Consolidated Statements of Financial Position

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 30 and 31)	₱16,733,346,023	₱11,497,559,629
Short-term investments (Notes 6, 30 and 31)	726,002,456	922,317,012
Receivables (Notes 7, 30 and 31)	3,376,701,591	5,432,775,539
Inventories (Note 8)	5,987,346,224	5,478,416,309
Derivative asset (Notes 18, 30 and 31)	–	9,868,242
Other current assets (Note 9)	3,545,338,285	3,828,229,080
Total Current Assets	30,368,734,579	27,169,165,811
Noncurrent Assets		
Available-for-sale financial assets (Notes 10, 30 and 31)	26,212,462	21,462,462
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	9,873,296,708	8,449,310,264
Property, plant and equipment (Note 12)	16,655,567,285	14,547,151,906
Investment properties (Note 13)	983,427,881	998,113,493
Goodwill and other intangible assets (Note 14)	9,086,742,354	9,412,134,199
Operating lease receivables (Notes 29, 30 and 31)	25,994,919	12,516,788
Derivative asset (Notes 11, 18, 30 and 31)	78,329,324	75,031,052
Deferred tax assets - net (Note 24)	2,585,494,838	1,408,488,536
Other noncurrent assets (Notes 15, 30 and 31)	3,044,551,908	2,669,673,900
Total Noncurrent Assets	42,359,617,679	37,593,882,600
	₱72,728,352,258	₱64,763,048,411
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 16, 30 and 31)	₱21,960,567,220	₱19,527,045,864
Income tax payable	309,331,420	235,980,000
Short-term debt (Notes 18, 30 and 31)	–	282,360,000
Current portion of long-term debt (Notes 18, 30 and 31)	1,561,515,860	927,916,273
Liability for acquisition of businesses (Notes 11, 30 and 31)	–	94,852,231
Total Current Liabilities	23,831,414,500	21,068,154,368

Noncurrent Liabilities		
Noncurrent portion of long-term debt (Notes 18, 30 and 31)	₱10,593,849,717	₱8,790,712,333
Pension liability (Note 25)	1,658,178,475	1,466,530,394
Operating lease payables (Notes 29, 30 and 31)	1,792,896,874	1,615,639,498
Derivative liability (Notes 18, 30 and 31)	33,530,586	34,921,275
Provisions (Note 17)	30,500,639	30,500,639
Deferred tax liabilities - net (Note 24)	506,576,982	–
Total Noncurrent Liabilities	14,615,533,273	11,938,304,139
Total Liabilities	38,446,947,773	33,006,458,507
Equity Attributable to Equity Holders of the Parent Company (Note 30)		
Capital stock (Note 19)	1,091,301,305	1,086,149,410
Subscriptions receivable (Note 19)	(17,177,884)	(17,177,884)
Additional paid-in capital (Note 19)	5,660,085,635	5,055,293,439
Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustments of interests in joint ventures	(20,811,094)	107,225,186
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	(608,800,693)	(536,579,937)
Unrealized gain on change in fair value of available-for-sale financial assets (Note 10)	4,290,500	–
Comprehensive loss on derivative liability (Note 18)	(33,530,586)	(35,449,264)
Excess of cost over the carrying value of non-controlling interests acquired (Notes 11 and 19)	(2,152,161,386)	(542,764,486)
Retained earnings (Notes 19 and 30):		
Appropriated for future expansion	18,200,000,000	10,200,000,000
Unappropriated	11,659,531,772	15,487,039,084
	33,782,727,569	30,803,735,548
Less cost of common stock held in treasury (Note 19)	180,511,491	180,511,491
	33,602,216,078	30,623,224,057
Non-controlling Interests (Note 11)	679,188,407	1,133,365,847
Total Equity	34,281,404,485	31,756,589,904
	₱72,728,352,258	₱64,763,048,411

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2016	2015	2014
REVENUES			
Gross sales	P108,992,340,770	P96,471,242,554	P86,729,229,560
Sales discounts	(971,595,374)	(660,553,762)	(519,451,850)
Net sales	108,020,745,396	95,810,688,792	86,209,777,710
Royalty, franchise fees and others (Note 20)	5,887,016,152	4,969,028,967	4,461,460,490
	113,907,761,548	100,779,717,759	90,671,238,200
COST OF SALES (Note 21)	92,815,488,315	82,891,701,255	73,727,792,141
GROSS PROFIT	21,092,273,233	17,888,016,504	16,943,446,059
EXPENSES			
General and administrative expenses (Note 22)	11,861,439,884	10,288,042,742	8,953,711,295
Advertising and promotions	2,765,786,669	2,244,943,336	1,852,967,633
	14,627,226,553	12,532,986,078	10,806,678,928
INTEREST INCOME (EXPENSE) (Note 23)			
Interest income	286,913,607	257,783,585	242,045,341
Interest expense	(267,618,436)	(225,544,319)	(152,471,253)
	19,295,171	32,239,266	89,574,088
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES – Net (Note 11)	(337,145,267)	(189,085,966)	(126,174,100)
OTHER INCOME (Note 23)	1,582,923,095	1,236,757,580	659,303,926
INCOME BEFORE INCOME TAX	7,730,119,679	6,434,941,306	6,759,471,045
PROVISION FOR INCOME TAX (Note 24)			
Current	2,334,854,889	1,926,077,984	1,694,768,550
Deferred	(658,243,832)	(537,470,070)	(424,239,011)
	1,676,611,057	1,388,607,914	1,270,529,539
NET INCOME	6,053,508,622	5,046,333,392	5,488,941,506
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Translation adjustments of foreign subsidiaries	(137,727,896)	82,044,115	79,806,642
Share in the OCI of joint ventures and an associate under equity method coming from translation adjustments (Note 11)	12,315,905	62,829,398	(155,868,959)
Net unrealized gain on available-for-sale financial assets – net of tax (Note 10)	4,290,500	–	–
Comprehensive income (loss) on derivative liability (Note 18)	2,368,447	(31,463,561)	1,882,127
	(118,753,044)	113,409,952	(74,180,190)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on pension (Note 25)	(101,866,793)	(421,504,400)	358,528,285
Income tax effect (Note 24)	29,646,037	104,824,523	(106,374,133)
	(72,220,756)	(316,679,877)	252,154,152
	(190,973,800)	(203,269,925)	177,973,962
TOTAL COMPREHENSIVE INCOME	P5,862,534,822	P4,843,063,467	P5,666,915,468
Net Income Attributable to:			
Equity holders of the Parent Company (Note 28)	P6,164,735,373	P4,928,236,228	P5,361,978,768
Non-controlling interests	(111,226,751)	118,097,164	126,962,738
	P6,053,508,622	P5,046,333,392	P5,488,941,506
Total Comprehensive Income Attributable to:			
Equity holders of the Parent Company	P5,970,687,515	P4,738,415,802	P5,551,053,183
Non-controlling interests	(108,152,693)	104,647,665	115,862,285
	P5,862,534,822	P4,843,063,467	P5,666,915,468
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 28)			
Basic	P5.747	P4.618	P5.075
Diluted	5.643	4.528	4.955

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Equity Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Share in Cumulative Translation Adjustments of Interests in Joint Ventures	Remeasurement Loss on Net Plan - net of tax (Note 25)	Unrealized Gain on Available-for-Sale Financial Assets (Note 10)	Comprehensive Loss on Derivative Liability (Note 18)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Notes 11 and 19)	Retained Earnings (Note 19)		Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
									Appropriated for Future Expansion	Unappropriated				
Balance at January 1, 2016	₱1,086,149,410	(₱17,177,884)	₱5,055,293,439	₱107,225,186	(₱536,579,937)	₱-	(₱35,449,264)	(₱542,764,486)	₱10,200,000,000	₱15,487,039,084	(₱180,511,491)	₱30,623,224,057	₱1,133,365,847	₱31,756,589,904
Net income	-	-	-	-	-	-	-	-	-	6,164,735,373	-	6,164,735,373	(111,226,751)	6,053,508,622
Other comprehensive income (loss)	-	-	-	(128,036,280)	(72,220,756)	4,290,500	1,918,678	-	-	-	-	(194,047,858)	3,074,058	(190,973,800)
Total comprehensive income (loss)	-	-	-	(128,036,280)	(72,220,756)	4,290,500	1,918,678	-	-	6,164,735,373	-	5,970,687,515	(108,152,693)	5,862,534,822
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	5,151,895	-	363,468,517	-	-	-	-	-	-	-	-	368,620,412	-	368,620,412
Cost of stock options granted (Notes 19, 22 and 26)	-	-	241,323,679	-	-	-	-	-	-	-	-	241,323,679	-	241,323,679
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,992,242,685)	-	(1,992,242,685)	-	(1,992,242,685)
Acquisition of minority interests (Note 11)	-	-	-	-	-	-	-	(1,609,396,900)	-	-	-	(1,609,396,900)	(905,536,279)	(2,514,933,179)
Appropriation during the period (Note 19)	-	-	-	-	-	-	-	-	8,000,000,000	(8,000,000,000)	-	-	-	-
Arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	715,608,000	715,608,000
Arising from divestment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(156,096,468)	(156,096,468)
	5,151,895	-	604,792,196	-	-	-	-	(1,609,396,900)	8,000,000,000	(9,992,242,685)	-	(2,991,695,494)	(346,024,747)	(3,337,720,241)
Balances at December 31, 2016	₱1,091,301,305	(₱17,177,884)	₱5,660,085,635	(₱20,811,094)	(₱608,800,693)	₱4,290,500	(₱33,530,586)	(₱2,152,161,386)	₱18,200,000,000	₱11,659,531,772	(₱180,511,491)	₱33,602,216,078	₱679,188,407	₱34,281,404,485
Balance at January 1, 2015	₱1,081,040,314	(₱17,177,884)	₱4,452,162,323	(₱25,789,376)	(₱219,900,060)	₱-	(₱2,395,155)	(₱542,764,486)	₱10,200,000,000	₱12,445,662,470	(₱180,511,491)	₱27,190,326,655	₱87,694,866	₱28,078,021,521
Net income	-	-	-	-	-	-	-	-	-	4,928,236,228	-	4,928,236,228	118,097,164	5,046,333,392
Other comprehensive income (loss)	-	-	-	133,014,562	(316,679,877)	-	(33,054,109)	-	-	-	-	(216,719,424)	13,449,499	(203,269,925)
Total comprehensive income (loss)	-	-	-	133,014,562	(316,679,877)	-	(33,054,109)	-	-	4,928,236,228	-	4,711,516,804	131,546,663	4,843,063,467
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	5,109,096	-	429,919,423	-	-	-	-	-	-	-	-	435,028,519	-	435,028,519
Cost of stock options granted (Notes 19, 22 and 26)	-	-	173,211,693	-	-	-	-	-	-	-	-	173,211,693	-	173,211,693
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,886,859,614)	-	(1,886,859,614)	-	(1,886,859,614)
Cash dividends received by non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(63,503,302)	(63,503,302)
Arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	177,627,620	177,627,620
	5,109,096	-	603,131,116	-	-	-	-	-	-	(1,886,859,614)	-	(1,278,619,402)	114,124,318	(1,164,495,084)
Balances at December 31, 2015	₱1,086,149,410	(₱17,177,884)	₱5,055,293,439	₱107,225,186	(₱536,579,937)	₱-	(₱35,449,264)	(₱542,764,486)	₱10,200,000,000	₱15,487,039,084	(₱180,511,491)	₱30,623,224,057	₱1,133,365,847	₱31,756,589,904
Balance at January 1, 2014	₱1,068,608,675	(₱17,177,884)	₱3,640,716,729	₱38,306,710	(₱472,054,212)	₱-	(₱3,411,504)	(₱542,764,486)	₱10,200,000,000	₱8,817,166,243	(₱180,511,491)	₱22,548,878,780	₱812,061,297	₱23,360,940,077
Net income	-	-	-	-	-	-	-	-	-	5,361,978,768	-	5,361,978,768	126,962,738	5,488,941,506
Other comprehensive income (loss)	-	-	-	(64,096,086)	252,154,152	-	1,016,349	-	-	189,074,415	-	(11,100,453)	177,973,962	177,973,962
Total comprehensive income (loss)	-	-	-	(64,096,086)	252,154,152	-	1,016,349	-	-	5,361,978,768	-	5,551,053,183	115,862,285	5,666,915,468
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	12,431,639	-	644,954,706	-	-	-	-	-	-	-	-	657,386,345	-	657,386,345
Cost of stock options granted (Notes 19, 22 and 26)	-	-	166,490,888	-	-	-	-	-	-	-	-	166,490,888	-	166,490,888
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,733,482,541)	-	(1,733,482,541)	-	(1,733,482,541)
Cash dividends received by non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(40,228,716)	(40,228,716)
	12,431,639	-	811,445,594	-	-	-	-	-	-	(1,733,482,541)	-	(909,605,308)	(40,228,716)	(949,834,024)
Balances at December 31, 2014	₱1,081,040,314	(₱17,177,884)	₱4,452,162,323	(₱25,789,376)	(₱219,900,060)	₱-	(₱2,395,155)	(₱542,764,486)	₱10,200,000,000	₱12,445,662,470	(₱180,511,491)	₱27,190,326,655	₱87,694,866	₱28,078,021,521

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱7,730,119,679	₱6,434,941,306	₱6,759,471,045
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	3,995,868,115	3,425,676,922	3,186,379,730
Equity in net losses of joint ventures and an associate (Note 11)	337,145,266	189,085,967	126,174,100
Interest income (Note 23)	(286,913,607)	(257,783,585)	(242,045,341)
Interest expense (Note 23)	267,618,436	225,544,319	152,471,253
Stock options expense (Notes 22 and 26)	241,323,679	173,211,693	166,490,888
Loss on disposals and retirements of property and equipment (Notes 12, 13 and 22)	236,808,617	136,746,521	156,615,427
Deferred rent amortization – net (Note 29)	193,237,110	79,366,125	(24,047,625)
Impairment losses on:			
Receivables (Notes 7 and 22)	91,414,715	325,907,626	36,301,470
Inventories (Notes 8 and 22)	78,621,389	11,048,562	11,066,386
Property, plant and equipment (Note 22)	42,731,142	–	2,000,000
Movement in pension liability (Notes 21, 22 and 25)	89,781,288	212,635,742	187,283,727
Net unrealized foreign exchange gain	(79,314,219)	(31,602,975)	6,320,479
Gain on divestment of subsidiaries (Notes 11 and 23)	(66,694,732)	–	–
Reversals of impairment losses on:			
Inventories (Notes 8 and 22)	(18,129,447)	(12,047,290)	(8,489,305)
Receivables (Notes 7 and 22)	(3,188,474)	(4,605,656)	(868,308)
Property, plant and equipment (Note 22)	(2,000,000)	–	(62,647,298)
Gain on movement in derivative assets (Note 18)	(3,298,272)	–	–
Income before working capital changes	12,845,130,685	10,908,125,277	10,452,476,628
Decreases (increases) in:			
Receivables	2,299,070,278	2,269,039,596	(4,329,136,233)
Inventories	(593,238,407)	494,396,411	(2,413,958,938)
Other current assets	327,543,600	(1,510,842,807)	(1,288,316,588)
Increases in trade payables and other current liabilities	1,865,216,799	2,976,473,345	1,794,597,130
Net cash generated from operations	16,743,722,955	15,137,191,822	4,215,661,999
Income taxes paid	(2,261,503,469)	(1,871,927,109)	(1,667,683,961)
Interest received	278,098,596	219,845,694	212,872,623
Net cash provided by operating activities	14,760,318,082	13,485,110,407	2,760,850,661

(Forward)

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 12)	(P6,694,133,314)	(P4,596,786,547)	(P5,045,474,419)
Minority interests (Note 11)	(2,070,158,570)	-	-
Interest in joint ventures (Note 11)	(1,617,092,167)	(5,057,543,417)	(74,998,875)
Cash from acquired business - net of cash paid (Note 11)	113,357,781	-	-
Intangible assets (Note 14)	(23,705,581)	(99,980,421)	(318,736,601)
Market entry fee (Notes 11 and 15)	-	(93,870,000)	-
Investment property (Note 13)	-	-	(277,484,623)
Proceeds from disposals of:			
Subsidiaries – net (Note 11)	96,486,335	-	-
Property, plant and equipment	92,730,444	46,049,000	291,195,603
Decreases (increases) in:			
Short term-investments	196,314,556	(922,317,012)	-
Other noncurrent assets	(170,598,340)	(89,368,653)	(270,947,498)
Net cash used in investing activities	(10,076,798,856)	(10,813,817,050)	(5,696,446,413)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends (Note 19)	(1,988,082,146)	(1,899,665,609)	(1,560,657,861)
Long-term debt (Note 18)	(929,558,000)	(734,360,000)	(1,096,987,500)
Short-term debt (Note 18)	(282,360,000)	(9,191,000,000)	-
Liability for acquisition of businesses (Note 11)	(94,852,231)	(87,775,326)	(109,920,000)
Proceeds from:			
Long-term debt (Note 18)	2,993,810,000	5,176,600,000	1,053,535,000
Issuances of and subscriptions to capital stock	368,620,412	435,028,519	657,386,344
Short-term debt (Note 18)	-	7,594,200,000	1,865,000,000
Contributions from non-controlling interests	715,608,000	177,627,620	-
Interest paid	(232,646,336)	(188,647,612)	(123,473,583)
Dividends paid to non-controlling interests	-	(63,503,302)	(40,228,716)
Net cash provided by financing activities	550,539,699	1,218,504,290	644,653,684
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,234,058,925	3,889,797,647	(2,290,942,068)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,727,469	(10,711,285)	5,538,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,497,559,629	7,618,473,267	9,903,877,068
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	P16,733,346,023	P11,497,559,629	P7,618,473,267

See accompanying Notes to Consolidated Financial Statements.

Notes to Audited Consolidated Financial Statements

1. CORPORATE INFORMATION

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Jollibee Group”) and affiliates are involved primarily in the development, operation and franchising of quick service restaurants (QSRs) under the trade names “Jollibee”, “Chowking”, “Greenwich”, “Red Ribbon”, “Yong He King”, “Hong Zhuang Yuan”, “Mang Inasal”, “Burger King”, “Highlands Coffee”, “Pho24”, “12 Hotpot”, “Dunkin’ Donuts” and “Smashburger”. The other activities of the Jollibee Group include manufacturing and property leasing in support of the quick service restaurant systems and other business activities (see Notes 2 and 5).

The common shares of the Parent Company are listed and traded in the Philippine Stock Exchange (PSE) beginning July 14, 1993.

The registered office address of the Parent Company is 10/F Jollibee Plaza Building, 10 F. Ortigas Jr. Ave., Ortigas Center, Pasig City.

The consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were reviewed and recommended for approval by the Audit Committee as well as approved and authorized for issuance by the Board of Directors (BOD) on April 5, 2017.

2. BASIS OF PREPARATION, STATEMENT OF COMPLIANCE, CHANGES IN ACCOUNTING POLICIES AND BASIS OF CONSOLIDATION

Basis of Preparation

The consolidated financial statements of the Jollibee Group have been prepared on a historical cost basis, except for the derivative assets and liabilities, and available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company’s functional and presentation currency.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new PFRSs and amendments to existing PFRS which became effective on January 1, 2016:

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative*

The amendments in PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

- The materiality requirements in PAS 1;
- That specific line items in the statements of comprehensive income and the statements of financial position may be disaggregated;

- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statements of financial position and the statements of comprehensive income. These amendments only affect disclosures and have no significant impact on the Jollibee Group’s financial condition and performance.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarifications of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are applied prospectively. These are not applicable to the Jollibee Group, given that it has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. These amendments are applied retrospectively and do not presently have any impact on the Jollibee Group as it does not have any bearer plants.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These amendments do not have any impact on the Jollibee Group’s consolidated financial statements.

Notes to Audited Consolidated Financial Statements

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

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

These amendments are not applicable to the consolidated financial statements since the Jollibee Group is not an investment entity nor does it have any interest in an investment entity.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. The Jollibee Group has not acquired an interest in a joint operation.

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Jollibee Group is an existing PFRS preparer, this new standard did not have any impact on the Jollibee Group's financial condition and performance.

- Annual Improvements to PFRSs (2012-2014 Cycle)

The Annual Improvements to PFRSs (2012-2014 Cycle) are effective for annual periods beginning on or after January 1, 2016. They include:

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

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. This amendment is applied prospectively and has no significant impact on the Jollibee Group's financial condition and performance.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. This amendment is not applicable to the Jollibee Group, having no servicing contracts for its financial assets.

- PFRS 7, *Financial Instruments: Disclosure - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively and this does not have significant impact on the Jollibee Group's consolidated financial statements.

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

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. Government bond rates are currently used to determine the present value of the Jollibee Group's defined benefit obligation due to the absence of a deep market for high quality corporate bonds denominated in the same currency as the Jollibee Group's defined benefit obligation. This amendment is applied retrospectively. The Jollibee Group is already compliant with the requirements of this amendment even before it became effective since government bond rates are currently used to calculate the present value of the Jollibee Group's defined benefit obligation due to the absence of a deep local market for high quality corporate bonds.

- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively and has no significant impact on the Jollibee Group's financial condition and performance.

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

The Jollibee Group will adopt the following revised standards, interpretations and amendments when these become effective.

Effective January 1, 2017

- PAS 7, *Statement of Cash Flows - Disclosure Initiative*

The amendments to PAS 7 are part of disclosure initiative to help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

These amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The amendments will not have any significant change in the Jollibee Group's financial position and performance other than additional disclosures.

- PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments to PAS 12 clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.

Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments are retrospectively effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Entities are required to apply the amendments retrospectively. The Jollibee Group is currently assessing the impact of the amendments on the consolidated financial statements.

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014 or Final Version)*

In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015. The Jollibee Group plans to adopt the new standard on the required effective date, which is subject to changes arising from a more detailed ongoing analysis.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets but will have no impact on the classification and measurement of the Jollibee Group's financial liabilities. The Jollibee Group, however, expects potential changes in its impairment model as an 'expected credit loss' model replaces the 'incurred credit losses' model under PAS 39.

The Jollibee Group is currently assessing the impact of adopting this standard and expects that the adoption of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets but will have no impact on the classification and measurement of the Jollibee Group's financial liabilities.

- PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*

These amendments address three main areas:

- *The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.* The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.
- *The classification of a share-based payment transaction with net settlement features for withholding tax obligations.* This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfill this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature'). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.

Notes to Audited Consolidated Financial Statements

- *The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.* The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss.

- *IFRIC 22, Foreign Currency Transactions and Advance Consideration*

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

These amendments are effective for annual periods beginning on or after January 1, 2018 and entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. The Jollibee Group is currently assessing the impact of these amendments but is not expecting a significant impact on its financial condition and performance, given that it has no cash-settled share-based payments.

- *PFRS 4, Insurance Contracts - PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace PFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach.

Temporary exemption from PFRS 9. The optional temporary exemption from PFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply PAS 39, *Financial Instruments: Recognition and Measurement* while they defer the application of PFRS 9 until January 1, 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes April 1, 2016 and before PFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

The overlay approach. The overlay approach is an option for entities, which adopt PFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in PAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying PFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. These amendments will be effective for annual periods beginning on or after January 1, 2018. The Jollibee Group is currently assessing the impact of these amendments.

- *PFRS 15, Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Jollibee Group plans to adopt the new standard on the required effective date. The Jollibee Group is currently assessing the impact of the new standard to the Jollibee Group's consolidated financial statements.

The following new standard issued by the International Accounting Standards Board (IASB) has not yet been adopted by the Financial Reporting Standards Council

- *IFRS 16, Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply a single lessee accounting model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statements of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Jollibee Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 16. The Jollibee Group does not expect material changes in accounting for leases wherein it is the lessor. For most leases though wherein it is the lessee, the Jollibee Group will be required to recognize both a right to use asset and a lease liability at gross amounts.

With Deferred Effective Date

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

These amendments are not expected to have a material impact to the Jollibee Group's consolidated financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2016 and 2015 and for each of the three years ended December 31, 2016.

Control is achieved when the Jollibee Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

There is a general presumption that a majority of voting rights results in control. To support this presumption when the Jollibee Group has less than a majority of the voting or similar rights of an investee, the Jollibee Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; or
- The Jollibee Group's voting rights and potential voting rights.

The Jollibee Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Jollibee Group obtains control over the subsidiary and ceases when the Jollibee Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Jollibee Group gains control until the date the Jollibee Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Jollibee Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Jollibee Group are eliminated in full on consolidation. The reporting dates of the Parent Company and the associate or joint ventures are identical and the latter's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances.

If the Jollibee Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Jollibee Group had directly disposed of the related assets or liabilities.

Non-controlling interest represent the interests in the subsidiaries not held by the Parent Company, and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company.

An increase or decrease in ownership interest in a subsidiary that does not result in a loss of control is accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the Jollibee Group's relative interests in the subsidiary. The Jollibee Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the equity holders of the Parent Company. These include acquisitions of non-controlling interests of Greenwich, Yong He King, Mang Inasal and HBFPPPL. In particular cases where the Jollibee Group acquires non-controlling interest in a subsidiary at a consideration in excess of its carrying amount, the excess is charged to the "Excess of cost over the carrying value of non-controlling interests acquired" account under equity. These increases or decreases in the ownership interest in a subsidiary do not result in the recognition of a gain or loss.

Notes to Audited Consolidated Financial Statements

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned and majority-owned subsidiaries as at December 31, 2016 and 2015:

	Country of Incorporation	Principal Activities	2016		2015	
			Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership
Fresh N' Famous Foods, Inc. (Fresh N' Famous):	Philippines	Food service	100	-	100	-
Chowking Food Corporation USA	United States of America (USA)	Holding company	-	100	-	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	100	-	100	-
Freemont Foods Corporation (Freemont)	Philippines	Food service	100	-	100	-
RRB Holdings, Inc. (RRBHI):	Philippines	Holding company	100	-	100	-
Red Ribbon Bakeshop, Inc. (RRBI)	Philippines	Food service	-	100	-	100
Red Ribbon Bakeshop, Inc. USA (RRBI USA)	USA	Food service	-	100	-	100
Mang Inasal Philippines Inc. (Mang Inasal) ^(a)	Philippines	Food service	100	-	70	-
Grandworth Resources Corporation (Grandworth):	Philippines	Leasing	100	-	100	-
Adgraphix, Inc. (Adgraphix)	Philippines	Digital printing	-	100	-	100
IConnect Multi Media Network, Inc. (IConnect)	Philippines	Advertising	-	60	-	60
JC Properties & Ventures Co.	Philippines	Dormant	-	50	-	50
Honeybee Foods Corporation (HFC)	USA	Food service	100	-	100	-
Tokyo Teriyaki Corporation (TTC)	USA	Food service	-	100	-	100
Honeybee Foods (Canada) Corporation (HFCC) ^(b)	Canada	Food service	-	100	-	100
Jollibee Worldwide Pte. Ltd. (JWPL):	Singapore	Holding company	100	-	100	-
Regional Operating Headquarters of JWPL (JWS)	Philippines	Financial accounting, human resources and logistics services	-	100	-	100
Golden Plate Pte., Ltd. (GPPL)	Singapore	Holding company	-	100	-	100
- Golden Beeworks Pte. Ltd.	Singapore	Food service	-	60	-	60
Golden Cup Pte.Ltd.	Singapore	Holding company	-	60	-	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	PRC	Food Service	-	100	-	100
Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)	PRC	Food service	-	100	-	100
Southsea Binaries Ltd. (Southsea)	British Virgin Island (BVI)	Holding company	-	100	-	100
Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Hangzhou Yongtong Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Hangzhou Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Wuhan Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100

Country of Incorporation	Principal Activities	2016		2015		
		Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership	
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Guangxi San Pin Wang Food and Beverage Management Company Limited (San Pin Wang) ^(c)	PRC	Food service	-	-	-	55
Happy Bee Foods Processing Pte. Ltd. (HBFPPPL) ^(d)	Singapore	Holding company	-	100	-	70
- Happy Bee Foods Processing (Anhui) Co. Ltd. ^(d)	PRC	Food service	-	100	-	100
JSF Investments Pte. Ltd. (JSF)	Singapore	Holding company	-	99	-	99
Chow Fun Holdings LLC (Chow Fun) ^(e)	USA	Food service	-	-	-	81
Jollibee (China) Food & Beverage Management Co. Ltd.	PRC	Management company	-	100	-	100
Jollibee International (BVI) Ltd. (JIBL):	BVI	Holding company	-	100	-	100
- Jollibee Vietnam Corporation Ltd.	Vietnam	Food service	-	100	-	100
• Goldstar Food Trade and Service Company Ltd (GSC) ^(f)	Vietnam	Food service	-	100	-	-
- PT Chowking Indonesia	Indonesia	Food service	-	100	-	100
- PT Jollibee Indonesia	Indonesia	Dormant	-	100	-	100
- Jollibee (Hong Kong) Limited and Subsidiaries	Hong Kong	Dormant	-	85	-	85
- Belmont Enterprises Ventures Limited (Belmont):	BVI	Holding company	-	100	-	100
Shanghai Belmont Enterprises Management and Adviser Co., Ltd. (SBEMAC)	PRC	Business management service	-	100	-	100
Yong He Holdings Co., Ltd.	BVI	Holding company	-	100	-	100
Centenary Ventures Ltd.	BVI	Holding company	-	100	-	100
Bee Good! Inc. (BG)	USA	Holding company	-	100	-	100
Chanceux, Inc.	Philippines	Holding company	100	-	100	-
BKTitans, Inc. (BKTitans)	Philippines	Holding company	-	54	-	54
- PFN Holdings Corporation	Philippines	Holding company	-	53	-	53
Perf Restaurants, Inc. ^(g)	Philippines	Food service	-	53	-	53
Donut Magic Phils., Inc. (Donut Magic) ^(h)	Philippines	Dormant	100	-	100	-
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(h)	Philippines	Dormant	100	-	100	-
Mary's Foods Corporation (Mary's) ^(h)	Philippines	Dormant	100	-	100	-
QSR Builders, Inc.	Philippines	Dormant	100	-	100	-
Jollibee USA	USA	Dormant	100	-	100	-

(a) On April 22, 2016, the Parent Company acquired the remaining 30% stake in Mang Inasal.

(b) On May 7, 2015, the Jollibee Group, through HFC, incorporated HFCC to own and operate Jollibee restaurants in Canada.

(c) On December 30, 2016, the Jollibee Group, through JWPL completed the divestment of its shareholdings in San Pin Wang.

(d) On November 23, 2016, the Jollibee Group, through JWPL obtained government and regulatory approval for the transfer of assets in Anhui and completed the acquisition of shares in HBFPPPL to make its ownership 100%.

(e) On December 31, 2016, the Jollibee Group, through JWPL completed divestment of its shareholdings in Chowfun.

(f) On September 1, 2016, the Jollibee Group, through its wholly owned subsidiary, Jollibee Vietnam Company Ltd., acquired 100% equity of GSC.

(g) Perf Restaurants, Inc. also holds shares in PERF Trinoma and PERF MOA.

(h) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three dormant companies. The application is pending approval from the SEC as at December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

Current versus Noncurrent Classification

The Jollibee Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Jollibee Group classifies all other assets as noncurrent.

A liability is classified as current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Jollibee Group classifies all other liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Jollibee Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs. Where the Jollibee Group has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and

reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available supportable market data as possible) and the cost approach (i.e., based on the amount required to replace the service capacity of an asset). The Jollibee Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Jollibee Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Jollibee Group's management determines the policies and procedures for both recurring fair value measurement and non-recurring measurement. At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Jollibee Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Jollibee Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

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 the date of acquisition and are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments are deposits with original maturities of more than three months to one year from acquisition date.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or

Notes to Audited Consolidated Financial Statements

loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, except for financial assets at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

The Jollibee Group has no financial assets classified under the held-to-maturity investments category.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Jollibee Group commits to purchase or sell the asset.

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. The Jollibee Group has not designated any financial assets at FVPL. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL.

This category generally applies to the Jollibee Group's derivative assets.

Loans and Receivables. This category is the most relevant to the Jollibee Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, except for short-term loans and receivables with no stated interest which are measured at undiscounted amounts less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is recognized in profit or loss. The losses arising from impairment are recognized also in profit or loss.

This category generally applies to cash and cash equivalents, short-term investments, receivables, refundable deposits, operating lease receivables and employees' car plan receivables.

AFS Financial Assets. AFS financial assets include equity investments. Equity investments classified as AFS financial assets are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited directly in equity until the investment is derecognized, at which time, the cumulative gain or loss is recognized in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from equity to profit or loss. Dividends earned while holding AFS financial assets is recognized in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Jollibee Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Jollibee Group has transferred substantially all the risks and rewards of the asset, or (b) the Jollibee Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Jollibee Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Jollibee Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Jollibee Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Jollibee Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Jollibee Group could be required to repay.

Impairment of Financial Assets

The Jollibee Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Jollibee Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Jollibee Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Jollibee Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit and loss.

AFS Financial Assets. For AFS financial assets, the Jollibee Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from OCI and recognized in profit or loss. For unquoted equity investments that are not carried at fair value because such cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instruments, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Jollibee Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Jollibee Group's financial liabilities include loans and borrowings and derivative financial instruments.

Subsequent measurement

Financial liabilities at FVPL. Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also

includes derivative financial instruments entered into by the Jollibee Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied. The Jollibee Group has not designated any financial liability as at FVPL.

Loans and borrowings. This is the category most relevant to the Jollibee Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs, including debt issue costs for the Jollibee Group's debts that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of comprehensive income.

This category generally applies to trade payables and other current liabilities, short-term and long-term debts and liability for acquisition of businesses.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. The Jollibee Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Jollibee Group and all of the counterparties.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement. The Group uses derivative financial instruments, such as cross currency swaps and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

Notes to Audited Consolidated Financial Statements

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment, or
- Hedges of a net investment in a foreign operation.

The Jollibee Group's cross currency swap and interest rate swap are cash flow hedges. The Jollibee Group has no fair value hedge and hedge of a net investment in a foreign operation as at December 31, 2016 and 2015.

At the inception of a hedge relationship, the Jollibee Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the statement of profit or loss.

The Jollibee Group has a cross currency swap to hedge its exposure to foreign currency risk in forecast transactions, as well as an interest rate swap for its exposure to volatility in interest rates. The ineffective portion relating to these swaps are recognized in profit or loss.

Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognized or when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs are accounted for as follows:

Processed inventories - Standard costing, which is reviewed on a quarterly basis and revised as necessary to approximate current costs determined using first in, first out (FIFO). Cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Food supplies, packaging, store and other supplies, and novelty items - Standard costing which is reviewed on a quarterly basis and revised as necessary to approximate current costs determined using FIFO.

Net realizable value of processed inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of food supplies, packaging, store and other supplies is the current replacement cost. Food and other supplies are held for use in the production of processed inventories.

Net realizable value of novelty items is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Other Current Assets

Other current assets include deposits which pertain to advance payments to suppliers to be applied for future purchases, prepaid expenses which are paid in advance and recorded as asset before these are utilized; and creditable withholding taxes, which will be applied in the following year against corporate income tax or be claimed for refund with the Bureau of Internal Revenue. Prepaid expenses are amortized over time and recognized as expense as the benefit is derived from the asset.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties and nonrefundable taxes and any other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land improvements	5 years
Plant, buildings, commercial condominium units and improvements	5 – 40 years
Leasehold rights and improvements	2 – 10 years or term of the lease, whichever is shorter
Office, store and food processing equipment	1 – 15 years
Furniture and fixtures	3 – 5 years
Transportation equipment	3 – 5 years

An item of property, plant 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 disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

The residual values, if any, useful lives and depreciation and amortization method of the assets are reviewed and adjusted, if appropriate, at the end of each financial period.

Fully depreciated assets are retained in the accounts until they are disposed or retired.

Construction in progress represents assets under construction and is stated at cost less any impairment in value. This includes the cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and ready for use.

Investment Properties

Investment properties consist of land and buildings and building improvements held by the Jollibee Group for capital appreciation and rental purposes. Investment properties, except land, are carried at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Cost also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Land is carried at cost less any impairment in value.

The depreciation of buildings and building improvements are calculated on a straight-line basis over the estimated useful lives of the assets which are five (5) to twenty (20) years.

The residual values, if any, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial year-end.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers to investment property are made only when there is a change in use, evidenced by ending of ownership-occupation, or commencement of an operating lease to another party. Transfers from investment property are made only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Business Combinations

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Jollibee Group will be identified as the acquirer, (b) determination of the acquisition-date, (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

When the Jollibee Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at acquisition date.

The cost of an acquisition is measured as the aggregate of the (a) consideration transferred by the Jollibee Group, measured at acquisition-date fair value, (b) amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of the Jollibee Group's previously held equity interest in the acquiree in a business combination achieved in stages. Acquisition costs incurred are expensed and included in "General and administrative expenses" account in the consolidated statement of comprehensive income.

Initial Measurement of Non-controlling Interest. For each business combination, the Jollibee Group measures the non-controlling interest in the acquiree using the proportionate share of the acquiree's identifiable net assets.

Business Combination Achieved in Stages. In a business combination achieved in stages, the Jollibee Group remeasures its previously held equity interests in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Jollibee Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Jollibee Group receives the information it was seeking about facts and circumstances that existed as at the acquisition-date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

Contingent Consideration or Earn-out. Any contingent consideration or earn-out in relation to a business combination is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognized in profit or loss.

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Jollibee Group at cost being the excess of the total consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Jollibee Group determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

Notes to Audited Consolidated Financial Statements

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition-date, allocated to each of the Jollibee Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Jollibee Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Jollibee Group tests goodwill acquired in a business combination for impairment annually as at December 31 and more frequently when circumstances indicate that the carrying amount is impaired.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units. In allocating the impairment loss, the Jollibee Group cannot reduce the carrying amount of an asset below the highest of its fair value less costs of disposal if measurable, its value in use if determinable and zero.

Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Amortization of computer software, trademarks and other intangible assets are calculated on a straight-line basis over the following estimated useful lives of the assets:

Computer software	10 years
Trademark	5 years
Other intangible assets	5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Interests in and Advances to Joint Ventures, Co-venturers and an Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Jollibee Group's investments in its associate and joint ventures are accounted for using the equity method based on the percentage share of ownership and capitalization. Interests in joint ventures are accounted for under the equity method from the date the joint control is obtained.

Under the equity method, the Jollibee Group's investments in joint ventures and an associate are carried in the consolidated statement of financial position at cost plus the Jollibee Group's share in post-acquisition changes in the net assets of an associate or joint ventures, less any impairment in value. Goodwill relating to the associate or joint ventures is included in the carrying amount of the investment and is not amortized. The consolidated statement of comprehensive income includes the Jollibee Group's share in the financial performance of the associate or joint ventures. The Jollibee Group's share in profit or loss of the associate is shown on the face of the consolidated statement of comprehensive income as "Equity in net earnings of joint ventures and an associate-net", which is the profit or loss attributable to equity holders of the joint ventures and associate.

When the Jollibee Group's share of losses in the associate or joint ventures equals or exceeds its interest, including any other unsecured receivables, the Jollibee Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint ventures. Where there has been a change recognized directly in the equity of the associate or joint venture, the Jollibee Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Parent Company and the associate or joint ventures are identical and the latter's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances. Unrealized gains arising from transactions with the associate or joint ventures are eliminated to the extent of the Jollibee Group's interests in the associate or joint ventures against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment in the asset transferred.

The Jollibee Group ceases to use the equity method of accounting on the date from which it no longer has joint control in the joint ventures, no longer has significant influence over an associate, or when the interest becomes held for sale.

Upon loss of significant influence over the associate or joint control over the joint ventures, the Jollibee Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former associate or former jointly controlled entities upon loss of significant influence or joint control, and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining interest in the former jointly controlled entity constitutes significant influence, it is accounted for as interest in an associate.

Impairment of Nonfinancial Assets

The carrying values of interests in and advances to joint ventures, co-venturers and an associate, property, plant and equipment, investment properties, goodwill and other intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGU are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss. After such a reversal, the depreciation 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.

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional paid-in capital is also credited for the cost of the Jollibee Group's equity settled share-based payments to its employees.

Subscriptions Receivable. Subscriptions receivable represents the unpaid balance of the subscription price for subscribed common stock of the Parent Company.

Retained Earnings. Retained earnings represent the Jollibee Group's accumulated earnings, net of dividends declared. The balance includes accumulated earnings of subsidiaries and associates, which are not available for dividend declaration.

Dividends. The Jollibee Group recognizes a liability to make cash distribution to its equity holders when the distribution is authorized and the distribution is no longer at the discretion of the Jollibee Group. A corresponding amount is recognized directly in the equity. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the reporting period.

Other Comprehensive Income. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss. These include cumulative translation adjustments, gains or losses on derivatives designated as hedging instruments in an effective hedge, unrealized gains or losses on AFS financial assets, remeasurement gains or losses on pension and their income tax effects.

Treasury Shares. Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated statement of financial position as a deduction from the total equity. Upon re-issuance or resale of the treasury shares, cost of common stock held in treasury account is credited for the cost of the treasury shares determined using the simple average method. Gain on sale is credited to additional paid-in capital. Losses are charged against additional paid-in capital but only to the extent of previous gain from original issuance, sale or retirement for the same class of stock. Otherwise, losses are charged to retained earnings.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Jollibee Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, sales taxes and duties. The Jollibee Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Jollibee Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the customers, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at net sales shown in the consolidated statement of comprehensive income.

Royalty Fees. Revenue from royalty fees is recognized as the royalty accrues based on a certain percentage of the franchisees' net sales in accordance with the franchise agreements.

Notes to Audited Consolidated Financial Statements

Franchise Fees. Revenue from franchise fees is recognized when all services or conditions relating to the payment of franchise fees have been substantially performed.

Service Fees. Revenue is recognized in the period in which the service has been rendered.

Rent Income. Rent income from operating leases is recognized on a straight-line basis over the lease terms.

Interest Income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Other Income. Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Jollibee Group through an increase in asset or reduction in liability and that can be measured reliably.

Cost and Expenses

Cost and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized as incurred.

Advertising and promotions expenses include costs incurred for advertising schemes and promotional activities for new products. The amount of expenses incurred by the Jollibee Group is reduced by the network advertising and promotional costs reimbursed by the Jollibee Group's franchisees and subsidiaries.

Pension Benefits

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Pension Expense comprises the following:

- Service cost
- Net interest on the net defined benefit liability or asset

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

Net interest on the pension liability or asset is the change during the period in the liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liability or asset. Net interest on the pension liability or asset is recognized under "Cost of Sales" and "General and Administrative expenses" in the consolidated statement of comprehensive income.

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

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

The Jollibee Group also participates in various government-defined contribution schemes for the People's Republic of China (PRC)-based and USA-based subsidiaries. Under these schemes, pension benefits of existing and retired employees are guaranteed by the local pension benefit plan, and each subsidiary has no further obligations beyond the annual contribution.

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. Jollibee Group recognizes undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period.

Share-based Payments

The Jollibee Group has stock option plans granting its management and employees an option to purchase a fixed number of shares of stock at a stated price during a specified period ("equity-settled transactions").

The cost of the options granted to the Jollibee Group's management and employees that becomes vested is recognized in profit or loss over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant management and employees become fully entitled to the award ("vesting date").

The fair value is determined using the Black-Scholes Option Pricing Model. The cumulative expense recognized for the share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Jollibee Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in profit or loss or the investment account for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment agreement, or is otherwise beneficial to the management and employees as measured at the date of modification.

Where a share-based award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if there were a modification of the original award.

Research Costs

Research costs are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Jollibee Group as Lessee. Leases which do not transfer to the Jollibee Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. Contingent rent is recognized as expense in the period which they are incurred.

Jollibee Group as Lessor. Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the operating lease receivable and recognized over the lease term on the same basis as rent income. Rent income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions

Provisions are recognized when the Jollibee 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Foreign Currency Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Each entity in the Jollibee Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of subsidiaries domiciled and operating in the Philippines are also determined to be the Philippine Peso. Where the functional currency is the Philippine Peso, transactions in foreign currencies are recorded in Philippine Peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at reporting date. All differences are recognized in profit or loss. 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.

The functional currencies of the Jollibee Group's foreign operations are US dollar (USD), PRC Renminbi (RMB), Indonesia rupiah, Vietnam dong, Singapore dollar and Hong Kong dollar. As of the reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date while the income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are included in equity under the account "Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustment of an interest in a joint venture". On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in profit or loss.

Taxes

Current Tax. Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity (not in the profit or loss). Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in joint ventures and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transactions, affects neither the accounting profit nor taxable profit; and

Notes to Audited Consolidated Financial Statements

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in another equity account.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as reduction in goodwill, as long as it does not exceed goodwill, if it was incurred during the measurement period or recognize in profit or loss.

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

Value Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of tax, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade payables and other current liabilities" accounts in the consolidated statement of financial position.

Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company

Basic EPS is calculated by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted EPS is computed by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the period, adjusted for any potential common shares resulting from the assumed exercise of outstanding stock options. Outstanding stock options will have dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

Where the EPS effect of the shares to be issued to management and employees under the stock option plan would be anti-dilutive, the basic and diluted EPS would be stated at the same amount.

Contingencies

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

Business Segments

The Jollibee Group is organized and managed separately according to the nature of operations and geographical locations of businesses. The three major operating businesses of the Jollibee Group are food service, franchising and leasing while geographical segments are segregated to Philippine businesses and international businesses. These operating and geographical businesses are the basis upon which the Jollibee Group reports its primary segment information presented in Note 5.

Events after the Reporting Period

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements and related notes at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future. The Jollibee Group believes the following represents a summary of these significant judgments, estimates and assumptions and the related impact and associated risks on the Jollibee Group's consolidated financial statements.

Judgments

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

Functional Currency. Management has determined that the functional and presentation currency of the Parent Company and its Philippine-based subsidiaries is the Philippine peso, being the currency of the primary environment in which the Parent Company and its major subsidiaries operate. The functional currencies of its foreign operations are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to Philippine peso which is the Parent Company's functional and presentation currency.

Operating Lease Commitments - Jollibee Group as Lessee. The Jollibee Group has entered into commercial property leases for its QSRs and offices as a lessee. Management has determined, based on an evaluation of the terms and condition of the arrangements that all the significant risks and benefits of ownership of these properties, which the Jollibee Group leases under various lease arrangements, remain with the lessors. Accordingly, the leases are accounted for as operating leases.

Rent expense amounted to ₱8,704.5 million, ₱7,841.9 million and ₱7,072.7 million in 2016, 2015 and 2014, respectively (see Notes 21, 22 and 29).

Operating Lease Commitments - Jollibee Group as Lessor. The Jollibee Group has entered into commercial property leases on its investment property portfolio and various sublease agreements. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that the Jollibee Group retains all the significant risks and benefits of ownership of the properties which are leased out. Accordingly, the leases are accounted for as operating leases.

Rent income amounted to ₱91.4 million, ₱92.4 million and ₱90.6 million in 2016, 2015 and 2014, respectively (see Notes 13, 20 and 29).

Assessing Joint Control of an Arrangement and the Type of Arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Jollibee Group assessed that it has joint control in all joint arrangements by virtue of a contractual agreement with other stockholders. The Jollibee Group's joint ventures have separate legal entity and the shareholders have right to their net assets (see Note 11).

Material Partly-Owned Subsidiaries

The consolidated financial statements include additional information about subsidiaries that have non-controlling interests that are material to the Jollibee Group (see Note 11). Management determined material partly-owned subsidiaries as those with balance of non-controlling interest greater than 5% of total non-controlling interests and those subsidiaries which type of activities they engage in is important to the Jollibee Group as at end of the year.

Material Associates and Joint Ventures

The consolidated financial statements include additional information about associates and joint ventures that are material to the Jollibee Group (see Note 11). Management determined material associates as those associates where the Jollibee Group's carrying amount of investment is greater than 5% of the total investments in an associate and interest in joint ventures as at end of the year.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at reporting date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Jollibee Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to changes on market circumstances arising beyond the control of the Jollibee Group. Such changes are reflected in the assumptions when they occur.

Recoverability of Goodwill and Other Intangible Assets. The Jollibee Group determines whether goodwill and other intangible assets with indefinite useful life is impaired at least on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected long-term growth rates and earnings before interest, taxes, depreciation and amortization (EBITDA) from the CGU and also consider market data in determining discount rate in order to calculate the present value of those cash flows.

Management has determined that goodwill and other intangible assets are not impaired. The carrying amount of goodwill and other intangible assets amounted to ₱9,086.7 million and ₱9,412.1 million as at December 31, 2016 and 2015, respectively (see Note 14).

Recoverability of Interests in and Advances to Joint Ventures, Co-venturers and Associates. The Jollibee Group performs impairment test of its interests in and advances to joint ventures, co-venturers and associates when there are facts and circumstances indicating that their carrying amounts exceed their recoverable amounts. Determining the recoverable amount of assets, which requires the determination of future cash flows expected to be generated from the continued operations of joint ventures and associates, requires the Jollibee Group to make significant assumptions that can materially affect the consolidated financial statements. These assumptions include long-term growth rates, EBITDA and discount rate. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial position and performance.

No impairment loss for interests in and advances to joint ventures, co-venturers and associates was recognized for the three years ended December 31, 2016. The carrying amount of interests in and advances to joint ventures, co-venturers and associates amounted to ₱9,873.3 million and ₱8,449.3 million as at December 31, 2016 and 2015, respectively (see Note 11).

Realizability of Deferred Tax Assets. The carrying amounts of deferred tax assets at each reporting date is reviewed and reduced to the extent that sufficient taxable profits are available to allow all or part of the deferred tax assets to be utilized. The Jollibee Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income. This forecast is based on future expectations on revenue and expenses as well as management's plans and strategies for the relevant entities.

The carrying amount of deferred tax assets amounted to ₱2,718.7 million and ₱2,275.2 million as at December 31, 2016 and 2015, respectively (see Note 24).

Provisions and Contingencies. The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the Jollibee Group's legal counsels and based upon an analysis of potential results (see Note 17). The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and application of laws and rulings. Management believes that the ultimate liability, if any, with respect to the litigations, claims and disputes will not materially affect the financial position and performance of the Jollibee Group.

Total outstanding provisions amounted to ₱30.5 million as at December 31, 2016 and 2015 (see Notes 17 and 29).

Recoverability of Property, Plant and Equipment and Investment Properties. The Jollibee Group performs impairment review of property, plant and equipment and investment properties when certain impairment indicators are present. Determining the fair value of assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Jollibee Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial position and performance.

Notes to Audited Consolidated Financial Statements

Reversal of impairment loss amounted to ₱2.0 million, nil and ₱62.6 million in 2016, 2015 and 2014, respectively, while provision for impairment loss amounted to ₱42.7 million, nil and ₱2.0 million in 2016, 2015 and 2014, respectively (see Note 22).

The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱17,639.0 million and ₱15,545.3 million as at December 31, 2016 and 2015, respectively (see Notes 12 and 13).

Impairment of Receivables. The Jollibee Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Jollibee Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Jollibee Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is done quarterly and annually using a combination of specific and collective assessments. The amount and timing of recorded expenses for any period would differ if the Jollibee Group made different judgments or utilized different methodologies. An increase in allowance account would increase general and administrative expenses and decrease current assets.

Provision for impairment loss on receivables in 2016, 2015 and 2014 amounted to ₱91.4 million, ₱325.9 million and ₱36.3 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱3.2 million, ₱4.6 million and ₱0.9 million were recognized in 2016, 2015 and 2014, respectively (see Note 22). The carrying amount of receivables amounted to ₱3,376.7 million and ₱5,432.8 million as at December 31, 2016 and 2015, respectively (see Note 7).

Net Realizable Value of Inventories. The Jollibee Group writes down inventories to net realizable value, through the use of an allowance account, whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amounts the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

The Jollibee Group assessed that the net realizable value for some inventories is lower than cost, hence, it recognized provision for inventory obsolescence amounting to ₱78.6 million, ₱11.0 million and ₱11.1 million in 2016, 2015 and 2014, respectively (see Note 22).

In addition, reversal of previously recognized provisions amounting to ₱18.1 million, ₱12.0 million and ₱8.5 million were recognized in 2016, 2015 and 2014, respectively (see Note 22). The carrying amount of inventories amounted to ₱5,987.3 million and ₱5,478.4 million as at December 31, 2016 and 2015, respectively (see Note 8).

Present Value of Defined Benefit Obligation. The pension expense as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and the future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Future salary increases are based on budgetary salary increases.

The carrying amount of pension liability amounted to ₱1,658.2 million and ₱1,466.5 million as at December 31, 2016 and 2015, respectively (see Note 25).

Share-based Payments. The Parent Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the Black-Scholes Option Pricing Model. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.

Total expense arising from share-based payment recognized by the Jollibee Group amounted to ₱241.3 million, ₱173.2 million and ₱166.5 million in 2016, 2015 and 2014, respectively (see Notes 22 and 26).

Estimation of Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets with Definite Useful Lives. The Jollibee Group estimates the useful lives of property, plant and equipment, investment properties and intangible assets with definite useful lives based on the period over which the property, plant and equipment, investment properties and intangible assets are expected to be available for use and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment, investment properties and intangible assets are 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 in the use of the said assets. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amount and timing of recording the depreciation and amortization for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization and decrease noncurrent assets.

There was no change in the estimated useful lives of property, plant and equipment, investment properties and intangible assets in 2016 and 2015.

Derivative on Put / Call Rights on SJBF LLC. The Jollibee Group has a derivative arising from put/call rights on the controlling interest in SJBF LLC.

The derivative from put / call rights derive value from the fair value of SJBF LLC's equity, which considers forecasted cash flows from its operations and its cost of capital, and the price to exercise such put / call rights, which consider SJBF LLC's EBITDA near transaction date and exit multiples based on SJBF LLC's achievement of sales targets. Such derivative is valued using discounted cash flows model, which also takes into account assumptions on the volatility of the fair value of SJBF LLC's equity and discount rate to arrive at present value, among others. Changes in the assumptions mentioned above can result to change in the amount recognized as derivative and may result to either a derivative asset or liability as recognized in the consolidated statements of financial position.

As at December 31, 2016 and 2015, the Jollibee Group recognized a derivative asset amounting to ₱78.3 million and ₱75.0 million, respectively, from put / call rights (see Note 11).

Fair Value of Financial Assets and Liabilities. When the fair values of financial assets and financial liabilities recorded or disclosed in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of financial assets and liabilities are discussed in Note 31.

5. SEGMENT INFORMATION

For management purposes, the Jollibee Group is organized into segments based on the nature of the products and services offered and geographical locations. The Executive Management Committee monitors the operating results of its segments separately for resource allocation and performance assessment. Segment results are evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Business Segments

The Jollibee Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

- The food service segment is involved in the operations of QSRs and the manufacture of food products to be sold to Jollibee Group-owned and franchised QSR outlets.

- The franchising segment is involved in the franchising of the Jollibee Group's QSR store concepts.
- The leasing segment leases store sites mainly to the Jollibee Group's independent franchisees.

The following tables present certain information on revenues, expenses, assets and liabilities and other segment information of the different business segments as at and for the years ended December 31, 2016, 2015 and 2014:

	2016				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenues from external customers	₱108,359,337	₱5,268,921	₱279,504	₱-	₱113,907,762
Inter-segment revenues	33,576,257	1,757,050	5,386,826	(40,720,133)	-
Segment revenues	141,935,594	7,025,971	5,666,330	(40,720,133)	113,907,762
Segment expenses	(140,665,045)	(1,757,050)	(5,551,305)	40,720,133	(107,253,267)
Impairment losses on receivables, inventories and property, plant and equipment, net of reversals	(189,449)	-	-	-	(189,449)
Equity in net losses of joint ventures and associates	(337,145)	-	-	-	(337,145)
Other segment income	1,576,667	-	6,256	-	1,582,923
Segment result	₱2,320,622	₱5,268,921	₱121,281	₱-	₱7,710,824
Interest income					286,914
Interest expense					(267,618)
Income before income tax					7,730,120
Provision for income tax					(1,676,611)
Net income					₱6,053,509
Assets and Liabilities					
Segment assets	₱69,760,739	₱-	₱382,119	₱-	₱70,142,858
Deferred tax assets – net	2,582,784	-	2,710	-	2,585,494
Consolidated assets	₱72,343,523	₱-	₱384,829	₱-	₱72,728,352
Segment liabilities	₱25,391,995	₱-	₱83,679	₱-	₱25,475,674
Deferred tax liabilities – net	506,577	-	-	-	506,577
Long-term debt - including current portion	12,155,366	-	-	-	12,155,366
Income tax payable	307,505	-	1,826	-	309,331
Consolidated liabilities	₱38,361,443	₱-	₱85,505	₱-	₱38,446,948
Other Segment Information					
Capital expenditures	₱6,717,839	₱-	₱-	₱-	₱6,717,839
Depreciation and amortization	3,990,980	-	4,888	-	3,995,868

Notes to Audited Consolidated Financial Statements

	2015				Consolidated
	Food Service	Franchising	Leasing	Eliminations	
	<i>(In Thousands)</i>				
Revenues from external customers	₱96,052,830	₱4,518,123	₱208,764	₱-	₱100,779,717
Inter-segment revenues	31,188,088	1,493,169	4,284,181	(36,965,438)	-
Segment revenues	127,240,918	6,011,292	4,492,945	(36,965,438)	100,779,717
Segment expenses	(126,142,365)	(1,493,169)	(4,434,288)	36,965,438	(95,104,384)
Impairment losses on receivables and inventories, net of reversals	(320,303)	-	-	-	(320,303)
Equity in net losses of joint ventures and an associate	(189,086)	-	-	-	(189,086)
Other segment income	1,229,687	-	7,070	-	1,236,757
Segment result	₱1,818,851	₱4,518,123	₱65,727	₱-	6,402,701
Interest income					257,784
Interest expense					(225,544)
Income before income tax					6,434,941
Provision for income tax					(1,388,608)
Net income					₱5,046,333
Assets and Liabilities					
Segment assets	₱62,990,298	₱-	₱364,262	₱-	₱63,354,560
Deferred tax assets – net	1,401,800	-	6,688	-	1,408,488
Consolidated assets	₱64,392,098	₱-	₱370,950	₱-	₱64,763,048
Segment liabilities	₱22,968,364	₱-	₱83,486	₱-	₱23,051,850
Long-term debt - including current portion	9,718,629	-	-	-	9,718,629
Income tax payable	233,609	-	2,371	-	235,980
Consolidated liabilities	₱32,920,602	₱-	₱85,857	₱-	₱33,006,459
Other Segment Information					
Capital expenditures	₱4,696,767	₱-	₱-	₱-	₱4,696,767
Depreciation and amortization	3,431,249	-	4,428	-	3,435,677

	2014				Consolidated
	Food Service	Franchising	Leasing	Eliminations	
	<i>(In Thousands)</i>				
Revenues from external customers	₱86,508,256	₱3,986,141	₱176,841	₱-	₱90,671,238
Inter-segment revenues	27,496,871	766,560	3,680,420	(31,943,851)	-
Segment revenues	114,005,127	4,752,701	3,857,261	(31,943,851)	90,671,238
Segment expenses	(111,886,809)	(766,560)	(3,847,589)	31,943,851	(84,557,107)
Impairment losses on receivables, property, plant and equipment, investment properties and security deposit, net of reversals	22,637	-	-	-	22,637
Equity in net losses of joint ventures and an associate	(126,174)	-	-	-	(126,174)
Other segment income	653,783	-	5,521	-	659,304
Segment result	₱2,668,564	₱3,986,141	₱15,193	₱-	6,669,898
Interest income					242,045
Interest expense					(152,471)
Income before income tax					6,759,472
Provision for income tax					(1,270,530)
Net income					₱5,488,942
Assets and Liabilities					
Segment assets	₱52,993,539	₱-	₱373,176	₱-	₱53,366,715
Deferred tax assets – net	743,530	-	8,435	-	751,965
Consolidated assets	₱53,737,069	₱-	₱381,611	₱-	₱54,118,680
Segment liabilities	₱20,605,297	₱-	₱98,621	₱-	₱20,703,918
Deferred tax liabilities – net	11,378	-	-	-	11,378
Long-term debt - including current portion	5,143,533	-	-	-	5,143,533
Income tax payable	178,872	-	2,957	-	181,829
Consolidated liabilities	₱25,939,080	₱-	₱101,578	₱-	₱26,040,658
Other Segment Information					
Capital expenditures	₱5,641,696	₱-	₱-	₱-	₱5,641,696
Depreciation and amortization	3,179,208	-	7,172	-	3,186,380

Geographical Segments

The Jollibee Group's geographical segments are based on the location of the assets producing revenues in the Philippines and in other locations (which includes PRC, USA, UAE, Hong Kong, Brunei, Saudi Arabia, Singapore, Kuwait, Qatar and Vietnam). Sales to external customers disclosed in the geographical segments are based on the geographical location of the customers.

Majority of the Jollibee Group's revenues were generated from the Philippines, which is the Parent Company's country of domicile.

The Jollibee Group does not have a single external customer which revenue amounts to 10% or more of the Jollibee Group's revenues.

The following tables present segment revenues, segment assets and capital expenditures of the Jollibee Group's geographical segments:

	2016			
	Philippines	International	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Segment revenues	₱90,625,295	₱23,691,013	(₱408,546)	₱113,907,762
Segment assets	42,562,829	27,580,029	-	70,142,858
Capital expenditures	5,493,783	1,224,056	-	6,717,839
	2015			
	Philippines	International	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Segment revenues	₱78,421,700	₱22,675,693	(₱317,676)	₱100,779,717
Segment assets	39,026,027	24,328,533	-	63,354,560
Capital expenditures	3,547,641	1,149,126	-	4,696,767
	2014			
	Philippines	International	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Segment revenues	₱70,179,960	₱20,689,510	(₱198,232)	₱90,671,238
Segment assets	36,417,986	16,948,729	-	53,366,715
Capital expenditures	4,529,006	1,112,690	-	5,641,696

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

This account consists of:

	2016	2015
Cash on hand	₱295,715,476	₱292,751,687
Cash in banks	9,672,006,128	5,936,387,052
Short-term deposits	6,765,624,419	5,268,420,890
	₱16,733,346,023	₱11,497,559,629

Cash in banks earn interest at the respective savings or special demand deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Jollibee Group, and earn interest at the respective short-term deposit rates.

The Jollibee Group also has short-term investments amounting to ₱726.0 million and ₱922.3 million as at December 31, 2016 and 2015, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash in bank and short-term investments amounted to ₱136.7 million, ₱118.0 million and ₱111.8 million for 2016, 2015 and 2014, respectively (see Note 23).

7. RECEIVABLES

This account consists of:

	2016	2015
Trade	₱3,608,582,738	₱5,575,193,914
Less allowance for impairment loss	579,791,502	520,055,036
	3,028,791,236	5,055,138,878
Advances to employees	112,651,874	154,670,011
Current portion of employee car plan receivables	83,382,577	67,461,983
Others	151,875,904	155,504,667
	₱3,376,701,591	₱5,432,775,539

Trade receivables are noninterest-bearing and are generally settled on 30-60 day terms.

Advances to employees, current portion of employee car plan receivables and other receivables are normally collectible within the next financial year. Other receivables consist of receivables from the retirement plan and the Social Security System (SSS) and insurance claims.

The movements in the allowance for impairment loss on trade receivables as at December 31 are as follows:

	2016	2015
Balance at beginning of year	₱520,055,036	₱208,940,071
Provisions (see Note 22)	91,414,715	325,907,626
Write-offs	(29,326,702)	(11,154,044)
Reversals (see Note 22)	(3,188,474)	(4,605,656)
Translation adjustments	836,927	967,039
Balance at end of year	₱579,791,502	₱520,055,036

The provisions in 2016 and 2015 resulted from specific impairment assessments performed by the Jollibee Group.

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8. INVENTORIES

This account consists of:

	2016	2015
At cost:		
Food supplies and processed inventories	₱5,458,185,534	₱5,222,435,586
Packaging, store and other supplies	461,630,160	183,664,631
	5,919,815,694	5,406,100,217
At net realizable value -		
Novelty items	67,530,530	72,316,092
Total inventories at lower of cost and net realizable value	₱5,987,346,224	₱5,478,416,309

The cost of novelty items carried at net realizable value amounted to ₱146.2 million and ₱90.5 million as at December 31, 2016 and 2015, respectively.

The movements in the allowance for inventory obsolescence as at December 31 are as follows:

	2016	2015
Balance at beginning of year	₱18,180,388	₱19,143,425
Provisions (see Note 22)	78,621,389	11,048,562
Reversals (see Note 22)	(18,129,447)	(12,047,290)
Translation adjustments	(24,809)	35,691
Balance at end of year	₱78,647,521	₱18,180,388

9. OTHER CURRENT ASSETS

This account consists of:

	2016	2015
Deposits to suppliers and other third parties	₱1,278,972,009	₱2,221,639,595
Prepaid expenses:		
Taxes	1,019,537,891	743,623,466
Rent	625,560,014	589,550,139
Insurance and others	288,886,561	192,836,136
Receivable from sale of business (see Note 11)	214,836,000	-
Supplies	117,545,810	80,579,744
	₱3,545,338,285	₱3,828,229,080

Deposits to suppliers and other third parties are generally applied to purchase of inventories and availment of services within the next financial year.

Receivable from sale of business pertains to the current portion of receivables from Guangxi Zong Kai Food Beverage Investment Company Limited (GZK) as a result of the Jollibee Group's divestment in SPW (see Note 11).

Prepaid taxes mainly represent creditable withholding taxes that can be applied in the following year against the corporate income tax due or can be claimed as tax refund from the BIR. This also includes prepaid real property taxes which are expected to be utilized within the next twelve months. Supplies consist of various office and administrative supplies.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists mainly of shares in golf and leisure clubs amounting to ₱26.2 million and ₱21.5 million as at December 31, 2016 and 2015, respectively. The movement of ₱4.7 million pertains to the unrealized gain on changes in fair value of the AFS recognized by the Jollibee Group during the year.

11. BUSINESS COMBINATIONS, INCORPORATION OF NEW SUBSIDIARIES, INTERESTS IN AND ADVANCES TO JOINT VENTURES, CO-VENTURERS AND ASSOCIATES AND DIVESTMENTS

A. Business Combinations

Business Combination through Acquisition of Equity Shares

Acquisition in 2016

Goldstar Food Trade and Service Company Ltd (GSC). The Jollibee Group, through its wholly-owned subsidiary, Jollibee Vietnam Corporation Ltd., entered into a Capital Transfer Agreement to acquire 100% equity of GSC, a local Vietnamese company operating as miscellaneous food stores in Pho Tu, Vietnam. The capital transfer was for a cash consideration of USD0.2 million (₱8.6 million). The transfer was duly approved by the government of Vietnam in September 2016.

The fair value of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were as follows:

Cash and cash equivalents	₱121,958,912
Receivables	1,479,624
Inventories	15,885,866
Other current assets	80,446,958
Property, plant and equipment (see Note 12)	174,088,294
Other noncurrent assets	19,400,821
Total identifiable assets acquired	413,260,475
Less:	
Trade payables and other current liabilities	213,462,857
Short term loans	358,127,495
Total identifiable liabilities acquired	571,590,352
Net identifiable liabilities acquired	₱158,329,877

The amount of provisional goodwill recorded at acquisition date amounted to ₱166.9 million determined as follows:

Fair value of the consideration transferred:

Cash consideration	₱8,601,131
Less acquisition – net of the fair value of liabilities acquired	158,329,877
<u>Goodwill (see Note 14)</u>	<u>₱166,931,008</u>

The net cash inflow from the acquisition is as follows:

Cash acquired from subsidiary	₱121,958,912
Less cash paid on acquisition	8,601,131
<u>Total</u>	<u>₱113,357,781</u>

The goodwill of ₱166.9 million recognized arising from the acquisition of GSC consists largely of the synergies and economies of scale expected from combining the operations of GSC and the Jollibee Group.

From the acquisition date, GSC contributed a ₱15.9 million net income to the Jollibee Group. If the acquisition had taken place at the beginning of the year, revenues would have been ₱169.5 million and net income for the Jollibee Group would have been ₱49.2 million.

Business Combination through Purchase of Assets

Chowking US Operations. On May 27, 2011, the Jollibee Group, through its wholly-owned subsidiary, TTC, entered into an Asset Purchase Agreement with Fortune Capital Corporation (FCC), owner and operator of all Chowking stores in the USA as the master licensee therein, to purchase the property and equipment, inventories and security deposits of the twenty (20) existing stores of FCC. The purchase consideration amounted to USD16.0 million (₱693.3 million). The Jollibee Group paid USD12.0 million (₱520.0 million) of the total consideration as at December 31, 2011, balance is payable over the next five (5) years.

The balance of the liability for acquisition of Chowking US operations amounting to USD0.7 million (₱34.6 million) in 2015 was fully settled on May 27, 2016.

With this acquisition, the Jollibee Group took a more active role to further the growth of the Chowking business in the USA.

B. Incorporation of New Subsidiaries

Honeybee Foods (Canada) Corporation (HFCC). On May 7, 2015, the Jollibee Group, through HFC, incorporated HFCC to own and operate Jollibee restaurants in Canada. As at December 31, 2016, no capital investment has been made other than the investment to incorporate.

HFCC's first Jollibee store located in Winnipeg, Canada started its commercial operations on December 15, 2016.

Golden Cup Pte. Ltd. (Golden Cup). On December 19, 2014, the Jollibee Group, through JWPL, entered into a joint agreement to form Golden Cup together with Jasmine Asset Holding Ltd. (Jasmine), to own and operate Dunkin' Donuts restaurants in the PRC.

JWPL owns 60% of the business and Jasmine owns the other 40%. JWPL and Jasmine have committed to invest up to USD300.0 million to the Joint Venture, of which up to USD180.0 million will be contributed by JWPL in proportion to its ownership in the business. Golden Cup was incorporated on December 22, 2014. The first store started its commercial operations in February 2016.

As at December 31, 2016 capital contributions of the Jollibee Group to Golden Cup amounted to USD27.6 million (₱1,340.0 million).

Pursuant to the Master Franchise Agreement signed on January 5, 2015 between Dunkin Donuts Franchising LLC and Golden Cup, a market entry fee amounting to USD2.1 million (₱93.9 million) was paid by Golden Cup to Dunkin Donuts on the signing date (see Note 15).

C. Material Non-Controlling Interests

As at December 31, 2015, the Jollibee Group has subsidiaries with material non-controlling interests. Proportion of equity held by non-controlling interests in 2015 are as follows:

	<u>Country of incorporation and operation</u>	
Mang Inasal	Philippines	30%
HBFPPL	Singapore	30%
San Pin Wang	People's Republic of China	45%

During 2016, non-controlling interest were derecognized either by acquisition of the minority interest or by divestment of interests as set out below:

Mang Inasal

On April 22, 2016, the Parent Company acquired the remaining 30% minority stake in Mang Inasal for the purchase price of ₱2,000.0 million in a cash transaction. The acquisition resulted to Mang Inasal becoming a wholly owned subsidiary of the Parent Company.

The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition, amounting to ₱1,217.6 million, was recognized under the "Excess of cost over the carrying value of non-controlling interests acquired", a separate component of "Equity Attributable to Equity Holders of the Parent Company" in the consolidated statements of financial position (see Note 19).

HBFPPL

On February 23, 2016, JWPL entered into an agreement with Hua Xia Harvest Holdings Pte. Ltd. ("Hua Xia") to acquire Hua Xia's 30% equity shareholding in its subsidiary, HBFPPL. Under the terms of the agreement, Hua Xia shall sell and convey to JWPL its 30% equity interests in HBFPPL while HBF-Anhui shall sell and convey to Hua Xia's nominee entity the assets and contracts related to the third party supply business.

The acquisition by JWPL was completed on November 21, 2016 with the approval of the China government on the transfer of assets related to the third party supply business. This resulted to a loss on transfer of assets amounting to ₱8.2 million which is recognized in the statements of comprehensive income (see Note 23). The transfer of the 30% equity was approved and registered in Singapore on November 22, 2016. With the transfer, JWPL now owns 100% of HBFPPL.

Notes to Audited Consolidated Financial Statements

The purchase price was USD10.3 million (P514.9 million). The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition amounting to P391.8 million was recognized under the "Excess of cost over the carrying value of non-controlling interests acquired" (see Note 19).

San Pin Wang

See part E of this note for the discussion of the disposal of San Pin Wang.

The summarized financial information of these subsidiaries in 2015 are provided below. These information are based on amounts before intercompany eliminations.

Summarized Statement of Comprehensive Income for 2015

	Mang Inasal	HBFPPL	San Pin Wang
Revenues	P7,263,114,848	P1,702,402,983	P1,229,334,894
Net income	453,297,379	73,410,582	56,672,330
Other comprehensive income	2,624,012	5,778,032	2,811,873
Total comprehensive income	455,921,391	79,188,614	59,484,203
Total comprehensive income attributable to non-controlling interests	133,084,903	22,023,175	25,502,548
Dividends paid to non-controlling interests	58,500,000	–	–

Summarized Statement of Financial Position as at December 31, 2015

	Mang Inasal	HBFPPL	San Pin Wang
Current assets	P2,176,382,490	P450,607,662	P261,324,261
Noncurrent assets	442,100,692	933,937,095	125,731,328
Current liabilities	1,449,329,972	369,497,486	100,353,245
Noncurrent liabilities	167,163,686	465,894,000	16,209,497
Total equity	1,001,989,524	549,153,271	270,492,847
Equity attributable to non-controlling interests	729,268,757	137,965,112	120,669,456

Summarized Cash Flow Information for 2015

	Mang Inasal	HBFPPL	San Pin Wang
Net cash provided by operating activities	P876,412,572	P215,266,710	P18,527,573
Net cash provided by (used in) investing activities	(130,216,558)	(194,468,160)	3,265,718
Net cash used in financing activities	(195,000,000)	–	–
Net increase in cash and cash equivalents	551,196,014	20,798,550	21,793,291

D. Interests in and Advances to Joint Ventures, Co-venturers and Associates

	2016	2015
Interests in and advances to SuperFoods joint ventures and co-venturers	P4,010,889,650	P3,345,553,021
Interests in joint ventures:		
SJBF LLC	5,258,923,240	4,742,732,683
Cargill Joy Poultry	229,480,845	–
WJ	151,628,957	220,809,356
Golden Bee	100,162,933	47,943,083
	5,740,195,975	5,011,485,122
Interests in associates :		
Entrek	112,227,074	92,272,121
Cargill Joy Realty	9,984,009	–
	122,211,083	92,272,121
	P9,873,296,708	P8,449,310,264

Interests in Joint Ventures

SuperFoods Group. On January 20, 2012, upon fulfillment of certain legal and regulatory requirements in Vietnam, the Jollibee Group, through JWPL, acquired effective ownership of 50% share in the business of the SuperFoods Group (includes SF Vung Tau Joint Stock Company, Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holding Limited Hongkong, Sino Ocean Asia Limited Hong Kong, Blue Sky Holdings Limited Macau, and China Co.) through formation of joint ventures. This consists of a 49% share in SF Vung Tau Joint Stock Company (SFVT) in Vietnam and a 60% share in Blue Sky Holding Limited in Hongkong (the SuperFoods Holding Companies). The formation of joint ventures is an implementation of the Framework Agreement made on May 20, 2011 between the Jollibee Group, through JSF, a 99% subsidiary of JWPL, and its co-venturers, Viet Thai International Joint Stock Company (VTIJS) and Viet Thai International Company Limited (VTI). The SuperFoods Group operates the chain of Highlands Coffee shops, Pho 24 restaurants and Hard Rock Cafe stores, whose market is mostly in Vietnam, Hong Kong and Macau. The Framework Agreement provided for the Jollibee Group to contribute a total of USD25.0 million to gain 50% effective ownership in the joint ventures. Loans and deposits were made to the SuperFoods Group and the co-venturers prior to the formation of the joint ventures in 2012.

Pursuant to the Framework Agreement, the preliminary consideration for the 50% share in SuperFoods Group amounted to a cash payment of USD25.0 million in 2011.

On October 22, 2015, JSF contributed additional investment in SuperFoods amounting to USD0.7 million (P34.1 million).

The Supplemental Agreement further provides that JWPL shall be required to pay the co-venturers an additional amount in 2016 based upon achieving a positive amount determined in accordance with a formula contained in the agreement (earn-out formula). Based on management's assessment using the earn-out formula, no additional consideration needs to be recognized as at January 20, 2012, date of acquisition, and as at December 31, 2012 to 2016.

In accordance with the Framework Agreement, the Jollibee Group, through JSF, extended loans to SurperFoods Group. First and Second Supplements to the Loan Agreement were executed that basically extended the loan due dates.

On November 18, 2016, the Jollibee Group, through JSF, entered into an agreement with its co-venturers, VTIJS, to make SuperFoods Group a public company by listing in the Vietnam Stock Exchange with an Initial Public Offering (IPO) on or before July 2019. As part of the agreement, the ownership of the SuperFoods Group will be adjusted with the Jollibee Group, owning 60% of the joint venture and VTI owning 40%. With this agreement, the following loan structures were amended, as documented in the Third Supplement to the Loan Agreement signed on December 29, 2016.

Loans to Co-venturers

Loan to the co-venturers in the SuperFoods Group joint venture amounting to USD35.0 million (₱1,523.9 million), extended on June 30, 2011, is payable in December 2016.

The loan bears interest of 5% per annum payable in lump sum also in December 2016. The loan was agreed to be used for general corporate purposes. Total interest from this loan, recognized as interest income, amounted to USD1.8 million (₱88.5 million), USD1.8 million (₱88.2 million) and USD1.8 million (₱88.2 million) for the years ended December 31, 2016, 2015 and 2014, respectively. The USD35.0 million loan is secured by a mortgage by the co-venturers of all their shares in SuperFoods Holding Companies.

The Third Supplement to the Loan Agreement signed on December 29, 2016 provides the assignment of the USD35.0 million loan receivable including accrued interests as at December 31, 2016 from JSF to JWPL. Subject to the completion of the Settlement Transaction Documents on or before September 30, 2017, this loan shall be contributed as additional capital to the SuperFoods Group.

On April 30, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱41.2 million) payable in February 2014 but was extended to September 30, 2017. The loan bears interest of 5% per annum. With the extension to September 30, 2017, the sum of principal and the accumulated interest as of April 2015, were subjected to 4.99% interest per annum. The loan was agreed to be used for general corporate purposes. Total interest from this loan recognized as interest income amounted to USD0.06 million (₱2.8 million), USD0.05 million (₱2.7 million) and USD0.05 million (₱2.6 million) for the years ended December 31, 2016, 2015 and 2014, respectively.

On August 22, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱44.1 million) payable in August 2014 but was extended to September 30, 2017. As of August 21, 2014, the principal was subject to 5% interest per annum. However, with the extension to September 30, 2017, the sum of principal and the accumulated interest starting August 22, 2014 were subjected to 4.99% interest per annum. The loan was agreed to be used for general corporate purposes. Total interest from this loan amounted to USD0.06 million (₱2.8 million), USD0.05 million (₱2.7 million) and USD0.05 million (₱2.5 million) for the years ended December 31, 2016, 2015 and 2014, respectively.

The loans granted on April 30, 2013 and August 22, 2013 including accrued interests as of December 2016 will be converted to additional equity on SFVT subject to the completion of the Settlement Transaction Documents as provided in the Third Supplement to the Loan Agreement signed on December 29, 2016.

Loans to Blue Sky

On June 10, 2011, a loan was extended to Blue Sky Holdings Limited (Blue Sky), the Hong Kong-based holding company, amounting to USD5.0 million (₱216.0 million) payable in June 2014. As of June 2014, the principal was subject to 5% interest per annum. However, with the extension of the due date to September 30, 2017, the sum of principal and the accumulated interest as of June 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.3 million (₱15.4 million), USD0.3 million (₱14.7 million) and USD0.3 million (₱13.2 million) for the years ended December 31, 2016, 2015 and 2014, respectively.

On May 7, 2012, an additional loan was extended to Blue Sky amounting to USD2.5 million (₱105.9 million) payable in May 2014. As of May 9, 2014, the principal was subjected to 5% interest per annum. However, with the extension of the due date to September 30, 2017, the sum of principal and the accumulated interest starting May 10, 2014 were subjected to 4.99% interest per annum. Total interest from this loan amounted to USD0.1 million (₱7.4 million), USD0.1 million (₱7.0 million) and USD0.1 million (₱6.5 million) for the years ended December 31, 2016, 2015 and 2014, respectively.

With the Third Supplement to the Loan Agreement signed on December 29, 2016, the loans to Blue Sky including accrued interests as at December 2016 shall be converted into additional equity subject to the completion of the Settlement Transaction Documents in the said Agreement.

The conversion of the loans and related accrued interests into equity is part of the Agreement entered into by the Jollibee Group with VTI in adjusting the ownership of SuperFoods Group.

On December 14, 2016, an additional loan of USD9.0 million (₱447.5 million) was granted by JSF to VTIJS. The amount is part of the total agreed loan of USD30 million payable in eight (8) years with an interest rate of 3.5% per annum. The loan is secured by pledged shares in SFVT and Blue Sky which will be released in proportion to the amount of the principal paid.

The carrying value of the loans to co-venturers and Blue Sky, including the accrued interest, amounted to ₱3,257.4 million and ₱2,548.2 million as at December 31, 2016 and 2015, respectively.

The details of the Jollibee Group's interests in the SuperFoods joint venture and advances to co-venturers as at December 31, 2016 and 2015 are as follows:

	2016	2015
Interest in a joint venture – cost:		
Balance at beginning of year	₱1,120,658,822	₱1,086,562,975
Additions during the year	–	34,095,847
Balance at end of year	1,120,658,822	1,120,658,822
Cumulative equity in net losses:		
Balance at beginning of year	(323,330,934)	(259,539,871)
Equity in net loss for the year	(43,823,882)	(63,791,063)
Balance at end of year	(367,154,816)	(323,330,934)
	753,504,006	797,327,888

(Forward)

Notes to Audited Consolidated Financial Statements

	2016	2015
Advances to the joint ventures and co-venturers:		
Balance at beginning of year	₱2,548,225,133	₱2,317,832,742
Additions during the year	447,480,000	–
Accrual of interest	117,640,967	109,110,458
Translation adjustments	144,039,544	121,281,933
Balance at end of year	3,257,385,644	2,548,225,133
	₱4,010,889,650	₱3,345,553,021

Summarized financial information of the SuperFoods Group based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Current assets	₱564,801,225	₱500,473,793
Noncurrent assets	1,244,238,772	1,196,430,982
Total assets	₱1,809,039,997	₱1,696,904,775
Current liabilities	₱772,840,118	₱576,963,970
Noncurrent liabilities	1,032,085,304	1,007,931,851
Total liabilities	₱1,804,925,422	₱1,584,895,821

	2016	2015
Cash and cash equivalents	₱69,879,945	₱97,215,799
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–	–
Noncurrent financial liabilities (excluding provisions)	1,032,085,304	1,007,931,851

The amounts of the income and expense accounts include the following:

	2016	2015
Revenues	₱3,213,339,413	₱2,299,834,784
Depreciation and amortization	201,970,888	128,394,217
Interest income	5,506	13,652
Interest expense	74,644,863	56,206,489
Provision for income tax	38,726,813	14,796,812
Net loss	(87,647,764)	(127,582,126)
Total comprehensive loss	(87,647,764)	(127,582,126)

	2016	2015
Net assets	₱4,114,575	₱112,008,954
Proportion of the Jollibee Group's ownership	50%	50%
	2,057,288	56,004,477
Goodwill	708,890,600	708,890,600
Cumulative translation adjustments	42,556,118	32,432,811
	₱753,504,006	₱797,327,888

SJBF LLC (SJBF). On October 8, 2015, the Jollibee Group, through JWPL, incorporated Bee Good! Inc. (BGI) in the state of Delaware, USA.

On October 13, 2015, BGI entered into an agreement with Smashburger Master LLC (Master) to acquire 40% of the outstanding equity interest of SJBF, the parent company of the entities comprising the Smashburger business, a fast casual better burger restaurant business based in the United States.

The consideration for BGI's 40% stake in SJBF amounted to USD99.5 million (₱4,629.5 million). Thereafter, a post-closing adjustment of USD0.8 million (₱36.6 million) to the purchase price at the closing date was recognized based on a pre-agreed mechanism with Master. The Jollibee Group settled with Master USD99.5 million (₱4,629.5 million) of the transaction price in December 2015. The remaining USD0.8 million (₱36.6 million) was carried as part of the "Current portion of liability for acquisition of business" account in the 2015 consolidated statement of financial position and was settled in January 2016. In addition, acquisition related costs consisting of professional fees for the Jollibee Group's financial, tax, accounting and legal advisors for the transaction amounted to ₱221.8 million.

In February 2016, September 2016 and November 2016, BGI made additional investments to SJBF amounting to USD4.0 million (₱189.0 million), USD4.6 million (₱221.4 million) and USD8.0 million (₱397.8 million), respectively. These additional contributions did not change BGI's equity interest in SJBF.

The agreement between BGI and Master provides for a mechanism wherein Master can sell or BGI can purchase up to an additional 35% equity interest in SJBF (First Put/ Call Right) between January 1, 2018 and January 1, 2021, and up to an additional 25% equity interest from the closing date or after expiration of the First Put/ Call Right and five years thereafter (Second Put/Call Right). The purchase price of the remaining 60% will be based on the achievement of certain financial performance targets agreed between BGI and Master.

However, on March 14, 2017, BGI and Master have amended their original agreement to enable BGI to purchase more shares in SJBF. With the amendment, BGI shall be entitled to purchase from Master an additional 45% of SJBF shares between the years 2018 and 2021, and to acquire the balance of 15% between 2019 at the earliest and 2026 at the latest.

As a result of the first and second Put / Call Rights in the agreement, the Jollibee Group allocated ₱75.0 million of the purchase price to a derivative asset in 2015, representing the fair value of the First and Second Put / Call Rights on transaction date. As at December 31, 2016, the derivative asset related to Put / Call Rights amounted to ₱78.3 million. The marked-to-market gain of ₱3.3 million was recognized in the 2016 statement of comprehensive income.

The details of Jollibee Group's interest in SJBF as at December 31, 2016 and 2015 are as follows:

	2016	2015
Interest in a joint venture - cost:		
Balance at beginning of year	₱4,812,854,343	₱-
Additions during the year	807,980,000	4,812,854,343
Balance at end of year	5,620,834,343	4,812,854,343
Cumulative equity in net losses:		
Balance at beginning of year	(70,121,660)	-
Equity in net loss during the year	(291,789,443)	(70,121,660)
Balance at end of year	(361,911,103)	(70,121,660)
	₱5,258,923,240	₱4,742,732,683

Summarized financial information of SJBF based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Current assets	₱1,910,435,363	₱1,489,289,278
Noncurrent assets	5,886,846,459	4,698,052,225
Total assets	₱7,797,281,822	₱6,187,341,503
Current liabilities	₱1,287,257,860	₱2,549,999,466
Noncurrent liabilities	5,439,780,179	3,898,129,921
Total liabilities	₱6,727,038,039	₱6,448,129,387

The amounts of assets and liabilities above include the following:

	2016	2015
Cash and cash equivalents	₱1,338,834,156	₱586,506,568
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-
Noncurrent financial liabilities (excluding provisions)	4,217,929,327	3,791,307,722

The amounts of the income and expense accounts include the following:

	2016	2015
Revenues	₱10,318,671,167	₱1,590,616,719
Depreciation and amortization	576,810,539	85,023,451
Interest expense	332,618,171	45,587,810
Net loss attributable to SJBF LLC	(729,473,608)	(175,304,150)
Total comprehensive loss attributable to SJBF LLC	(729,473,608)	(175,304,150)

	2016	2015
Net assets	₱1,070,243,783	(₱260,787,884)
Proportion of the Jollibee Group's ownership	40%	40%
	428,097,513	(104,315,154)
Goodwill	4,837,671,526	4,837,671,526
Cumulative translation adjustments	(6,845,799)	9,376,311
	₱5,258,923,240	₱4,742,732,683

Cargill Joy Poultry Meats Productions, Inc. (Cargill Joy Poultry). On May 24, 2016, the Parent Company entered into an agreement with Cargill Philippines, Inc., a wholly owned subsidiary of Cargill, Inc. (Cargill), to establish a joint venture entity to build and operate a poultry processing plant in Sto. Tomas, Batangas, Philippines. Cargill will oversee the setting up, management and operations of this facility.

The joint venture entity, incorporated as Cargill Joy Poultry Meats Production, Inc., is 70% owned by Cargill and 30% owned by the Parent Company. This entity will create an estimated 1,000 new full time jobs and develop new opportunities in the farming community in Batangas and nearby provinces as local poultry farmers are contracted to grow chicken to supply the requirements of the processing plant. The poultry processing plant has not yet started commercial operations as at December 31, 2016.

The details of Jollibee Group's interest in Cargill Joy Poultry as at December 31, 2016 are as follows:

Investment during the year	₱233,405,700
Equity in net loss during the year	(3,924,855)
	₱229,480,845

Summarized financial information of the Cargill Joy Poultry based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2016 are set out below:

Current assets	₱769,607,670
Noncurrent assets	-
Total assets	₱769,607,670
Current liabilities	₱4,671,520
Noncurrent liabilities	-
Total liabilities	₱4,671,520

Notes to Audited Consolidated Financial Statements

The amounts of assets and liabilities as at December 31, 2016 include the following:

Cash and cash equivalents	₱631,739,034
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	1,104,589
Noncurrent financial liabilities (excluding provisions)	–

The amounts of the income and expense accounts as at December 31, 2016 include the following:

Interest income	₱8,643
Net loss	(13,082,850)
Total comprehensive loss	(13,082,850)
Net assets	₱764,936,150
Proportion of the Jollibee Group's ownership	30%
	<u>₱229,480,845</u>

WJ Investments Limited (WJ). On August 22, 2012, the Jollibee Group, through JWPL and GPPL, entered into an agreement with Hoppime Ltd., a subsidiary of Wowprime Corporation of Taiwan (Wowprime) and some key executives of Wowprime, to establish a joint venture entity to own and operate the 12 Hotpot brand in the People's Republic of China, Hong Kong and Macau. The "12 Hotpot" restaurant is known in Taiwan for its low-priced hotpot dishes.

The joint venture entity, incorporated as WJ Investments Limited (WJ), is 48%-owned by the Jollibee Group and 48%-owned by Wowprime's subsidiary and executives. The remaining 4% is owned by certain individuals with experience in the retail sector in China. Through their subsidiaries, Jollibee and Wowprime have joint control and management of WJ.

As at December 31, 2016, capital contributions of the Jollibee Group to WJ amounted to USD9.6 million (₱414.9 million). The first store started commercial operations in January 2013.

The details of Jollibee Group's interest in WJ as at December 31, 2016 and 2015 are as follows:

	2016	2015
Interest in a joint venture - cost:		
Balance at beginning of year	₱414,872,115	₱276,646,875
Additions during the year	–	138,225,240
Balance at end of year	414,872,115	414,872,115
Cumulative equity in net losses:		
Balance at beginning of year	(194,062,759)	(111,307,493)
Equity in net loss during the year	(69,180,399)	(82,755,266)
Balance at end of year	(263,243,158)	(194,062,759)
	₱151,628,957	₱220,809,356

Summarized financial information of WJ based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Current assets	₱282,556,559	₱360,433,195
Noncurrent assets	107,871,674	181,127,783
Total assets	₱390,428,233	₱541,560,978
Current liabilities	₱54,591,958	₱52,611,918

The amounts of assets and liabilities above include the following:

	2016	2015
Cash and cash equivalents	₱238,078,754	₱299,488,233
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–	–

The amounts of the income and expense accounts include the following:

	2016	2015
Revenues	₱411,844,178	₱441,197,402
Depreciation and amortization	43,267,736	46,811,259
Interest income - net	6,673,472	3,308,549
Net loss	(144,125,832)	(172,406,804)
Total comprehensive loss	(144,125,832)	(172,406,804)

	2016	2015
Net assets	₱335,836,275	₱488,949,060
Proportion of the Jollibee Group's ownership	48%	48%
	161,201,412	234,695,549
Cumulative translation adjustments	(9,572,455)	(13,886,193)
	₱151,628,957	₱220,809,356

Golden Bee Foods Restaurants LLC (Golden Bee). On February 25, 2014, the Jollibee Group, through GPPL, signed a joint agreement with Golden Crown Foods LLC (GCFL) to establish a joint venture entity to own and operate the Jollibee brand in the United Arab Emirates.

The joint venture entity, incorporated as Golden Bee on January 28, 2015, is 49% owned by GPPL and 51% owned by GCFL. GPPL and GCFL will share joint control and management of Golden Bee.

As at December 31, 2016, the Jollibee Group has invested USD0.8 million (₱33.9 million) in Golden Bee. The first store started commercial operations on May 4, 2015.

The details of the Jollibee Group's interest in the Golden Bee joint venture as at December 31, 2016 and 2015 are as follows:

	2016	2015
Interest in a joint venture - cost	₱33,925,803	₱33,925,803
Cumulative equity in net earnings:		
Balance at beginning of year	14,017,280	-
Equity in net earnings during the year	52,219,850	14,017,280
Balance at end of year	66,237,130	14,017,280
	₱100,162,933	₱47,943,083

Summarized financial information of Golden Bee based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Current assets	₱92,129,410	₱98,590,566
Noncurrent assets	209,805,749	44,005,319
Total assets	₱301,935,159	₱142,595,885
Current liabilities	₱96,605,703	₱53,735,001

The amounts of assets and liabilities above include the following:

	2016	2015
Cash and cash equivalents	₱30,527,006	₱52,451,311
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-

The amounts of the income and expense accounts include the following:

	2016	2015
Revenues	₱689,149,604	₱203,010,467
Depreciation and amortization	14,651,758	2,530,556
Net income	106,571,122	28,606,695
Total comprehensive income	106,571,122	28,606,695

	2016	2015
Net assets	₱205,329,456	₱88,860,884
Proportion of the Jollibee Group's ownership	49%	49%
	100,611,433	43,541,833
Cumulative translation adjustments	(448,500)	4,401,250
	₱100,162,933	₱47,943,083

Interest in Associates

Entrek (B) SDN BHD (Entrek). The Jollibee Group, through JIBL, has 1/3 or 33.3% ownership in Entrek, a company that operates Jollibee stores in Brunei.

The details of the Jollibee Group's interest in Entrek as at December 31, 2016 and 2015 are as follows:

	2016	2015
Interest in associates - cost	₱16,660,000	₱16,660,000
Cumulative equity in net earnings:		
Balance at beginning of year	75,612,121	62,047,378
Equity in net earnings during the year	19,954,953	13,564,743
Balance at end of year	95,567,074	75,612,121
	₱112,227,074	₱92,272,121

Summarized financial information of Entrek based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016	2015
Current assets	₱523,344,508	₱474,524,666
Noncurrent assets	141,508,795	92,958,117
Total assets	₱664,853,303	₱567,482,783
Current liabilities	₱270,198,774	₱244,262,858
Noncurrent liabilities	4,505,122	4,356,052
Total liabilities	₱274,703,896	₱248,618,910

The amounts of the income and expense accounts include the following:

	2016	2015
Revenues	₱629,123,044	₱507,255,229
Depreciation	32,176,906	21,016,062
Total comprehensive income	59,864,860	40,694,227

	2016	2015
Net assets	₱390,149,407	₱318,863,873
Proportion of the Jollibee Group's ownership	33.33%	33.33%
	130,049,802	106,287,958
Impairment loss recognized in 2011	(16,660,000)	(16,660,000)
Cumulative translation adjustments	(1,162,728)	2,644,163
	₱112,227,074	₱92,272,121

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Cargill Joy Poultry Realty, Inc. (Cargill Joy Realty). On May 24, 2016, the Parent Company entered into an agreement with Cargill Philippines to establish Cargill Joy Poultry Realty Inc., which will lease the land where the Cargill Joy Poultry plant will be located.

The details of the Jollibee Group's interest in Cargill Joy Realty as at December 31, 2016 are as follows:

Interest in associates - cost	₱10,585,500
Equity in net earnings during the year	(601,491)
	<u>₱9,984,009</u>

Summarized financial information of Cargill Joy Realty based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2016 are set out below:

Current assets	₱25,724,122
Noncurrent assets	61,439,875
<u>Total assets</u>	<u>₱87,163,997</u>
Current liabilities	₱18,337,915
Noncurrent liabilities	35,546,052
<u>Total liabilities</u>	<u>₱53,883,967</u>

The amounts of assets and liabilities as at December 31, 2016 are the following:

	2016
Cash and cash equivalents	₱25,547,702
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	2,400
Noncurrent financial liabilities	35,546,052

The amounts of the income and expense accounts include the following:

Revenues	₱-
Taxes and licenses	1,358,462
Interest expense	350,239
Net loss	(2,004,970)
Total comprehensive loss	(2,004,970)
Net assets	₱33,280,030
Proportion of the Jollibee Group's ownership	30%
	<u>₱9,984,009</u>

E. Divestments

San Pin Wang. On March 9, 2012, the Jollibee Group, through JWPL, completed its acquisition of 55% equity interest of Guangxi San Pin Wang Food and Beverage Management Company Limited ("San Pin Wang") which operates the San Pin Wang beef noodle business in South China. The other 45% of San Pin Wang is held by GZK.

A contingent consideration had been agreed as part of the purchase agreement with GZK. This consideration is contingent on meeting target net income after tax of San Pin Wang for the next three years. In May 2013, the Jollibee Group paid RMB7.5 million (₱50.1 million) as the contingent consideration for the year 2012. In May 2015, another payment was made amounting to RMB6.8 million (₱50.1 million) as the contingent consideration for the year 2014. The remaining final contingent consideration for the year 2015 amounting to RMB3.3 million (₱23.6 million) was fully settled on May 13, 2016.

On December 30, 2016, JWPL, divested its shareholdings in San Pin Wang making GZK the 100% registered owner of San Pin Wang. This resulted to a gain on sale of ₱158.9 million which is recognized in the statements of comprehensive income (see Note 23). The divestment is part of the Jollibee Group's intention to focus on building its Yonghe King business, its largest business in China.

The consideration for the 55% stake of JWPL of about RMB90.0 million (₱644.5 million) is payable in five tranches, as follows:

Tranche	Date	Amount
1	December 19, 2016	RMB25,000,000
2	December 28, 2016	25,000,000
3	January 20, 2017	20,000,000
4	October 30, 2017	10,000,000
5	October 30, 2018	10,000,000
		<u>RMB90,000,000</u>

The first tranche was collected on December 31, 2016. The second and third tranches were collected in January 2017. The second to fourth tranches are shown as part of "Other current assets" and the fifth tranche is included as part of "Other noncurrent assets" in the consolidated statements of financial position as at December 31, 2016 (see Notes 9 and 15).

ChowFun. On March 31, 2011, the Jollibee Group, through its wholly-owned subsidiary, JWPL, acquired from Aspen Partners, LLC 2,400 shares of Chow Fun Holdings, LLC ("Chowfun") for USD3.4 million (₱139.6 million), bringing its equity share to Chow Fun to 80.55%. Chow Fun is the developer and owner of Jinja Bar and Bistro in New Mexico, USA.

On December 31, 2016, the Jollibee Group divested its shareholdings in Chow Fun for a consideration of USD1.6 million (₱79.6 million). The divestment was completed on December 23, 2016. Chow Fun paid JWPL to redeem JWPL's 2,900 Class A Membership Units, equivalent to 80.55% equity shares. This resulted to a loss on sale of ₱84.0 million which is recognized in the statements of comprehensive income (see Note 23). The divestment is part of Jollibee Group's intention to concentrate its resources in building its larger businesses.

12. PROPERTY, PLANT AND EQUIPMENT

The rollforward analysis of property, plant and equipment are as follows:

	2016							
	Land and Land Improvements	Plant, Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
	<i>(In Thousands)</i>							
Cost								
Balance at beginning of year	₱669,735	₱2,873,961	₱14,912,782	₱13,759,957	₱1,123,037	₱542,761	₱1,267,898	₱35,150,131
Additions	-	5,642	1,174,705	1,398,054	137,559	87,482	3,890,691	6,694,133
Acquisition of subsidiary (see Note 11)	-	-	134,860	92,924	1,820	-	46	229,650
Divestments	-	(253,293)	(278,354)	(357,315)	(65,829)	(7,114)	(2,728)	(964,633)
Retirements and disposals	-	(400)	(1,243,336)	(890,892)	(129,080)	(14,565)	(104,532)	(2,382,805)
Reclassifications (see Note 13)	-	124,376	2,401,801	1,488,539	150,393	3,155	(4,151,214)	17,050
Translation adjustments	3,515	(6,992)	74,624	38,159	12,995	(71)	2,296	124,526
Balance at end of year	673,250	2,743,294	17,177,082	15,529,426	1,230,895	611,648	902,457	38,868,052
Accumulated Depreciation and Amortization								
Balance at beginning of year	7,528	1,157,960	9,138,113	9,206,534	750,596	340,248	-	20,600,979
Depreciation and amortization (see Notes 21 and 22)	36	81,479	1,729,314	1,848,220	177,586	70,984	-	3,907,619
Acquisition of subsidiary (see Note 11)	-	-	23,372	32,190	-	-	-	55,562
Divestments	-	(9,721)	(123,369)	(288,583)	(7,076)	(3,292)	-	(432,041)
Retirements and disposals	-	(39)	(1,064,683)	(851,189)	(126,081)	(11,274)	-	(2,053,266)
Reclassifications (see Note 13)	-	17,050	7,744	(7,725)	(7)	(12)	-	17,050
Translation adjustments	-	(584)	27,352	39,152	7,964	(33)	-	73,851
Balance at end of year	7,564	1,246,145	9,737,843	9,978,599	802,982	396,621	-	22,169,754
Accumulated Impairment Losses								
Balance at beginning of year	-	-	-	2,000	-	-	-	2,000
Additions (see Note 22)	-	-	-	42,731	-	-	-	42,731
Reversals (see Note 22)	-	-	-	(2,000)	-	-	-	(2,000)
Balance at end of year	-	-	-	42,731	-	-	-	42,731
Net Book Value	₱665,686	₱1,497,149	₱7,439,239	₱5,508,096	₱427,913	₱215,027	₱902,457	₱16,655,567

Notes to Audited Consolidated Financial Statements

	2015							
	Land and Land Improvements	Plant, Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
	(In Thousands)							
Cost								
Balance at beginning of year	₱666,643	₱2,513,950	₱13,266,463	₱11,986,533	₱980,901	₱511,145	₱1,275,237	₱31,200,872
Additions	–	16,322	740,028	1,030,269	126,336	43,782	2,640,049	4,596,786
Transfers	–	–	4,704	(4,004)	84	–	(784)	–
Retirements and disposals	–	–	(467,053)	(407,990)	(55,888)	(19,738)	(6,677)	(957,346)
Reclassifications (see Note 13)	–	340,641	1,224,413	1,089,394	61,109	6,792	(2,644,460)	77,889
Translation adjustments	3,092	3,048	144,227	65,755	10,495	780	4,533	231,930
Balance at end of year	669,735	2,873,961	14,912,782	13,759,957	1,123,037	542,761	1,267,898	35,150,131
Accumulated Depreciation and Amortization								
Balance at beginning of year	7,420	1,001,352	7,773,154	8,103,470	659,396	290,513	–	17,835,305
Depreciation and amortization (see Notes 21 and 22)	108	98,857	1,610,406	1,432,084	139,774	64,411	–	3,345,640
Transfers	–	–	2,274	(2,238)	(36)	–	–	–
Retirements and disposals	–	–	(325,757)	(378,999)	(54,560)	(15,234)	–	(774,550)
Reclassifications (see Note 13)	–	57,437	(1,461)	1,577	(116)	–	–	57,437
Translation adjustments	–	314	79,497	50,640	6,138	558	–	137,147
Balance at end of year	7,528	1,157,960	9,138,113	9,206,534	750,596	340,248	–	20,600,979
Accumulated Impairment Losses								
Balance at beginning and end of year	–	–	–	2,000	–	–	–	2,000
Net Book Value	₱662,207	₱1,716,001	₱5,774,669	₱4,551,423	₱372,441	₱202,513	₱1,267,898	₱14,547,152

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores.

Loss on disposals and retirements of property, plant and equipment and investment properties amounted to ₱236.8 million, ₱136.7 million and ₱156.6 million in 2016, 2015 and 2014, respectively.

The cost of fully depreciated property, plant and equipment still in use amounted to ₱9,929.9 million and ₱8,690.5 million as at December 31, 2016 and 2015, respectively.

The Jollibee Group performed impairment assessments of its store fixed assets considering that there are observable indications that the assets' values have significantly declined during the period as a result of the passage of time. Consequently, an allowance for impairment loss on office, store and food processing equipment amounting to ₱42.7 million was recognized in 2016.

No property, plant and equipment as at December 31, 2016 and 2015 have been pledged as security or collateral.

13. INVESTMENT PROPERTIES

The rollforward analysis of this account follows:

	2016		
	Land	Buildings and Building Improvements	Total
(In Thousands)			
Cost			
Balance at beginning and end of year	₱983,428	₱199,951	₱1,183,379
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of year	983,428	182,901	1,166,329
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	185,266	185,266
Depreciation (see Notes 21 and 22)	–	14,685	14,685
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of year	–	182,901	182,901
Net Book Value	₱983,428	₱–	₱983,428

	2015		
	Land	Buildings and Building Improvements	Total
(In Thousands)			
Cost			
Balance at beginning and end of year	₱983,428	₱277,840	₱1,261,268
Reclassifications (see Note 12)	–	(77,889)	(77,889)
Balance at end of year	983,428	199,951	1,183,379
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	235,623	235,623
Depreciation (see Notes 21 and 22)	–	7,080	7,080
Reclassifications (see Note 12)	–	(57,437)	(57,437)
Balance at end of year	–	185,266	185,266
Net Book Value	₱983,428	₱14,685	₱998,113

In 2015, the Jollibee Group reclassified its buildings held as investment property with carrying amounts of ₱20.5 million to property, plant and equipment due to the change in its use to owner-occupied property. In 2016, a fully depreciated building was also reclassified from investment property to owner-occupied property.

The cost of fully depreciated buildings and building improvements still being leased out by the Jollibee Group amounted to ₱182.0 million as at December 31, 2016 and 2015.

The Jollibee Group's investment properties have an aggregate fair value of ₱1,414.3 million as at December 31, 2014 as determined by independent qualified appraisers. Management does not expect a significant change in the aggregate fair value of the Jollibee Group's investment properties in 2016. The fair value represents the amount at which the assets and liabilities can be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions in accordance with International Valuation Standards.

In determining the fair value of the investment properties, the independent appraisers used the market data approach for land and cost approach for buildings and building improvements. For land, fair value is based on sales and listings of comparable properties within the vicinity after adjustments for differences in location, size and shape of the lot, time elements and other factors between the properties and their comparable properties. For buildings and building improvements, fair value is based on the current cost to replace the properties in accordance with prevailing market prices for materials, labor, and contractors' overhead, profit and fees in the locality after adjustments for depreciation due to physical deterioration, and functional and economic obsolescence based on personal inspection of the buildings and building improvements and in comparison to similar properties. Fair value hierarchy disclosures for investment properties have been provided in Note 31.

Rent income derived from income-generating properties amounted to ₱91.4 million, ₱92.4 million and ₱90.6 million in 2016, 2015 and 2014, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱15.1 million, ₱24.8 million and ₱24.5 million in 2016, 2015 and 2014, respectively.

No investment properties as at December 31, 2016 and 2015 have been pledged as security or collateral for the Jollibee Group's debts.

14. GOODWILL AND OTHER INTANGIBLE ASSETS

This account consists of:

	2016	2015
Goodwill	₱6,542,421,816	₱6,822,526,341
Trademark	2,004,255,942	2,004,255,942
Computer software, net of accumulated amortization	513,337,162	559,241,901
Other intangible assets, net of accumulated amortization	26,727,434	26,110,015
	₱9,086,742,354	₱9,412,134,199

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Goodwill and trademark

Goodwill and trademark acquired through business combinations are attributable to the following group of CGUs as at December 31:

	2016	2015
Goodwill:		
Hong Zhuang Yuan	₱2,497,252,906	₱2,497,252,906
Mang Inasal	1,781,266,639	1,781,266,639
Red Ribbon Bakeshop:		
Philippine operations	737,939,101	737,939,101
US operations	434,651,055	434,651,055
Yong He King	535,280,653	535,280,653
Chowking US operations	383,855,247	383,855,247
GSC (see Note 11)	166,931,008	–
Burger King	5,245,207	5,245,207
Jinja Bar & Bistro (see Note 11)	–	154,894,001
San Pin Wang (see Note 11)	–	292,141,532
Total goodwill	6,542,421,816	6,822,526,341
Trademark -		
Mang Inasal	2,004,255,942	2,004,255,942
Goodwill and trademark	₱8,546,677,758	₱8,826,782,283

Computer software

The Jollibee Group's computer software pertains to the Enterprise Resource Planning (ERP) system which the Jollibee Group started to use on August 1, 2014.

The rollforward analysis of the Jollibee Group's computer software as at December 31 are as follows:

	2016	2015
Cost:		
Balance at beginning of year	₱656,177,279	₱567,750,478
Additions	14,584,777	88,426,801
Balance at end of year	₱670,762,056	₱656,177,279
Accumulated amortization:		
Balance at beginning of year	₱96,935,378	₱31,458,784
Amortizations (see Note 22)	60,489,516	65,476,594
Balance at end of year	₱157,424,894	₱96,935,378
Net book value:		
At December 31	₱513,337,162	₱559,241,901
At January 1	559,241,901	536,291,694

Other intangible assets

The Jollibee Group's other intangible assets include other trademarks and patents amortized over its useful life of five years.

The roll forward analysis of other intangible assets as at December 31 is as follows:

	2016	2015
Cost:		
Balance at beginning of year	₱47,862,825	₱36,309,205
Additions	9,120,804	11,553,620
Balance at end of year	₱56,983,629	₱47,862,825
Accumulated amortization:		
Balance at beginning of year	₱21,752,810	₱14,272,889
Amortizations (see Note 22)	8,503,385	7,479,921
Balance at end of year	₱30,256,195	₱21,752,810
Net book value:		
At December 31	₱26,727,434	₱26,110,015
At January 1	26,110,015	22,036,316

Impairment Testing of Goodwill and Trademark

Goodwill acquired through business combinations have been allocated to seven (7) groups of CGUs, which are subsidiaries of the Parent Company, owned directly or indirectly. The recoverable amounts of the groups of CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by the BOD covering a five-year period. Furthermore, the trademark of Mang Inasal is allocated to the CGU of Mang Inasal.

The calculation of value in use is most sensitive to the following assumptions which vary per geographical location:

CGUs	Geographical Location	Pre-tax Discount Rate	Long-term Revenue Growth Rate
Hong Zhuang Yuan	PRC	11.4%	6.4%
Mang Inasal	Philippines	11.0%	6.6%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	11.0%	6.6%
US operations	USA	14.1%	2.1%
Yong He King	PRC	11.0%	6.4%
Chowking US operations	USA	13.7%	2.1%
Burger King	Philippines	10.8%	6.6%

Key assumptions with respect to the calculation of value in use of the groups of CGUs as at December 31, 2016 and 2015 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

- Discount rates - discount rates represent the current market assessment of the risks specific to each group of CGUs, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Jollibee Group's group of CGUs, derived from weighted average cost of capital (WACC) of each group of CGUs. The WACC takes into account both the cost of debt and equity. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM). The cost of debt is based on the assumed interest-bearing borrowings each group of CGUs is obliged to service. CGU-specific risk is incorporated by applying individual alpha and beta factors. The beta factors are evaluated annually based on publicly available market data.
- Long-term growth rates - rates are determined in consideration of historical and projected results, as well as the economic environment where the group of CGUs operates.
- EBITDA - is based on the most recent value achieved in the year preceding the start of the budget period, and adjusted for planned efficiency improvement, if any.

Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount of the other groups of CGUs to exceed its recoverable amount.

No impairment losses were recognized for goodwill and trademark for the periods ended December 31, 2016 and 2015.

15. OTHER NONCURRENT ASSETS

This account consists of:

	2016	2015
Security and other deposits (see Notes 30 and 31)	₱2,103,707,474	₱1,794,988,953
Noncurrent portion of:		
Rent and other long-term prepayments	379,393,270	376,602,568
Employee car plan receivables (see Notes 30 and 31)	130,584,354	130,156,134
Prepaid market entry fee - net of accumulated amortization of ₱4.6 million in 2016 (see Notes 11 and 22)	99,262,450	93,870,000
Receivable from sale of business (see Note 11)	71,612,000	-
Deferred rent expense	49,195,580	58,751,612
Returnable containers and others	21,121,461	68,896,728
Deferred compensation	17,710,324	13,196,517
Other assets	171,964,995	133,211,388
	₱3,044,551,908	₱2,669,673,900

Security and other deposits generally represent deposits for operating leases entered into by the Jollibee Group as lessee. The security deposits are recoverable from the lessors at the end of the lease terms, which range from three to twenty years. These are carried at amortized cost. The discount rates used range from 2.36%-5.38% and 2.67%-5.50% in 2016 and 2015, respectively. The difference between the fair value at initial recognition and the notional amount of the security deposits is charged to "Deferred rent expense" account and amortized on straight-line basis over the lease terms.

Employee car plan receivables are presented at amortized cost. The difference between the fair value at initial recognition and the notional amount of the employees' car plan receivables is recognized as deferred compensation and is amortized on a straight-line basis over the credit period.

Prepaid market entry fee represents upfront fee paid to the franchisor prior to the operations of Dunkin' Donuts restaurants in the PRC (see Note 11). Market entry fee is amortized over twenty (20) years effective February 2016, start of Dunkin' Donuts operations.

The rollforward analysis of prepaid market entry fee as at December 31 is as follows:

	2016	2015
Balance at beginning of year	₱93,870,000	₱93,870,000
Amortizations (see Note 22)	(4,571,002)	-
Translation adjustment	10,327,452	-
Balance at end of year	₱99,626,450	₱93,870,000

Receivable from sale of business pertains to noncurrent portion of receivables from GZK as a result of the Jollibee Group's divestment in SPW (see Note 11) and tools for repairs and maintenance of office and store equipment which were still unused as at December 31, 2016 and 2015. It also includes amount garnished by the BIR in relation to tax assessments of JWS.

Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱25.2 million, ₱19.8 million and ₱25.2 million in 2016, 2015 and 2014, respectively (see Note 23).

16. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

This account consists of:

	2016	2015
Trade	₱9,944,748,913	₱9,433,766,730
Accruals for:		
Local and other taxes	1,599,790,757	1,297,183,541
Store operations	1,397,178,698	1,062,570,902
Salaries, wages and employee benefits	1,406,605,078	1,577,551,002
Advertising and promotions	1,206,901,986	934,634,342
Rent	923,429,963	856,335,222
Utilities	393,388,938	351,679,763

(Forward)

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	2016	2015
Freight	₱374,225,531	₱335,996,262
Operating supplies	326,016,718	252,667,293
Repairs and maintenance	300,594,045	255,114,294
Corporate events	250,672,694	212,493,276
Professional fees	203,089,086	379,863,402
Security	140,546,911	105,173,678
Trainings and seminars	124,800,880	64,129,887
Communication	76,569,472	78,288,924
Transportation and travel	54,130,720	39,609,756
Interest (see Note 18)	51,384,232	36,766,361
Insurance	20,207,100	18,174,378
Service fees and others	1,455,558,824	811,325,174
Customers' deposits	617,217,731	764,790,680
Unearned revenue from gift certificates	147,097,688	108,845,361
Dividends payable	47,705,414	43,544,875
Other current liabilities	898,705,841	506,540,761
	₱21,960,567,220	₱19,527,045,864

Trade payables to suppliers are noninterest-bearing and are normally settled on a 30 to 60-day term.

Accrued expenses are noninterest-bearing and are normally settled within the next financial year. Other accrued liabilities include service fees which amounted to ₱188.3 million and ₱354.6 million as at December 31, 2016 and 2015, respectively. This also consists of charges related to representations and other miscellaneous expenses.

Customers' deposits pertain to security deposits from operating leases with franchisees and subsidiaries, which are refundable at the end of the lease term and deposits for kiddie party packages.

Other current liabilities consist of staled checks, amounts payable for mascots and various subscriptions in newspapers given to customers as a complementary to their meals.

Accretion of interest on financial liabilities amounted to ₱20.4 million, ₱19.9 million and ₱18.1 million in 2016, 2015 and 2014, respectively (see Note 23).

17. PROVISIONS

The Jollibee Group has outstanding provisions amounting to ₱30.5 million as at December 31, 2016 and 2015, consisting mainly of provisions for asserted claims.

These include estimates of legal services, settlement amounts and other costs of claims made against the Jollibee Group. Other information on the claims is not disclosed as this may prejudice the Jollibee Group's position on such claims (see Note 29).

18. SHORT AND LONG-TERM DEBTS

Short-term Debt

On February 12, 2015, JWPL availed a short-term loan from a local bank amounting to USD6.0 million (₱282.4 million) with an interest rate of 1.5% per annum, subject to monthly repricing. The principal of USD6.0 million (₱276.4 million) and interest amounting to ₱1.0 million were paid in full on February 5, 2016, the date of maturity.

The Parent Company, Zenith and Mang Inasal also availed various short-term loans in 2015. Details of the short-term debts availed and fully paid at maturity follow:

Borrower	Date Availed	Maturity Date	Interest Rate	Principal Amount
	January 14, 2015	February 27, 2015	1.9%	₱815,000,000
	January 30, 2015	February 27, 2015	2.1%	1,050,000,000
	February 12, 2015	June 30, 2015	2.5%	681,000,000
	February 27, 2015	August 27, 2015	2.4%	1,865,000,000
<i>Parent Company</i>	August 27, 2015	September 28, 2015	2.5%	1,365,000,000
	September 28, 2015	November 11, 2015	2.5%	865,000,000
	March 20, 2015	September 18, 2015	2.5%	200,000,000
<i>Zenith</i>	March 27, 2015	September 25, 2015	2.5%	170,000,000
<i>Mang Inasal</i>	February 27, 2015	June 30, 2015	2.4%	315,000,000

The agreements for the short-term debts above did not provide any restrictions or requirements with respect to maintenance of required financial ratios.

Interest expense recognized on short-term debt amounted to ₱0.2 million, ₱52.4 million and ₱3.2 million in 2016, 2015 and 2014, respectively (see Note 23).

Long-term Debt

The long-term debt consists of the following:

	2016	2015
Principal	₱12,165,608,000	₱9,726,068,000
Unamortized debt issue cost	(10,242,423)	(7,439,394)
	₱12,155,365,577	₱9,718,628,606

The details of long-term debt follow:

	2016	2015
USD-denominated:		
Loan 1	₱5,469,200,000	₱5,176,600,000
Loan 2	621,500,000	1,058,850,000
Loan 3	298,320,000	564,720,000
Loan 4	1,491,600,000	–
Loan 5	397,760,000	–
Loan 6	198,880,000	188,240,000
Loan 7	293,348,000	277,654,000
PHP-denominated:		
Loan 8	1,481,590,909	1,495,227,273
Loan 9	798,133,334	797,333,333
Loan 10	995,583,334	–
Loan 11	109,450,000	–
Loan 12	–	160,004,000
	12,155,365,577	9,718,628,606
Less current portion - net of debt issue costs of 586,518 and 47,727 in 2016 and 2015, respectively	1,561,515,860	927,916,273
	₱10,593,849,717	₱8,790,712,333

USD-denominated loans of JWPL. Loan 1 consists of a 10-year unsecured loan acquired from a local bank on October 21, 2015 amounting to USD110.0 million (₱5,111.7 million) subject to a variable interest rate based on three-month London Interbank Offered Rate (LIBOR) plus spread of 1.20% which is payable and is reset on a quarterly basis. The spread applies provided the Republic of the Philippines' 5-year credit default swap remains under 1.10%. The principal is payable in quarterly installments commencing on January 23, 2017 up to October 21, 2025, the maturity date. As at December 31, 2016 and 2015, the carrying value of the loan amounted to ₱5,469.2 million and ₱5,176.6 million, respectively.

Under the loan agreement, the Parent Company as the guarantor is subject to certain debt covenants which include among others, maintaining a Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. As at December 31, 2016 and 2015, the Parent Company is in compliance with the terms of the loan covenants.

Loan 2 consists of a 5-year unsecured loan acquired on February 25, 2013 amounting to USD40.0 million (₱1,632.0 million) subject to quarterly interest repricing with one-time option to fix in the future. The interest rate is based on three-month US Dollar LIBOR plus spread of 1.0%. The principal is payable in 16 quarterly installments commencing on May 26, 2014 up to February 26, 2018, the maturity date. As at December 31, 2016 and 2015, the carrying value of the loan amounted to ₱621.5 million and ₱1,058.9 million, respectively.

Loan 3 consists of a 4-year unsecured loan acquired on October 25, 2013 amounting to USD18.0 million (₱777.8 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% subject to interest repricing every quarter. The principal is payable in 12 quarterly installment commencing on January 25, 2015 up to October 25, 2017, the date of maturity. As at December 31, 2016 and 2015, the carrying value of the loan amounted to ₱298.3 million and ₱564.7 million, respectively.

The loan agreements above (Loans 2 and 3) provide certain restrictions and requirements with respect to maintaining financial ratios, which include Debt-to-Equity ratio which is not to exceed 1.5 and Debt Service Coverage ratio of at least 2.0. As at December 31, 2016 and 2015, JWPL is in compliance with the terms of its loan covenants.

Loan 4 consists of an 8-year unsecured loan acquired on November 29, 2016 amounting to USD30.0 million (₱1,491.9 million) with an interest rate of 3.0% per annum. The principal is payable in 6 yearly installment commencing on November 29, 2017 up to November 29, 2022 amounting to USD0.3 million, and the remaining balance on November 29, 2024, the maturity date. As at December 31, 2016, the carrying value of the loan amounted to ₱1,491.6 million.

Loan 5 consists of a 6-year unsecured loan acquired on November 29, 2016 amounting to USD8.0 million (₱397.8 million) with an interest rate based on interpolated ROP 2021 and ROP 2024 plus spread of 0.5%. The principal is payable in 5 yearly installment commencing on November 29, 2017 up to November 29, 2021 amounting to USD0.08 million, and the remaining balance on November 29, 2022, the maturity date. As at December 31, 2016, the carrying value of the loan amounted to ₱397.8 million.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 and below. The Parent Company is in compliance with these debt covenants as at December 31, 2016.

USD-denominated loans of HBFPPPL. Loan 6 consists of a 5-year unsecured loan acquired on May 8, 2013 amounting to USD4.0 million (₱163.3 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% basis points subject to repricing every quarter. The principal is payable on May 7, 2018, the maturity date. As at December 31, 2016 and 2015, the carrying value of the loan amounted to ₱198.9 million and ₱188.2 million, respectively.

Loan 7 consists of a 5-year unsecured loan acquired on April 25, 2014 amounting to USD5.9 million (₱257.5 million) with an interest rate of 1.48% subject to repricing every quarter. The principal is payable on April 24, 2019, the maturity date. As at December 31, 2016 and 2015, the carrying value of the loan amounted to ₱293.3 million and ₱277.7 million, respectively.

The loan agreements above (Loans 6 and 7) provide certain restrictions and requirements with respect to maintaining financial ratios, which include Debt-to-Equity ratio and Debt-to-EBITDA ratio not to exceed 3.0. As at December 31, 2016 and 2015, the HBFPPPL is in compliance with the terms of its loan covenants.

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PHP-denominated loans of the Parent Company. On December 9, 2013, the Parent Company refinanced its ₱1,500.0 million term loan from a local bank due on December 16, 2013 by availing a term loan of the same amount (Loan 8). The new loan is payable over five years and six months from the date of drawdown with annual principal repayments of ₱15.0 million starting on the 30th month from the date of drawdown and ₱1,455.0 million upon maturity. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus spread of 1.25%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the Bangko Sentral ng Pilipinas (BSP) Overnight Reverse Repurchase Agreement Rate. The loan was drawn on December 16, 2013 and will mature on June 17, 2019. The Parent Company incurred debt issue costs of ₱7.5 million, representing documentary stamp tax, in relation to this loan in 2013.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at December 31, 2016 and 2015.

Loan 9 consists of a 5-year unsecured loan acquired from a local bank on April 21, 2014 amounting to ₱800.0 million. The loan is subject to a variable interest rate based on three-month PDST-F rate plus spread of 1.00%, and to an interest rate floor based on the BSP Special Deposit Account Rate plus spread of 1.00% or BSP Overnight Borrowing Rate plus spread of 1.0%. The Parent Company incurred debt issue costs of ₱4.0 million, representing documentary stamp tax, in relation to this loan in 2014. The principal is payable on April 21, 2019, the date of maturity.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 and below and Debt Service Coverage ratio of at least 3.0 and 1.3, respectively. The Parent Company is in compliance with these debt covenants as at December 31, 2016 and 2015.

Loan 10 consists of 5-year unsecured loan acquired from a local bank on April 21, 2016 amounting to ₱1,000.0 million. The loan is subject to an interest rate based on Reference Rate plus spread of 0.55%, subject to repricing every quarter, and to an interest rate floor of BSP SDA. Provided, however that on any Interest Payment Date, in lieu of a floating interest rate, the Parent Company shall have a one-time option to convert into a fixed-interest rate loan. The principal is payable in sixteen (16) quarterly installments commencing on the 15th months from drawdown date amounting to ₱62.5 million. The Parent Company incurred debt issue cost of ₱5.0 million representing documentary stamp tax for this loan.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 and below. The Parent Company is in compliance with these debt covenants as at December 31, 2016.

The Parent Company's PHP denominated long-term debt (Loans 8, 9 and 10) amounts to ₱3,275.3 million and ₱2,292.6 million, net of unamortized debt issue cost of ₱9.7 million and ₱7.4 million as at December 31, 2016 and 2015, respectively. The current portion is payable in 2017 amounting to ₱140.0 million, net of debt issue costs of ₱0.6 million as at December 31, 2016.

PHP-denominated loan of PERF Restaurants, Inc.(PERF). Loan 11 is a 5-year unsecured loan acquired from local bank on December 21, 2016 amounting to ₱110.0 million with an interest rate based on three-month PDST-R2 + 1.0% with interest rate floor computed as BSP Overnight Deposit Facility Rate plus 0.5%.

Loan is guaranteed by the Parent Company, consequently, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 and below and Debt Service Coverage ratio of at least 3.0 and 1.3, respectively. The Parent Company is in compliance with these debt covenants as at December 31, 2016.

Loan 12 is a 5-year unsecured USD3.4 million (₱149.2 million) bearing fixed interest rate of 5.32% per annum. The principal was fully settled on December 20, 2016, the maturity date.

The loan contains certain restrictive covenants and requirements with respect to the following:

- a) Maintenance of the following ratios for the duration of the loan agreements: (1) minimum debt service coverage of 1.5:1; and (2) maximum debt to (EBITDA) of 4:1.
- b) Restrictions on changes in ownership structure; incurrence of any additional loans with term of more than one year; repayment of intercompany borrowings from the Parent Company except those agreed upon signing of this Facility Agreement; investing or entering into any business substantially different from the business in which PERF is presently engaged; and enter into merger or consolidation, except where PERF is the surviving corporation, and the Parent Company remains as the majority beneficial owner of the surviving corporation.

As at December 31, 2015, PERF ratios of debt service coverage cost and debt to EBITDA is 0.43:1 and 2.43:1, respectively. The loan is part of the current portion of long term debt in 2015.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱247.0 million, ₱153.2 million and ₱131.2 million in 2016, 2015 and 2014, respectively (see Note 23).

The future expected principal settlements of the Jollibee Group's loans follow:

2017	₱1,562,102,378
2018	1,508,110,378
2019	3,131,582,378
2020 to 2025	5,963,812,866
	12,165,608,000
Less debt issue costs	(10,242,423)
	₱12,155,365,577

Embedded Derivatives

Certain long-term loans of the Jollibee Group include provisions for an option to convert the variable interest rate into a fixed interest rate. Certain long-term loans are also subject to an interest rate floor. In addition, the Jollibee Group's long-term loans generally provide an option to pre-pay the loan in full before the maturity date.

The Jollibee Group assessed that the derivatives embedded in the loan contracts need not be bifurcated since they are clearly and closely related to the economic characteristics and risks of the host loan contract and do not qualify for separate accounting as at December 31, 2016 and 2015.

Freestanding Derivatives, Hedges and Hedge Effectiveness Testing

On November 20, 2015, the Jollibee Group entered into an Interest Rate Swap (IRS) with a bank to convert its exposure in the variable interest rate of Loan 1 to a fixed interest rate. The IRS will terminate and the loan will mature simultaneously on October 21, 2025. The Jollibee Group has designated the IRS as a cash flow hedge.

The IRS with a notional amount equal to the principal amount of the loan requires the Jollibee Group to pay fixed interest payments at 3.36% in exchange of variable interest payments at three-month LIBOR plus spread of 1.20% from the bank throughout the term of the IRS on the notional amount. The IRS settles quarterly on a net basis.

The fair value of the IRS amounted to ₱33.5 million and ₱34.9 million as at December 31, 2016 and 2015, respectively, which were presented as a derivative liability in the statements of financial position. The terms of the IRS approximately match the terms of the interest payments on the loan. Accordingly, there is no hedge ineffectiveness to be recognized in profit or loss. Unrealized gain of ₱1.4 million and unrealized loss ₱34.9 million were recognized in other comprehensive income in 2016 and 2015, respectively.

In 2012, Loan 12 was converted into a deliverable cross-currency swap transaction to hedge in full the foreign currency risk and interest rate risk on its floating rate. Under the cross-currency swap, PERF received at inception PHP notional amount of ₱149.2 million and paid USD notional amount of USD3.4 million based on the PHP/USD spot reference rate of ₱43.87. At every interest payment date, PERF will receive variable interest based on 3-month US Dollar LIBOR plus spread and will pay fix interest rate. At maturity date, PERF will receive USD notional amount of USD3.4 million and pay PHP notional amount of ₱149.2 million. The USD receipts from the cross-currency swap correspond to the expected interest fixed principal amount due on the hedged loan. Similar to the hedged loan, the cross-currency swap is non-amortizing and it matured on December 20, 2016.

Effectively, the cross-currency swap transformed the floating rate USD loan into a fixed rate PHP loan.

The fair value of the cross-currency swap resulted to a derivative asset amounting to nil and ₱9.9 million as at December 31, 2016 and 2015, respectively.

Since the critical terms of the hedged loan and cross-currency swap matched, the hedge was assessed to be highly effective. As such, there was no ineffectiveness recognized in the profit or loss for the year ended December 31, 2016 and 2015.

The movements in fair value of cash flow hedges relative to the cross-currency swap presented in equity under other comprehensive loss in 2016 and 2015 are as follows:

	2016	2015
Balance at beginning of year	₱977,759	₱4,435,473
Changes in fair value of the cash flow hedge	9,868,241	(13,351,855)
Transfer to profit or loss	(10,846,000)	9,894,141
Net movement on cash flow hedge	(977,759)	(3,457,714)
Balance at end of period	-	977,759
Non-controlling interests' share	-	(449,770)
	₱-	₱527,989

The foreign exchange revaluation of the hedged loan, amounting to ₱10.9 million and ₱9.9 million, was recognized in other comprehensive loss (gain) on derivative liability in 2016 and 2015, respectively.

19. EQUITY

a. Capital Stock

The movements in the account are as follows:

	2016	2015
Authorized - 1 par value	₱1,450,000,000	₱1,450,000,000
Issued and subscribed:		
Balance at beginning of year	₱1,086,149,410	₱1,081,040,314
Issuances during the year	5,151,895	5,109,096
Balance at end of year	1,091,301,305	1,086,149,410
Subscriptions receivable	(17,177,884)	(17,177,884)
	₱1,074,123,421	₱1,068,971,526

The total number of shareholders of the Parent Company is 3,075 and 3,118 as at December 31, 2016 and 2015, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid-in-capital pertain to the difference between the exercised prices of stock options exercised and the par value of Parent Company's shares. In 2016 and 2015, stock options totaling 5,151,895 shares and 5,109,096 shares, respectively, were exercised (see Note 26). These resulted to an additional paid in capital amounting to ₱363.5 million and ₱429.9 million in 2016 and 2015, respectively.

Notes to Audited Consolidated Financial Statements

Stock options expense, amounting to ₱241.3 million, ₱173.2 million and ₱166.5 million in 2016, 2015 and 2014, respectively, were also recognized as part of additional paid in capital (see Notes 22 and 26).

As at December 31, 2016 and 2015, total additional-paid in capital amounted to ₱5,660.1 million and ₱5,055.3 million, respectively.

c. Treasury Shares

The cost of common stock of the Parent Company held in treasury of ₱180.5 million consists of 16,447,340 shares as at December 31, 2016 and 2015.

d. Excess of Cost over the Carrying Value of Non-controlling Interests Acquired

The amount of excess of cost over the carrying value of non-controlling interests acquired as at December 31, 2016 and 2015, recognized as part of "Equity Attributable to Equity Holders of the Parent Company" section in the consolidated statements of financial position, resulted from the following acquisitions of non-controlling interests:

	2016	2015
20% of Greenwich in 2006	₱168,257,659	₱168,257,659
15% of Belmont in 2007	375,720,914	375,720,914
40% of Adgraphix in 2010	(1,214,087)	(1,214,087)
30% of Mang Inasal in 2016 (see Note 11)	1,217,615,297	-
30% of HBFPL in 2016 (see Note 11)	391,781,603	-
	₱2,152,161,386	₱542,764,486

e. Retained Earnings

The Jollibee Group has a cash dividend policy of declaring one-third of the Jollibee Group's net income for the year as cash dividends. It uses best estimate of its net income as basis for declaring cash dividends. Actual cash dividends per share declared as a percentage of the EPS are 32.4%, 38.3% and 32.3% in 2016, 2015 and 2014, respectively.

The Parent Company's retained earnings available for dividend declaration, computed based on the guidelines provided in SEC Memorandum Circular No. 11, amounted to ₱6,046.3 million and ₱11,409.3 million as at December 31, 2016 and 2015, respectively.

The Parent Company's cash dividend declarations for 2016, 2015 and 2014 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
2016				
April 6	April 21	May 6	₱0.86	₱919,434,837
November 11	November 28	December 12	1.00	1,072,807,848
			₱1.86	₱1,992,242,685
2015				
April 7	May 7	May 29	₱0.80	₱851,349,864
November 9	November 25	December 9	0.97	1,035,509,750
			₱1.77	₱1,886,859,614
2014				
April 7	May 8	May 30	₱0.75	₱788,176,867
November 12	November 27	December 18	0.89	945,305,674
			₱1.64	₱1,733,482,541

An important part of the Jollibee Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were acquisitions of 85% of Yonghe King in 2004 in PRC (₱1,200.0 million), 100% of Red Ribbon in 2005 (₱1,700.0 million), the remaining 20% minority share in Greenwich in 2007 (₱384.0 million), the remaining 15% share of Yonghe King in 2007 (₱413.7 million), 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million), 70% of Mang Inasal in 2010 (₱2,976.2 million), 100% of Chowking US operations in 2011 (₱693.3 million), 48% of WJ Investments Limited (₱98.0 million) in 2012, 40% of SJBFL LLC, the parent company of the entities comprising the Smashburger business in US (₱4,812.8 million), including transaction costs, in 2015, the remaining 30% minority share each in Mang Inasal (₱2,000.0 million) and HBFPL (₱514.9 million) and the acquisition of GSC (₱8.6 million) in 2016.

The Jollibee Group plans to continue to make substantial acquisitions in the coming years. The Jollibee Group uses its cash generated from operations to finance these acquisitions and capital expenditures. These limit the amount of cash dividends that it can declare and pay, making the level of the retained earnings higher than the paid-up capital stock.

In support of the Jollibee Group's strategy, the BOD approved an additional appropriation of ₱8,000.0 million, ₱5,200.0 million, ₱3,800.0 million and ₱1,200.0 million on April 6, 2016, April 11, 2013, February 15, 2012 and in 2009, respectively, for future acquisitions and capital expenditures.

Details of the appropriated retained earnings as at December 31 follow:

Projects	Timeline	2016	2015
Capital Expenditures	2013 - 2018	₱10,600,000,000	₱2,600,000,000
Acquisition of Businesses	2013 - 2018	7,600,000,000	7,600,000,000
		₱18,200,000,000	₱10,200,000,000

The unappropriated retained earnings of the Parent Company is also restricted to the extent of cost of common stock held in treasury amounting to ₱180.5 million in both years as well as the undistributed retained earnings of its subsidiaries which amounted to ₱3,664.8 million and ₱2,718.1 million as at December 31, 2016 and 2015, respectively.

In relation with the SRC Rule 68, as Amended (2011), Annex 68-D, below is the summary of the Parent Company's track record of registration of securities.

				2016	2015
	Number of Shares registered	Initial issue/ offer price	Listing Date	Number of holders of securities as of December 31	Number of holders of securities as of December 31
Common shares	75,000,000	₱9	July 14, 1993	3,075	3,118

20. ROYALTY, FRANCHISE FEES AND OTHERS

This account consists of:

	2016	2015	2014
Royalty fees	₱4,959,567,788	₱4,329,041,212	₱3,914,101,302
Franchise fees	309,353,739	189,082,523	152,531,503
Scrap sales	154,627,818	146,660,284	101,579,151
Service fees	119,262,274	65,727,123	78,544,132
Rent income (see Notes 13 and 29)	91,387,180	92,423,615	90,642,833
Other revenues	252,817,353	146,094,210	124,061,569
	₱5,887,016,152	₱4,969,028,967	₱4,461,460,490

The Jollibee Group has existing Royalty and Franchise Agreements with independent franchisees for the latter to operate quick service restaurant outlets under the "Jollibee", "Chowking", "Greenwich", "Red Ribbon", "Mang Inasal", "Yong He King" and "Hong Zhuang Yuan" concepts and trade names. In consideration thereof, the franchisees agree to pay franchise fees and monthly royalty fees equivalent to a certain percentage of the franchisees' net sales.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the Jollibee Group.

21. COST OF SALES

This account consists of:

	2016	2015	2014
Cost of inventories	₱54,475,006,733	₱49,202,289,886	₱43,228,221,857
Personnel costs:			
Salaries, wages and other employee benefits	10,472,700,141	9,870,706,295	9,205,954,169
Pension expense (see Note 25)	171,514,770	153,311,191	119,911,904
Rent (see Note 29)	8,234,529,816	7,450,951,945	6,671,204,628
Contracted services	4,875,092,028	3,194,297,342	2,428,204,593
Electricity and other utilities	4,022,779,203	3,808,056,122	3,767,659,068
Depreciation and amortization (see Notes 12 and 13)	3,542,623,921	3,084,155,170	2,859,700,438
Supplies	2,155,032,954	1,887,539,611	2,149,191,146
Repairs and maintenance	1,327,943,299	1,107,658,833	943,277,853
Security and janitorial	638,303,263	502,856,479	382,980,808
Communication	190,811,410	160,536,728	151,658,421
Professional fees	34,971,925	25,265,578	16,843,803
Entertainment, amusement and recreation	33,181,292	33,039,290	27,276,536
Others	2,640,997,560	2,411,036,785	1,775,706,917
	₱92,815,488,315	₱82,891,701,255	₱73,727,792,141

22. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	2016	2015	2014
Personnel costs:			
Salaries, wages and other employee benefits	₱5,543,158,947	₱4,837,802,315	₱4,675,596,092
Stock options expense (see Note 26)	241,323,679	173,211,693	166,490,888
Pension expense (see Note 25)	192,266,518	159,324,553	125,671,823
Taxes and licenses	1,271,104,491	1,143,765,493	970,757,479
Professional fees	608,585,976	418,556,086	356,335,140
Transportation and travel	504,468,556	438,990,277	393,123,071
Contracted services	499,532,704	544,278,767	295,691,791
Rent (see Note 29)	470,004,086	390,934,123	401,539,745
Depreciation and amortization (see Notes 12, 13, 14 and 15)	453,244,194	341,521,752	326,679,292

(Forward)

Notes to Audited Consolidated Financial Statements

	2016	2015	2014
Loss on retirement of assets	₱236,808,617	₱136,746,521	₱156,615,427
Repairs and maintenance	191,252,902	136,227,644	105,738,442
Training	161,683,300	101,565,353	47,586,227
Corporate events	161,627,902	163,136,175	167,816,029
Communication	98,768,633	113,654,250	97,197,031
Impairment in value of:			
Receivables (see Note 7)	91,414,715	325,907,626	36,301,470
Inventories (see Note 8)	78,621,389	11,048,562	11,066,386
Property, plant & equipment (see Note 12)	42,731,142	–	2,000,000
Donations	82,641,869	105,831,264	88,575,310
Supplies	78,768,877	74,256,546	53,892,109
Entertainment, amusement and recreation	53,781,461	64,584,834	80,269,589
Electricity and other utilities	52,596,119	56,807,247	64,955,121
Association dues	50,516,850	52,509,182	30,468,480
Security and janitorial	22,464,338	19,605,607	14,613,774
Insurance	16,782,122	16,146,870	14,678,441
Reversals of provision for impairment on:			
Inventories (see Note 8)	(18,129,447)	(12,047,290)	(8,489,305)
Receivables (see Note 7)	(3,188,474)	(4,605,656)	(868,308)
Property, plant & equipment (see Note 12)	(2,000,000)	–	(16,200,000)
Investment properties (see Note 13)	–	–	(46,447,298)
Others	680,608,418	478,282,948	342,057,049
	₱11,861,439,884	₱10,288,042,742	₱8,953,711,295

In 2014, management reassessed the recoverable amount of the Jollibee Group's office, store and food processing equipment which includes actual inspection of the Jollibee Group's existing assets, and recognized a reversal of provision amounting to ₱16.2 million, based on fair value less cost to sell. Management expects minimal costs to dispose the items.

In the same year in 2014, the Jollibee Group reversed the allowance for impairment loss recognized in 2011 amounting to ₱46.4 million for its land held as investment property as a result of the increase in the fair value of the asset compared to the carrying amount had there been no impairment loss recognized.

23. INTEREST INCOME (EXPENSE) AND OTHER INCOME (EXPENSE)

	2016	2015	2014
Interest income:			
Cash and cash equivalents and short-term investments (see Note 6)	₱136,671,879	₱118,031,881	₱111,812,888
Loans and advances* (see Note 11)	125,069,546	119,977,272	104,994,231
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	25,172,182	19,774,432	25,238,222
	₱286,913,607	₱257,783,585	₱242,045,341
<i>*Including interest income of other subsidiaries other than those mentioned in Note 11.</i>			
	2016	2015	2014
Interest expense:			
Long-term debt (see Note 18)	(₱247,035,844)	(₱153,205,938)	(₱131,178,351)
Short-term debt (see Note 18)	(228,362)	(52,444,070)	(3,155,167)
Accretion of interest on the liability and remeasurement of contingent consideration from acquisition of businesses and accretion of customers' deposits (see Notes 11 and 16)	(20,354,230)	(19,894,311)	(18,137,735)
	(₱267,618,436)	(₱225,544,319)	(₱152,471,253)
Other income (expense):			
Write-off of liabilities	₱1,111,924,377	₱905,088,473	₱357,935,555
Rebates and suppliers' incentives	206,712,368	228,960,676	258,778,135
Bank charges	(118,626,724)	(108,180,525)	(87,161,305)
Divestment of subsidiaries (see Note 11)	66,694,732	–	–
Penalties and charges	53,273,691	45,335,593	27,448,182
Foreign exchange gain - net	41,484,570	36,823,347	(1,143,310)
Charges to franchisees	19,857,700	18,264,553	13,826,878
Other rentals	16,391,681	13,821,195	13,607,060
Pre-termination of operating leases	9,527,789	3,460,645	25,797,871
Insurance claims and others	175,682,911	93,183,623	50,214,860
	₱1,582,923,095	₱1,236,757,580	₱659,303,926

In the normal course of business, the Jollibee Group accrues liabilities based on management's best estimate of costs incurred, particularly in cases when the Jollibee Group has not yet received final billings from suppliers and vendors. There are also ongoing negotiations and reconciliations with suppliers and vendors on certain liabilities recorded. These balances are continuously reviewed by management and are adjusted based on these reviews, resulting to write-off of certain liabilities as other income.

24. INCOME TAXES

The Jollibee Group's provision for current income tax consists of the following:

	2016	2015	2014
Final tax withheld on:			
Royalty and franchise fee income	₱1,120,246,727	₱965,199,097	₱868,377,737
Interest income	16,135,222	10,891,198	12,837,513
RCIT:			
With itemized deduction	805,091,719	552,757,433	467,843,856
With Optional Standard Deduction (OSD)	214,248,911	229,911,748	207,318,757
MCIT	179,132,310	167,318,508	138,390,687
	₱2,334,854,889	₱1,926,077,984	₱1,694,768,550

RCIT consists of corporate income taxes from the Jollibee Group's operations in the Philippines, PRC, United States and Singapore.

For the years ended December 31, 2016, 2015 and 2014, Zenith, Grandworth and RRBHI, wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. The total tax benefits from the availment of OSD amounted to ₱57.9 million, ₱40.4 million and ₱66.8 million in 2016, 2015 and 2014, respectively.

The components of the Jollibee Group's recognized net deferred tax assets as at December 31 follow:

	2016	2015
Deferred tax assets:		
NOLCO:		
Philippine-based entities	₱844,871,769	₱596,843,454
PRC-based entities	228,101,049	185,766,984
Pension liability and other benefits	545,488,783	420,940,255
Excess of MCIT over RCIT	460,009,031	318,340,224
Operating lease payables	470,202,225	434,947,435
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	109,327,918	164,750,267
Unrealized foreign exchange loss	17,917,726	106,324,834
Unamortized past service costs	13,146,210	25,459,340
Unaccreted discount on security deposits and employee car plan receivables	21,236,389	13,849,282
Others	8,389,520	7,966,614
Total	2,718,690,620	2,275,188,689

(Forward)

	2016	2015
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	₱710,889	₱682,326,007
Prepaid rent	60,795,658	42,854,387
Unrealized gain on change in fair value of AFS	459,500	-
Unrealized foreign exchange gain	43,291,934	118,662,126
Unaccreted discount on employee car plan receivables and security deposits	14,907,490	11,139,822
Deferred rent expense	9,322,383	10,645,399
Operating lease receivables	3,707,928	1,072,412
	133,195,782	866,700,153
Deferred tax assets – net	₱2,585,494,838	₱1,408,488,536

The components of the Jollibee Group's recognized net deferred tax liabilities as at December 31, 2016 follow:

	2016
Deferred tax assets:	
NOLCO - Philippine-based	₱10,473,820
Operating lease payables	8,371,332
Excess of MCIT over RCIT	24,920,828
Pension liability and other benefits	41,604,953
Unrealized foreign exchange loss	33,177
Unamortized past service costs	3,997,218
Unaccreted discount on security deposits and employee car plan receivables	1,021,207
Allowance for impairment loss on receivables and inventory	84,942,221
	175,364,756
Deferred tax liabilities:	
Excess of fair value over book value of identifiable assets of acquired businesses	677,105,441
Unrealized foreign exchange gain	653,388
Unaccreted discount on employee car plan receivable, security and product security deposit	4,182,909
	681,941,738
Deferred tax liabilities - net	₱506,576,982

As at December 31, 2015, the Jollibee Group is in the net deferred tax asset position.

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The rollforward analysis of the net deferred tax assets and liabilities of the Jollibee Group follows:

	2016	2015
Balance at beginning of year	₱1,408,488,536	₱740,587,390
Additions	643,505,847	537,470,070
Income tax effect of other remeasurements of net defined benefit plan	29,646,038	104,824,523
Translation adjustments	(2,772,565)	25,606,553
	₱2,078,867,856	₱1,408,488,536

OSD

The availment of the OSD method also affected the recognition of several deferred tax assets and liabilities. Deferred tax assets and liabilities, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which the Jollibee Group expects to recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result to any future tax consequence under the OSD method. Meanwhile, deferred tax assets and liabilities, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under OSD method. Hence, the tax base of these deferred tax assets and liabilities is reduced by the 40% allowable deduction provided for under the OSD method.

Accordingly, the Jollibee Group's deferred tax assets and liabilities, which were not recognized due to the use of the OSD method, are as follows:

	2016	2015
Deferred tax assets:		
Allowance for impairment losses on receivables and nonfinancial assets	₱20,340,835	₱6,009,062
Operating lease payables	18,916,923	9,562,295
Pension liability	11,052,821	9,696,538
Provision for bonus	6,878,986	-
Excess MCIT over RCIT	2,450,411	-
Unaccredited discount on financial instruments and others	604,742	279,918
Unamortized past service cost	260,997	383,003
Others	-	26,316
	₱60,505,715	25,957,132
Deferred tax liabilities:		
Operating lease receivables	4,495,653	4,772,417
Deferred rent expense	53,998	82,338
Others	589,307	200,959
	5,138,958	5,055,714
	₱55,366,757	₱20,901,418

As at December 31, 2016, NOLCO and excess of MCIT over RCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefit Up to	NOLCO	Excess of MCIT over RCIT
2016	December 31, 2019	₱1,033,062,238	₱179,223,725
2015	December 31, 2018	1,042,330,392	167,318,506
2014	December 31, 2017	1,269,523,632	138,387,628
2013	December 31, 2016	79,089,765	12,634,090
		3,424,006,027	497,563,949
Utilized during the year		(304,108,345)	(8,247,174)
Expired during the year		-	(4,386,916)
		₱3,119,897,682	₱484,929,859

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at December 31, 2016, NOLCO of the PRC-based entities that can be claimed as deductions from taxable income are as follows:

Year Incurred	Carryforward Benefit Up to	Tax Losses	Deferred Tax at 25%
2016	December 31, 2021	₱240,987,873	₱60,246,965
2015	December 31, 2020	234,392,612	58,598,153
2014	December 31, 2019	157,497,816	39,374,454
2013	December 31, 2018	145,788,888	36,447,222
2012	December 31, 2017	133,737,020	33,434,255
		₱912,404,209	₱228,101,049

The following are the movements in deferred tax assets on NOLCO of the Jollibee Group:

	2016	2015	2014
Balance at beginning of year	₱782,610,438	₱544,952,592	₱310,601,984
Additions	355,025,299	365,752,990	268,941,247
Utilized during the year	(51,416,534)	(126,173,592)	(25,648,675)
Write-offs and expirations	-	(4,221,281)	(8,363,448)
Translation adjustments	(2,772,565)	2,299,729	(578,516)
	₱1,083,446,638	₱782,610,438	₱544,952,592

The following are the movements in deferred tax assets on Excess of MCIT over RCIT of the Jollibee Group:

	2016	2015	2014
Balance at beginning of year	₱318,340,224	₱160,357,672	₱22,820,958
Additions	179,223,725	167,318,506	137,536,714
Utilized during the year	(8,247,174)	–	–
Write-offs and expirations	(4,386,916)	(9,335,954)	–
	₱484,929,859	₱318,340,224	₱160,357,672

The reconciliation of provision for income tax computed at the statutory income tax rates to provision for income tax as shown in the consolidated statements of comprehensive income are as follows:

	2016	2015	2014
Provision for income tax at various statutory income tax rates	₱2,388,797,757	₱1,925,372,345	₱2,027,841,314
Income tax effects of:			
Effect of different tax rate for royalty and franchise fees and interest income	(567,362,906)	(485,654,945)	(437,765,322)
Intrinsic value of stock options exercised	(208,494,315)	(109,091,659)	(368,250,335)
Nondeductible expenses	74,371,484	60,270,557	52,200,315
Difference between OSD and itemized deductions	(57,925,302)	(40,391,546)	(66,824,198)
Expired/written off NOLCO and excess of MCIT over RCIT	4,386,916	13,557,235	8,363,448
Net movement in unrecognized DTA	34,548,583	6,882,429	(1,598,671)
Others	8,288,840	17,663,498	56,562,988
	₱1,676,611,057	₱1,388,607,914	₱1,270,529,539

Provision for current income tax of foreign entities operating in United States, PRC and Singapore amounted to ₱67.63 million, ₱99.7 million and ₱1.3 million, respectively, in 2016, ₱36.1 million, ₱72.2 million and ₱2.4 million, respectively, in 2015, and ₱47.58 million, 16.97 million and ₱2.08 million, respectively, in 2014.

25. PENSION LIABILITY

Defined Benefit Plan

The Parent Company and certain Philippine-based subsidiaries have funded, independently-administered, non-contributory defined benefit pension plan covering all permanent employees. The benefits are based on the employees' projected salaries and number of years of service.

The funds are administered by trustee banks. Subject to the specific instructions provided in writing, the Parent Company and certain Philippine-based subsidiaries direct the trustee banks to hold, invest and reinvest the funds and keep the same invested, in its sole discretion, without distinction between principal and income in, but not limited to, certain cash and other short-term deposits, investments in government and corporate debt securities and quoted equity securities.

Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of pension expense, included under "Cost of sales" and "General and administrative expenses" accounts in the consolidated statements of comprehensive income and pension liability in the consolidated statements of financial position, which are based on actuarial valuations.

Changes in pension liability of the Jollibee Group in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2016	₱2,999,152,149	₱1,532,621,755	₱1,466,530,394
Pension expense (see Notes 21 and 22):			
Current service cost	252,341,938	–	252,341,938
Net interest	151,737,336	77,017,684	74,719,652
Past service cost	36,719,698	–	36,719,698
	440,798,972	77,017,684	363,781,288
Benefits paid	(100,873,629)	(100,873,629)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	(62,051,910)	62,051,910
Actuarial changes arising from changes in financial assumptions	(73,382,299)	–	(73,382,299)
Actuarial changes due to experience adjustment	113,197,182	–	113,197,182
	39,814,883	(62,051,910)	101,866,793
Contributions	–	274,000,000	(274,000,000)
At December 31, 2016	₱3,378,892,375	₱1,720,713,900	₱1,658,178,475

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Changes in pension liability of the Jollibee Group in 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2015	₱2,329,211,722	₱1,496,821,472	₱832,390,250
Pension expense (see Note 21 and 22):			
Current service cost	244,819,845	–	244,819,845
Net interest	136,917,250	69,101,351	67,815,899
	381,737,095	69,101,351	312,635,744
Benefits paid	(85,855,905)	(85,855,905)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	(47,445,163)	47,445,163
Actuarial changes arising from changes in financial assumptions	(367,215,450)	–	(367,215,450)
Actuarial changes due to experience adjustment	741,274,687	–	741,274,687
	374,059,237	(47,445,163)	421,504,400
Contributions	–	100,000,000	(100,000,000)
At December 31, 2015	₱2,999,152,149	₱1,532,621,755	₱1,466,530,394

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The following table presents the carrying amounts, which approximate the estimated fair values, of the assets of the plan:

	2016	2015
Cash and cash equivalents	₱369,024,145	₱202,421,524
Investments in government and corporate debt securities	1,075,581,380	1,097,109,433
Investments in quoted equity securities:		
Holding firms	142,307,558	125,772,547
Property	73,506,756	55,849,704
Food, beverage and tobacco	55,748,543	58,378,590
Banks	53,374,947	37,093,701
Electricity, energy, power and water	27,106,854	19,903,050
Telecommunications	17,038,203	17,092,000
Others	12,359,114	13,941,890
Interest and dividends receivable	17,545,271	16,367,289
Fund liabilities	(122,878,871)	(111,307,973)
	₱1,720,713,900	₱1,532,621,755

The plan assets consist of the following:

- Investments in government securities which consist of retail treasury bonds that bear interest ranging from 3.24%-7.38% and have maturities from August 2020 to October 2037 and fixed-rate treasury notes that bear interest ranging from 2.88%-11.70% and have maturities from March 2017 to October 2037.
- Investments in equity securities consist of investments in listed equity securities, including equity securities of the Parent Company, for certain retirement plans of the Jollibee Group (see Note 27).
- Investments in debt securities consist of long-term corporate bonds in the power sector, which bear interest ranging from 6.30%-7.75% maturing in April 2017.
- Other financial assets held by the retirement plan are primarily accrued interest income on cash and cash equivalents, debt instruments and other securities.

Pension expense as well as the present value of the pension liability is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension expense and liability for the defined benefit plans are shown below:

	December 31, 2016	December 31, 2015	January 1, 2015
Discount rate	5.20%–5.70%	5.00%–5.10%	4.60%–4.70%
Salary increase rate	6.00%	6.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2016	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50%	(₱156,601,976)
	-0.50%	169,836,115
Future salary increases	+0.50%	₱167,757,071
	-0.50%	(156,240,393)
	December 31, 2015	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50%	(₱144,519,317)
	-0.50%	156,998,632
Future salary increases	+0.50%	₱154,737,578
	-0.50%	(143,898,307)

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

	2016	2015
Less than 1 year	₱492,012,508	₱424,284,936
More than 1 year to 5 years	1,036,201,553	904,330,471
More than 5 years to 10 years	1,996,377,531	1,687,578,041
More than 10 years to 15 years	2,301,591,104	2,066,460,644
More than 15 years to 20 years	2,451,602,447	2,136,735,328
More than 20 years	7,615,073,511	6,678,572,246

The Parent Company and certain Philippine-based subsidiaries do not have a formal asset-liability matching strategy. The overall investment policy and strategy of the retirement plan is based on the client suitability assessment, as provided by its trustee banks, in compliance with the Bangko Sentral ng Pilipinas requirements. Nevertheless, the Parent Company and certain Philippine-based subsidiaries ensure that there will be sufficient assets to pay the retirement benefits as they fall due while attempting to mitigate the various risks of the plan.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk. Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the trustee banks maintain assets in cash and short-term deposits. Price risk pertains mainly to fluctuation in market prices of the retirement funds marketable securities. In order to effectively manage price risk, the trustee banks continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The Parent Company and certain Philippine-based subsidiaries expect to contribute ₱55.0 million to the defined benefit pension plans in 2017.

The average duration of the defined benefit obligation is 10 years as at December 31, 2016 and 2015.

Defined Contribution Plan

The employees of the PRC-domiciled and USA-based subsidiaries of the Jollibee Group are members of a state-managed pension benefit scheme operated by the national governments. These subsidiaries are required to contribute a specified percentage of their payroll costs to the pension benefit scheme to fund the benefits. The only obligation of these subsidiaries with respect to the pension benefit scheme is to make the specified contributions.

Pension expense under the defined contribution plan amounted to ₱192.3 million, ₱159.3 million and ₱125.7 million in 2016, 2015, and 2014 respectively.

26. STOCK OPTIONS PLAN

Senior Management Stock Option and Incentive Plan

On December 17, 2002, the SEC approved the exemption requested by the Jollibee Group on the registration requirements of the 101,500,000 options underlying the Parent Company's common shares to be issued pursuant to the Jollibee Group's Senior Management Stock Option and Incentive Plan (the Plan). The Plan covers selected key members of management of the Jollibee Group.

The Plan is divided into two programs, namely, the Management Stock Option Program (MSOP) and the Executive Long-term Incentive Program (ELTIP). The MSOP provides a yearly stock option grant program based on company and individual performance while the ELTIP provides stock ownership as an incentive to reinforce entrepreneurial and long-term ownership behavior of executive participants.

MSOP. The MSOP is a yearly stock option grant program open to members of the senior management committee of the Jollibee Group and members of the management committee, key talents and designated consultants of some of the business units.

Each MSOP cycle refers to the period commencing on the MSOP grant date and ending on the last day of the MSOP exercise period. Vesting is conditional on the employment of the employee-participants in the Jollibee Group within the vesting period. The options will vest at the rate of one-third of the total options granted on each anniversary of the MSOP grant date until the third anniversary.

The exercise price of the stock options is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of grant for the 1st up to the 7th MSOP cycle. Starting with the 8th MSOP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the market closing price at date of grant.

For instance, on July 1, 2004, the Compensation Committee of the Jollibee Group granted 2,385,000 options under the 1st MSOP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted from the start of the grant date on each anniversary date which will start after a year from the grant date. One-third of the options granted, or 795,000 options, vested and exercised starting July 1, 2005. The options have expired on June 30, 2012. From July 1, 2005 to 2016, the Compensation Committee granted series of MSOP grants under the 2nd to 13th MSOP cycle to eligible participants.

On September 9, 2016 the Compensation Committee granted 2,865,500 options under the 13th MSOP cycle to eligible participants. These options are similar to the 1st MSOP cycle. The 2nd, 3rd, 4th and 5th MSOP cycles expired on June 30, 2013, 2014, 2015 and 2016, respectively.

The movements in the number of stock options outstanding and related weighted average exercise prices (WAEP) are as follows:

	2016		2015		2014	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted as at end of year	42,986,294	₱92.47	40,120,794	₱82.22	36,863,194	₱73.58
Outstanding at beginning of year	14,868,437	₱133.32	13,609,275	₱117.51	16,915,937	₱83.77
Options granted during the year	2,865,500	236.00	3,257,600	179.99	3,459,000	178.66
Options exercised during the year	(2,259,125)	87.40	(1,380,628)	100.42	(6,765,662)	63.57
Options forfeited during the year	(218,614)	129.31	(617,810)	104.73	-	-
Outstanding at end of year	15,256,198	₱159.46	14,868,437	₱133.32	13,609,275	₱117.51
Exercisable at end of year	9,141,965	₱128.20	8,262,670	₱100.95	6,865,265	₱79.42

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The weighted average share price of the Parent Company common shares is ₱227.53, ₱206.05 and ₱181.34 in 2016, 2015 and 2014, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2016, 2015 and 2014 is 5.17 years, 5.19 years and 5.83 years, respectively.

The weighted average fair value of stock options granted in 2016, 2015 and 2014 is ₱31.16, ₱26.13 and ₱32.39, respectively. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because the option plan allows exercise before the expiry date.

The inputs in the valuation of the options granted on the dates of grant for each MSOP cycle are shown below:

MSOP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2 nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3 rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4 th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5 th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6 th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7 th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8 th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9 th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10 th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11 th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00
13 th	2016	2.00%	17.76%	2.63%	3-4 years	236.00	236.00

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

ELTIP. The ELTIP entitlement is given to members of the senior management committee and designated consultants of the Jollibee Group.

Each ELTIP cycle refers to the period commencing on the ELTIP entitlement date and ending on the last day of the ELTIP exercise period. Actual grant and vesting is conditional upon achievement of the Jollibee Group's medium to long-term goals and individual targets in a given period, and the employment of the employee-participants in the Jollibee Group within the vesting period. If the goals are achieved, the options will be granted. For the 3rd ELTIP cycle, a percentage of the options to be granted are based on the percentage of growth in annual earnings per share such that 100%, 50% or 25% of the options granted when percentage of growth in annual earnings per share are 12% and

above, 10% to less than 12% or 8% to less than 10%, respectively. For the 4th ELTIP cycle, the percentage of the options to be granted and the targeted percentage of growth in annual earnings per share have been further revised such that 150%, 100% or 50% of the options granted when percentage of growth in annual earnings per share are 15% and above, 12% to less than 15% or 10% to less than 12%, respectively.

The exercise price of the stock options under ELTIP is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of entitlement for the first and second ELTIP cycles. Starting with the 3rd ELTIP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the closing market price as of the date of entitlement.

The options will vest at the rate of one-third of the total options granted on each anniversary date which will start after the goals were achieved. For instance, on July 1, 2004, the Compensation Committee gave an entitlement of 22,750,000 options under the 1st ELTIP cycle to eligible participants. One-third of the options granted, or 7,583,333 options, vested and exercised starting July 1, 2007. The options have expired on June 30, 2012. On July 1, 2008, October 19, 2012 and August 25, 2015, entitlement to 20,399,999, 24,350,000 and 11,470,000 options were given to eligible participants under the 2nd, 3rd and 4th ELTIP cycles, respectively.

The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding for the 2nd to 4th ELTIP cycles and related WAEP for the years ended December 31, 2016, 2015 and 2014 follow:

	2016		2015		2014	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options given as at end of year	78,969,999	₱74.58	78,969,999	₱74.58	67,499,999	₱56.66
Outstanding at beginning of year	38,344,999	₱117.74	31,270,560	₱90.06	37,186,110	₱82.51
Options granted during the year	—	—	11,470,000	180.00	—	—
Options exercised during the year	(2,892,770)	59.59	(3,728,468)	79.46	(5,665,977)	39.85
Options forfeited during the year	(333,333)	105.00	(667,093)	105.00	(249,573)	105.00
Outstanding at end of year	35,118,896	₱122.65	38,344,999	₱117.74	31,270,560	₱90.06
Exercisable at end of year	15,615,420	₱89.60	10,808,048	₱70.59	7,170,133	₱39.85

The weighted average remaining contractual life for the stock options outstanding as of 2016, 2015 and 2014 is 4.00 years, 4.85 years and 4.85 years, respectively.

The fair value of stock options granted is ₱26.13 in 2015 and ₱22.96 in 2014. There were no additional stock option grants under ELTIP in 2016. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date. The stock options granted under the 2nd, 3rd and 4th ELTIP cycles will expire on April 30, 2017, 2020 and 2023, respectively.

The inputs to the model used for the options granted on the dates of grant for each ELTIP cycle are shown below:

ELTIP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2 nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3 rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The cost of the stock options expense charged to operations for both MSOP and ELTIP in the "General and administrative expenses" account amounted to ₱241.3 million, ₱173.2 million and ₱166.5 million in 2016, 2015 and 2014, respectively (see Note 22). Correspondingly, a credit was made to additional paid-in-capital.

27. RELATED PARTY TRANSACTIONS

The Jollibee Group has transactions with related parties. Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Jollibee Group, including holding companies, subsidiaries and fellow subsidiaries are related entities of the Jollibee Group. Individuals owning, directly or indirectly, an interest in the voting power of the Jollibee Group that give them significant influence over the enterprise; key management personnel, including directors and officers of the Jollibee Group, and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group in 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Salaries and short-term benefits	₱1,001,047,551	₱798,882,199	₱687,549,458
Stock options expense (see Note 26)	241,323,679	173,211,693	166,490,888
Net pension expense	59,701,319	47,583,693	59,134,502
Employee car plan and other long-term benefits	47,673,471	42,803,342	41,335,689
	₱1,349,746,020	₱1,062,480,927	₱954,510,537

Transactions with the Retirement Plans

As at December 31, 2016 and 2015, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	2016	2015
Number of shares	192,860	188,390
Market value	₱37,414,840	₱41,257,410
Cost	9,187,048	8,205,035
Unrealized gain	₱28,227,792	₱33,052,375

The Jollibee Group's receivable from retirement fund amounted to ₱119.7 million and ₱109.6 million as at December 31, 2016 and 2015, respectively. The receivable arose from benefit payments made by the Jollibee Group for and in behalf of the retirement plan. The receivable is noninterest-bearing.

Transactions with a Joint Venture

As at December 31, 2016 and 2015, the Jollibee Group has outstanding advances to SuperFoods Group. The terms of these advances are disclosed in Note 11.

Terms and Conditions of Transactions with other Related Parties

Transactions with related parties are made at market prices and are normally settled in cash. Other related party transactions between entities under the Jollibee Group are eliminated in the consolidation process.

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28. EARNINGS PER SHARE

Basic and diluted EPS are computed as follows:

	2016	2015	2014
(a) Net income attributable to the equity holders of the Parent Company	₱6,164,735,373	₱4,928,236,228	₱5,361,978,768
(b) Weighted average number of shares - basic	1,072,616,009	1,067,293,108	1,056,590,489
Weighted average number of shares outstanding under the stock options plan	38,387,061	42,717,799	51,249,701
Weighted average number of shares that would have been purchased at fair market value	(18,545,923)	(21,689,263)	(25,692,236)
(c) Adjusted weighted average shares - diluted	1,092,457,147	1,088,321,644	1,082,147,954
EPS:			
Basic (a/b)	₱5.747	₱4.618	₱5.075
Diluted (a/c)	5.643	4.528	4.955

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2016 because they are antidilutive. Contingently issuable shares for stock options under the 4th ELTIP cycle have not been included in the calculation of the diluted EPS in 2016 and 2015.

29. COMMITMENTS AND CONTINGENCIES

a. Operating lease commitments - Jollibee Group as lessee

The Jollibee Group has various operating lease commitments for quick service restaurant outlets and offices. The noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Some of the leases contain escalation clauses. The lease contracts on certain sales outlets provide for the payment of additional rentals based on certain percentages of sales of the outlets. Contingent rent expense amounted to ₱1,703.3 million, ₱1,428.2 million and ₱1,322.5 million in 2016, 2015 and 2014, respectively.

The future minimum lease payments for the noncancellable periods of the operating leases follows:

	2016	2015	2014
Within one year	₱1,546,660,612	₱1,532,583,258	₱1,669,685,553
After one year but not more than five years	5,916,716,586	5,581,731,024	6,449,433,284
More than five years	8,093,585,035	6,443,630,529	4,897,338,004
	₱15,556,962,233	₱13,557,944,811	₱13,016,456,841

Rent expense recognized on a straight-line basis amounted to ₱8,704.5 million, ₱7,841.9 million and ₱7,072.7 million in 2016, 2015 and 2014, respectively (see Notes 21 and 22). The difference of rent expense recognized under the straight-line method and the rent amounts due in accordance with the terms of the lease agreements are charged to "Operating lease payables" account which amounted to ₱1,792.9 million and ₱1,615.6 million as at December 31, 2016 and 2015, respectively.

b. Operating lease commitments - Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units and various sublease agreements. Noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Leases generally include a clause to enable upward revision of the rent charges on an annual basis based on prevailing market conditions.

The future minimum lease payments for the noncancellable periods of the operating leases, wherein Jollibee Group is the lessor, follow:

	2016	2015	2014
Within one year	₱142,011,358	₱63,358,455	₱55,256,411
After one year but not more than five years	393,153,622	244,123,192	199,537,668
More than five years	184,929,589	598,950,095	432,616,032
	₱720,094,569	₱906,431,742	₱687,410,111

Rent income recognized on a straight-line basis amounted to ₱91.4 million, ₱92.4 million and ₱90.6 million in 2016, 2015 and 2014, respectively (see Note 20). The difference of rent income recognized under the straight-line method and the rent amounts in accordance with the terms of the lease are included under "Operating lease receivables" which amounted to ₱26.0 million and ₱12.5 million as at December 31, 2016 and 2015, respectively.

c. Contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. Management believes that the ultimate liability, if any, with respect to these litigations, claims and disputes will not materially affect the financial position and financial performance of the Jollibee Group. Thus, other than the provisions in Note 17, there were no other provisions made for contingencies.

The Jollibee Group does not provide further information on these provisions and contingencies in order not to impair the outcome of the litigations, claims and disputes.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Jollibee Group is exposed to a variety of financial risks from its operating, investing and financing activities. The Jollibee Group's risk management policies focus on actively securing the Jollibee Group's short-term to medium-term cash flows by minimizing the exposure to financial markets.

The Jollibee Group's principal financial instruments comprise of cash and cash equivalents, short-term investments and receivables. The main purpose of these financial instruments is to obtain financing for the Jollibee Group's operations. The Jollibee Group has other financial assets and liabilities such as other noncurrent assets and trade payables and other current liabilities which arise directly from its operations.

The main risks arising from these financial instruments are equity price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The policies for managing each of these risks are summarized as follows:

Interest Rate Risk

Interest rate risk arises from the possibility that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Jollibee Group's exposure to interest rate risk relates primarily to long-term debt with floating interest rates. Floating rate financial instruments are subject to cash flow interest rate risk. The Jollibee Group's interest rate exposure management policy centers on reducing the Company's overall interest expense and exposure to changes in the interest rates.

To manage the interest rate risk related to the Jollibee Group's long-term debt, the Jollibee Group used a derivative instrument to fix the interest rate over the term of two of its long-term debts (see Note 18). With the Jollibee Group's Corporate Planning team, it enters into loan contracts with variable interest rates and option to fix interest rates which can be availed to manage its loan risks.

There is minimal exposure on the other sources of the Jollibee Group's interest rate risk. These other sources are from the Jollibee Group's cash in bank, short-term deposits and short-term investments.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's equity as at December 31, 2015 and 2014. The impact on the Company's equity is due to changes in the fair value of floating interest rates.

Long-term Debt with Floating Interest Rates

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax
2016		
USD	+100	(87,706,080)
	-100	87,706,080

PHP	+100	(33,847,576)
	-100	33,847,576

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax
2015		
USD	+100	(72,660,640)
	-100	72,660,640
PHP	+100	(24,525,646)
	-100	24,525,646

Foreign Currency Risk

The Jollibee Group's exposure to foreign currency risk arises from the Parent Company's investments outside the Philippines, which are mainly in PRC and USA. The net assets of foreign businesses account for only 5.74% and 6.23% of the consolidated net assets of the Jollibee Group as at December 31, 2016 and 2015, respectively, and the businesses have been rapidly growing.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from the Jollibee Group's Philippine operations' cash and cash equivalents and receivables in foreign currencies.

The following table shows the Jollibee Group's Philippine operations' foreign currency-denominated monetary assets and their peso equivalents as at December 31, 2016 and 2015:

	2016			2015		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	686,392	8,078	34,185,249	569,392	8,076	26,854,314
Receivables	4,967,116	6,755,220	295,332,383	269,926	-	12,702,717
Total exposure	5,653,508	6,763,298	329,517,632	839,318	8,076	39,557,031

Foreign Currency Risk Sensitivity Analysis

The Jollibee Group has recognized in profit or loss, foreign currency exchange gains, included under "Other income" account, which amounted to a net foreign exchange gain of ₱41.5 million and ₱36.8 million in 2016 and 2015, respectively, and net foreign exchange loss of ₱1.1 million on its net foreign currency-denominated assets in 2014 (see Note 23). This resulted from the movements of the Philippine peso against the USD and RMB as shown in the following table:

	Peso to	
	USD	RMB
December 31, 2016	49.72	7.16
December 31, 2015	47.06	7.27

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The following table demonstrates the sensitivity to a reasonably possible change in USD and RMB to Philippine peso exchange rate, with all other variables held constant, of the Jollibee Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as at December 31, 2016 and 2015:

	2016		2015	
	Effect on Income before Income Tax	Effect on Equity before Income Tax	Effect on Income before Income Tax	Effect on Equity before Income Tax
Appreciation (Depreciation) of ₱ against Foreign Currency				
	<i>(In Thousands)</i>			
USD				
	₱1.50	(₱8,480)	(₱8,480)	(₱1,259)
	(1.50)	8,480	8,480	1,259
	1.00	(5,654)	(5,654)	(839)
	(1.00)	5,654	5,654	839
RMB				
	0.95	(6,425)	(6,425)	(7.7)
	(0.95)	6,425	6,425	7.7
	0.63	(4,261)	(4,261)	(5.1)
	(0.63)	4,261	4,261	5.1

Equity Price Risk

The Jollibee Group is not exposed to significant equity price risk on its investment in quoted equity securities consisting of investment in club shares.

Credit Risk

Credit risk is the risk that a customer or counterparty fails to fulfill its contractual obligations to the Jollibee Group. This includes risk of non-payment by borrowers, failed settlement of transactions and default on outstanding contracts.

The Jollibee Group has a strict credit policy. Its credit transactions are with franchisees and customers that have gone through rigorous screening before granting them the franchise. The credit terms are very short, while deposits and advance payments are also required before rendering the service or delivering the goods, thus, mitigating the possibility of non-collection. In cases of non-collection, defaults of the debtors are not tolerated; the exposure is contained the moment a default occurs and transactions that will further increase the exposure of the Jollibee Group are discontinued.

The Jollibee Group has no significant concentration of credit risk with counterparty. The Jollibee Group's franchisee profile is such that no single franchisee accounts for more than 5% of the total system wide sales of the Jollibee Group.

The aging analysis of loans and receivables as at December 31, 2016 and 2015 are as follows:

	2016						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
	<i>(In Millions)</i>						
Cash and cash equivalents*	₱16,437.6	₱16,437.6	₱-	₱-	₱-	₱-	₱-
Short-term investments	726.0	726.0	-	-	-	-	-
Receivables:							
Trade	3,608.6	1,777.6	448.6	77.4	78.9	646.3	579.8
Employee car plan receivables**	214.0	205.2	1.3	0.7	0.9	5.9	-
Advances to employees	112.7	112.7	-	-	-	-	-
Other receivables***	132.8	125.2	1.5	0.7	-	5.4	-
Other noncurrent assets:							
Security and other deposits	2,103.7	2,103.7	-	-	-	-	-
Operating lease receivables	26.0	26.0	-	-	-	-	-
	23,361.4	21,514	451.4	78.8	79.8	657.6	579.8
AFS Financial Assets	26.2	26.2	-	-	-	-	-
	₱23,387.6	₱21,540.2	₱451.4	₱78.8	₱79.8	₱657.6	₱579.8
	2015						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
	<i>(In Millions)</i>						
Cash and cash equivalents*	₱11,204.8	₱11,204.8	₱-	₱-	₱-	₱-	₱-
Short-term investments	922.3	922.3	-	-	-	-	-
Receivables:							
Trade	5,575.2	2,646.5	711.8	183.0	416.7	1,097.1	520.1
Employee car plan receivables**	197.6	197.6	-	-	-	-	-
Advances to employees	154.7	154.7	-	-	-	-	-
Other receivables***	145.2	145.2	-	-	-	-	-
Other noncurrent assets:							
Security and other deposits	1,795.0	1,795.0	-	-	-	-	-
Operating lease receivables	12.5	12.5	-	-	-	-	-
	20,007.3	17,078.6	711.8	183.0	416.7	1,097.1	520.1
AFS Financial Assets	21.5	21.5	-	-	-	-	-
	₱20,028.8	₱17,100.1	₱711.8	₱183.0	₱416.7	₱1,097.1	₱520.1

* Excluding cash on hand amounting to ₱295.7 million and ₱292.8 million in 2016 and 2015, respectively.

** Including noncurrent portion of employee car plan receivables.

*** Excluding receivables from government agencies amounting to ₱19.1 million and ₱10.3 million in 2016 and 2015, respectively.

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2016 and 2015 without considering the effects of collaterals and other credit risk mitigation techniques:

	2016		
	Gross Maximum Exposure (a)	Fair Value and Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
Financial Assets			
Cash and cash equivalents*	₱16,437.6	₱236.8	₱16,200.8**
Short-term investments	726.0	–	726.0
Receivables:			
Trade	3,028.8	81.7	2,947.1***
Employee car plan receivables	214.0	–	214.0
Advances to employees	112.7	–	112.7
Other receivables****	132.8	–	132.8
Other noncurrent assets:			
Security and other deposits	2,103.7	–	2,103.7
Operating lease receivables	26.0	–	26.0
AFS financial asset	26.2	–	26.2
	₱22,807.8	₱318.5	₱22,489.3

	2015		
	Gross Maximum Exposure (a)	Fair Value and Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
Financial Assets			
Cash and cash equivalents*	₱11,204.8	₱223.3	₱10,981.5**
Short-term investments	922.3	–	922.3
Receivables:			
Trade	5,055.1	137.7	4,917.4***
Employee car plan receivables	197.6	–	197.6
Advances to employees	154.7	–	154.7
Other receivables****	145.2	–	145.2
Other noncurrent assets:			
Security and other deposits	1,795.0	–	1,795.0
Operating lease receivables	12.5	–	12.5
AFS financial asset	21.5	–	21.5
	₱19,508.7	₱361.0	₱19,147.7

* Excluding cash on hand amounting to ₱295.7 million and ₱292.8 million in 2016 and 2015, respectively.

** Gross financial assets after taking into account insurance bank deposits for cash and cash equivalents.

*** Gross financial assets after taking into account payables to the same counterparty.

**** Excluding receivables from government agencies amounting to ₱19.1 million and ₱10.3 million in 2016 and 2015, respectively.

With respect to credit risk arising from financial assets of the Jollibee Group, the Jollibee Group's exposure to credit risk arises from default of the counterparty, with a gross maximum exposure equal to the carrying amount of these instruments.

Credit Quality. The tables below show the credit quality by class of financial assets that are neither past due nor impaired, based on the Jollibee Group's credit rating system as at December 31, 2016 and 2015.

	2016				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Receivables					
Trade	₱3,608.6	₱744.5	₱946.7	₱86.4	₱1,831.0
Employee car plan receivables*	214.0	205.2	–	–	8.8
Advances to employees	112.7	112.7	–	–	–
Other receivables**	132.8	125.2	–	–	7.6
AFS financial asset	26.2	26.2	–	–	–
	₱4,094.3	₱1,213.8	₱946.7	₱86.4	₱1,847.4

	2015				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Receivables					
Trade	₱5,575.2	₱1,684.0	₱422.4	₱540.1	₱2,928.7
Employee car plan receivables*	197.6	197.6	–	–	–
Advances to employees	154.7	154.7	–	–	–
Other receivables**	145.2	145.2	–	–	–
AFS financial asset	21.5	21.5	–	–	–
	₱6,094.2	₱2,203.0	₱422.4	₱540.1	₱2,928.7

* Including noncurrent portion of employee car plan receivables.

** Excluding receivables from government agencies amounting to ₱19.1 million and ₱10.3 million in 2016 and 2015, respectively.

The credit quality of financial assets is managed by the Jollibee Group using internal credit ratings, as shown below:

- A - For counterparty that is not expected by the Jollibee Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes financial institutions, certain related parties and customers who pay on or before due date.
- B - For counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Jollibee Group. The delays may be due to cut-off differences and/or clarifications on contracts/billings.
- C - For counterparty who consistently defaults in settling its obligation, but with continuing business transactions with the Jollibee Group, and may be or actually referred to legal and/or subjected to cash before delivery (CBD) scheme. Under this scheme, the customer's credit line is suspended and all subsequent orders are paid in cash before delivery. The CBD status will only be lifted upon full settlement of the receivables and approval by management. Thereafter, the regular credit term and normal billing and collection processes will resume.

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Liquidity Risk

The Jollibee Group's exposure to liquidity risk refers to the risk that its financial liabilities are not serviced in a timely manner and that its working capital requirements and planned capital expenditures are not met. To manage this exposure and to ensure sufficient liquidity levels, the Jollibee Group closely monitors its cash flows to be able to finance its capital expenditures and to pay its obligations as and when they fall due.

On a weekly basis, the Jollibee Group's Cash and Banking Team monitors its collections, expenditures and any excess/deficiency in the working capital requirements, by preparing cash position reports that present actual and projected cash flows for the subsequent week. Cash outflows resulting from major expenditures are planned so that money market placements are available in time with the planned major expenditure. In addition, the Jollibee Group has short-term cash deposits and has available credit lines with accredited banking institutions, in case there is a sudden deficiency. The Jollibee Group maintains a level of cash and cash equivalents deemed sufficient to finance the operations. No changes were made in the objectives, policies or processes of the Jollibee Group during the years ended December 31, 2016 and 2015.

The Jollibee Group's financial assets, which have maturity of less than 12 months and are used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and trade receivables amounting to ₱16,733.3 million, ₱726.0 million and ₱3,028.8 million, respectively, as at December 31, 2016 and ₱11,497.6 million, ₱922.3 million and ₱5,055.1 million, respectively, as at December 31, 2015.

The tables below summarize the maturity profile of the Jollibee Group's financial liabilities based on the contractual undiscounted cash flows as at December 31, 2016 and 2015:

	2016					Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years		
Financial Liabilities						
Trade payables and other current liabilities*	₱-	₱20,098,956,480	₱-	₱-	₱20,098,956,480	
Long-term debt (including current portion)	-	1,562,102,378	4,639,692,756	5,953,570,443	12,155,365,577	
Operating lease payables	-	602,906,587	523,919,188	666,071,099	1,792,896,874	
Total Financial Liabilities	₱-	₱22,263,965,445	₱5,163,611,944	₱6,619,641,542	₱34,047,218,931	
	2015					Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years		
Financial Liabilities						
Trade payables and other current liabilities*	₱-	₱18,042,933,951	₱-	₱-	₱18,042,933,951	
Long-term debt (including current portion)	-	1,385,129,936	4,374,187,586	5,490,591,850	11,249,909,372	
Liability for acquisition of businesses (including current portion)	-	94,852,231	-	-	94,852,231	
Operating lease payables	-	205,976,178	486,815,789	922,847,531	1,615,639,498	
Total Financial Liabilities	₱-	₱19,728,892,296	₱4,861,003,375	₱6,413,439,381	₱31,003,335,052	

*Excluding statutory obligations such as accrued local and other taxes, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates.

Capital Management Policy

Capital includes equity attributable to equity holders of the Parent Company.

The primary objective of the Jollibee Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Jollibee Group has sufficient capitalization.

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing at least one-third of its consolidated net income, a ratio that would still leave some additional cash for future expansion. If needed, the Jollibee Group would borrow money for acquisitions of new businesses.

As at December 31, 2016 and 2015, the Jollibee Group's debt ratio and net debt ratio are as follows:

	2016	2015
Total debt (a)	₱38,446,947,773	₱33,006,458,507
Total equity attributable to equity holders of the Parent Company	33,602,216,078	30,623,224,057
Total debt and equity attributable to equity holders of the Parent Company (b)	₱72,049,163,851	₱63,629,682,564
Debt ratio (a/b)	53%	52%

Net Debt Ratio

	2016	2015
Total debt	₱38,446,947,773	₱33,006,458,507
Less cash and cash equivalents and short-term investments	17,459,348,479	12,419,876,641
Net debt (a)	20,987,599,294	20,586,581,866
Total equity attributable to equity holders of the Parent Company	33,602,216,078	30,623,224,057
Net debt and equity attributable to equity holders of the Parent Company (b)	₱54,589,815,372	₱51,209,805,923
Net debt ratio (a/b)	38%	40%

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

Financial Instruments Whose Carrying Amounts Approximate Fair Value. Management has determined that the carrying amounts of cash and cash equivalents, short-term investments, receivables, operating lease receivables, trade payables and other current liabilities, short-term debt and operating lease

payables, based on their notional amounts, reasonably approximate their fair values because of their short-term nature or due to the immaterial effect of discounting when the present value of future cash flows from these instruments are calculated.

AFS Financial Assets. The fair value of investments in quoted shares of stock is based on quoted prices. The Jollibee Group does not have the intention to dispose these financial assets in the near term.

Investment Properties. The fair value of the investment properties are determined by independent appraisers using the market data and cost approach, which considers the local market conditions, the extent, character and utility of the property, sales and holding prices of similar parcels of land and the highest and best use of the investment properties.

Security and Other Deposits, Employee Car Plan Receivables, Long-term Debt and Derivative Asset or Liability. Management has determined that the estimated fair value of security and other deposits, noncurrent portion of employee car plan receivables, long-term debt and derivative assets or liability are based on the discounted value of future cash flows using applicable rates as follows:

	2016	2015
Security and other deposits	2.45%-5.38%	2.37%-7.25%
Employee car plan receivables	1.89%-4.74%	2.14%-6.55%
Derivative assets	2.08%-4.09%	0.81%-2.78%
Long-term debt	2.45%-4.74%	3.43%-3.71%
Derivative liability	0.95%-1.05%	0.96%-1.00%

The following tables provide the fair value measurement hierarchy of the Jollibee Group's recurring financial assets and liabilities.

Quantitative disclosure fair value measurement hierarchy for assets as at December 31, 2016:

	Fair Value Measurement Using				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	P26,212,462	P26,212,462	P-	P26,212,462	P-
Derivative asset - cross currency swap	-	-	-	-	-
Derivative asset - put/call rights	78,329,324	78,329,324	-	-	78,329,324

(Forward)

	Fair Value Measurement Using				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets for which fair values are disclosed:					
Investment properties:	P983,427,881	P2,088,763,900	P-	P2,088,763,900	P-
Land	983,427,881	1,876,624,900	-	1,876,624,900	-
Buildings	-	212,139,000	-	212,139,000	-
Other noncurrent assets:					
Security and other deposits	2,103,707,474	1,877,226,839	-	1,877,226,839	-
Employee car plan receivables	130,584,354	196,223,517	-	196,223,517	-

Quantitative fair value measurement hierarchy for assets as at December 31, 2015:

	Fair Value Measurement Using				
	Carrying Value	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	P21,462,462	P21,462,462	P-	P21,462,462	P-
Derivative asset - cross currency swap	9,868,242	9,868,242	-	9,868,242	-
Derivative asset - put/call rights	75,031,052	75,031,052	-	-	75,031,052
Assets for which fair values are disclosed:					
Investment properties:	998,113,494	1,414,303,072	-	1,414,303,072	-
Land	983,427,880	1,311,229,072	-	1,311,229,072	-
Buildings	14,685,614	103,074,000	-	103,074,000	-
Other noncurrent assets:					
Security and other deposits	1,794,988,953	1,894,451,261	-	1,894,451,261	-
Employee car plan receivables	130,156,134	138,222,669	-	138,222,669	-

Notes to Audited Consolidated Financial Statements

Quantitative fair value measurement hierarchy for liabilities as at December 31, 2016:

	Date of Valuation	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability	December 31, 2016	P33,530,586	P-	P33,530,586	P-
Liabilities disclosed at fair value:					
Product Security Deposit	December 31, 2016	171,782,052	-	171,782,052	-
Tenants' Deposit	December 31, 2016	12,780,764	-	12,780,764	-
Long-term debt	December 31, 2016	12,750,225,064	-	12,750,225,064	-

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2015:

	Date of Valuation	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability	December 31, 2015	P34,921,275	P-	P34,921,275	P-
Contingent consideration	December 31, 2015	23,635,513	-	-	23,635,513
Liabilities disclosed at fair value:					
Long-term debt	December 31, 2015	10,558,419,087	-	10,558,419,087	-

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements during the year.

Description of significant unobservable input to the measurement of the derivative asset – put/call rights as at December 31, 2016 is as follows:

	Valuation Technique	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value
Derivative asset – put/call rights	Discounted cash flow method	Long-term growth rate used to calculate equity value	6.0% to 7.0%	Increase (decrease) in the long-term rate would increase (decrease) the fair value.

32. EVENTS AFTER THE REPORTING PERIOD

Dividend Declaration

Parent Company. On April 5, 2017, the BOD approved a regular cash dividend of ₱1.00 per share of common stock to all stockholders of record as of April 21, 2017. Consequently, the cash dividend is expected to be paid out by May 5, 2017. The cash dividend is 16.3% higher than the ₱0.86 regular dividend per share declared on April 6, 2016.

Loan to SuperFoods

JWPL. On April 5, 2017, the BOD approved a US\$1.0 million shareholder loan to SuperFoods Group to finance its capital expenditures.

Joint Venture Agreement with Blackbird Holdings Pte. Ltd.

JWPL. On March 31, 2017, the Jollibee Group through GPPL, entered into a Joint Venture Agreement with Blackbird Holdings Pte. Ltd. (Blackbird) to own and operate the first Jollibee store in Italy. GPPL and Blackbird shall incorporate a Singapore company (the JV Company) to be owned by GPPL to the extent of 75% and to be owned by Blackbird to the extent of 25%. The JV Company shall incorporate a wholly owned subsidiary in Italy to own and operate the Jollibee store.

Additional Capital Contribution to SJBF LLC

JWPL. On March 14, 2017, the BOD approved an additional capital contribution of US\$8.0 million to SJBF LLC through the Jollibee Group's wholly owned subsidiary, Bee Good! Inc.

INVESTOR INFORMATION

COMPANY HEADQUARTERS

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Ortigas Center, Pasig City, Philippines 1605
Telephone: (632) 634-1111
Facsimile: (632) 633-9504
Website: www.jollibee.com.ph

COMMON STOCK

Jollibee's common stock is listed and traded on the Philippine Stock Exchange with the ticker symbol "JFC." It is one of the companies that comprise the PSE Composite Index.

ANNUAL STOCKHOLDERS' MEETING

The Annual Stockholders' Meeting will be held on June 30, 2017 at 2:00 P.M. (registration starts at 1:00 P.M.) at the Philippine Stock Exchange Auditorium, Ground Floor, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

STOCKHOLDERS' INQUIRIES

Inquiries regarding dividend payments, account status, address changes, stock certificates and other pertinent matters may be addressed to the Company's registrar and transfer agent:

Rizal Commercial Banking Corporation
Stock Transfer Office
Ground Floor, West Wing
Grepalife Building
221 Senator Gil Puyat Avenue
Makati City
Telephone: (632) 892-4156

SEC FORM 17-A

The financial information in this report, in the opinion of Management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request to the Office of the Corporate Secretary.