IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

Important: You must read the following before continuing. The following applies to the Offering Circular following this page (the **Offering Circular**), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing this Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN A FINAL OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of the Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at your request and, by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to any offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in electronic format. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Issuer, the Guarantor, the Joint Lead Managers (each as defined in the Offering Circular) nor any person who controls the Issuer, the Guarantor, a Joint Lead Manager or any director, officer, employee or agent of any of the Issuer, the Guarantor, the Joint Lead Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

JOLLIBEE WORLDWIDE PTE. LTD.

(*incorporated with limited liability in Singapore*)

U.S.$600,000,000

GUARANTEED SENIOR PERPETUAL CAPITAL SECURITIES

unconditionally and irrevocably guaranteed by

Jollibee Foods CORPORATION

JOLLIBEE FOODS CORPORATION

(*incorporated with limited liability in the Republic of the Philippines*)

ISSUE PRICE: 100.00 PER CENT.

Jollibee Worldwide Pte. Ltd. (the **Issuer**) proposes to issue U.S.$600 million senior perpetual capital securities (the **Securities**), which will be unconditionally and irrevocably guaranteed (the **Securities Guarantee**) by Jollibee Foods Corporation (the **Company** or the **Guarantor**). The Issuer is primarily a holding company which is a wholly-owned subsidiary of the Guarantor.

The Securities confer a right to receive distributions (each, a **Distribution**) at the applicable rate described below for the period from and including 23 January 2020 or from and including the most recent Distribution Payment Date (as defined below) to, but excluding, the next Distribution Payment Date or any redemption date. Subject to Condition 4.5 (*Optional Deferral of Distributions*) of the terms and conditions of the Securities (the **Conditions**), Distributions are payable semi-annually in arrear on the Distribution Payment Dates in each year. **Distribution Payment Dates** are defined as 23 January and 23 July of each year, commencing on 23 July 2020. Unless previously redeemed in accordance with the Conditions and subject to Condition 4.4 (*Increase in Rate of Distribution*), Distributions (i) from and including 23 January 2020 to, but excluding, 23 January 2025 (the **Step Up Date**) shall accrue on the outstanding principal amount of the Securities at 3.90 per cent. per annum (the **Initial Rate of Distribution**) and (ii) from and including each Reset Date (including the Step Up Date) to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at the relevant Reset Rate of Distribution.

The Issuer or the Guarantor may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date (i) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro-rata basis) Parity Securities of the Issuer and/or Guarantor, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer and/or Guarantor or (ii) at the discretion of the Issuer or the Guarantor, any Junior Securities or (except on a pro-rata basis) Parity Securities have been redeemed, repurchased or otherwise acquired by the Issuer or the Guarantor. Any such deferred Distribution will constitute **Arrears of Distribution** and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Securities are perpetual securities in respect of which there is no fixed redemption date. Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on the Step Up Date or any subsequent Distribution Payment Date falling after the Step Up Date, in each case, at the Redemption Price (as defined in the Conditions), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*) and the Trustee and Principal Paying Agent in writing. The Securities may also be redeemed (in whole but not in part) at the option of the Issuer at the Redemption Price upon the occurrence of a Gross-Up Event. In addition, the Securities may be redeemed (in whole but not in part) at the option of the Issuer (A) upon the occurrence of a Change of Control Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined in the Conditions) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of an Indebtedness Default Event at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, (D) upon the occurrence and continuation of Tax Event at any time at the Redemption Price, or (E) in the event that the aggregate principal amount of the Securities originally issued that remains outstanding is equal to or less than 25 per cent. at any time at the Redemption Price, in each case of (A), (B), (C), (D) and (E), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*) and to the Trustee and the Principal Paying Agent in writing.

The Securities will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, past and future. The payment of principal of and Distributions on the Securities and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed on an unsubordinated basis by the Guarantor.

For a more detailed description of the Securities and defined terms as used herein, see "*Terms and Conditions of the Securities*".

Investing in the Securities involves certain risks. See "*Risk Factors*" beginning on page 23.

The Securities are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the **Securities Act**). The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Securities may be offered or sold only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction and only in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. For further details, see "*Subscription and Sale*".

THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES (the **SRC**). **ANY FUTURE OFFER OR SALE OF THE SECURITIES IN THE PHILIPPINES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.**

Application will be made with the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing and quotation of the Securities on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Securities to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Securities, the Issuer, the Guarantor or its subsidiaries. Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult their advisers.

The Securities will be evidenced by a global certificate (the **Global Certificate**) in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. Except in the limited circumstances set out herein, definitive certificates for the Securities will not be issued in exchange for beneficial interests in the Global Certificate. See "*The Global Certificate*". It is expected that delivery of the Global Certificate will be made on or about 23 January 2020.

The denomination of the Securities shall be U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.

Joint Global Coordinators

CITIGROUP **J.P. MORGAN**

Joint Lead Managers and Joint Bookrunners (In alphabetical order)

CITIGROUP **CREDIT SUISSE** **J.P. MORGAN** **MIZUHO SECURITIES**

Joint Domestic Managers (In alphabetical order)

BPI CAPITAL CORPORATION **CHINA BANK CAPITAL CORPORATION** **PNB CAPITAL AND INVESTMENT CORPORATION**

Offering Circular dated 16 January 2020

IMPORTANT NOTICE

In this Offering Circular, references to the **Company**, the **Group** or the **Guarantor** are references to Jollibee Foods Corporation and its consolidated subsidiaries, associates and joint ventures, as the context requires. References to the **Issuer** are references to Jollibee Worldwide Pte. Ltd.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Securities described in this Offering Circular. Each of the Issuer and the Guarantor accepts responsibility for the accuracy of the information contained in this Offering Circular and having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to the Issuer, the Company, the Securities and the Securities Guarantee, which is material in the context of the issue and offering of the Securities; (ii) the statements contained in it relating to the Issuer, the Company, the Securities and the Securities Guarantee are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Company, the Securities or the Securities Guarantee, the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer and the Company to ascertain such facts and to verify the accuracy of all such information and statements. No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, the Securities or the Securities Guarantee other than as contained herein or any other information supplied in connection with the Securities and, if given or made by any other person, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, Citigroup Global Markets Singapore Pte. Ltd. (**Citigroup**), J.P. Morgan (S.E.A.) Limited (**J.P. Morgan** and, together with Citigroup, the **Joint Global Coordinators**), Credit Suisse (Singapore) Limited (**Credit Suisse**) and Mizuho Securities (Singapore) Pte. Ltd. (**Mizuho Securities** and, together with the Joint Global Coordinators and Credit Suisse, the **Joint Lead Managers**), Citicorp International Limited in its capacity as trustee (the **Trustee**) or the Agents (as defined in the Conditions).

This Offering Circular has been prepared by the Issuer and the Guarantor for use in connection with the offer and sale of Securities exempt from the registration requirements under the Securities Act solely for the purpose of enabling a prospective investor to consider whether to purchase the Securities. This Offering Circular does not constitute an offer to any person in the United States or in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Securities may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, or the Agents represents that this Offering Circular may be lawfully distributed, or that any Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

None of the Joint Lead Managers, the Trustee or the Agents has separately verified the information contained herein. In this Offering Circular, no representation, warranty or undertaking, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or legal advisers, and no responsibility or liability is accepted by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or legal advisers as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Securities shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer or the Company or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. Neither this Offering Circular nor any other information supplied in connection with the Securities or the Securities Guarantee is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by either the Issuer, the Company, the Joint Lead Managers, the Trustee or the Agents or their respective affiliates or legal advisers that any recipient of this Offering Circular should purchase the Securities. Prospective investors should not construe the contents of this Offering Circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisers as to legal, tax, business, financial and related aspects of purchasing the Securities. Neither this Offering Circular nor any other information supplied in connection with the Securities or the Securities

Guarantee constitutes an offer or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents to any person to subscribe for, or to purchase, any Securities.

Investors may not reproduce or distribute this Offering Circular in whole or in part, and investors may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Securities. Each investor of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or legal advisers shall have any responsibility therefor.

Persons into whose possession this Offering Circular or any Securities may come must inform themselves about and observe any such restrictions on the distribution of this Offering Circular and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Securities in the United States, the European Economic Area (the EEA), the United Kingdom, Japan, Hong Kong, Singapore, and the Philippines, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licenced broker or dealer and any of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

Each person investing in the Securities shall be deemed to acknowledge that:

- it has been afforded an opportunity to request from the Issuer and the Company to review, and has received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained herein; and
- it has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, advisers, employees, agents or affiliates in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision.

Listing of the Securities on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Securities or the Securities Guarantee. In making an investment decision, prospective investors must rely on their own examination of the Issuer, the Guarantor and the terms of the Securities and the Securities Guarantee, including, without limitation, the merits and risks involved, and their purchase of the Securities should be based upon such examination with their own tax, legal and business advisers as they deem necessary. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Securities. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or legal advisers is making any representation to any prospective investor regarding the legality of an investment in the Securities by such investor under any legal investment or similar laws or regulations. The offering of the Securities is being made on the basis of this Offering Circular. Any decision to invest in the Securities must be based on the information contained in this Offering Circular. Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or legal advisers shall have any responsibility therefor.

This Offering Circular is not a prospectus for the purposes of Regulation (EU) 2017/129 (as amended, the **Prospectus Regulation**).

MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET—Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS—The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This Offering Circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**); (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the **FSMA**)) in connection with the issue or sale of any Securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as **relevant persons**). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**)—In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined the classification of the Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, or the Agents makes any representation to any investor in the Securities regarding the legality of its investment under any applicable laws. Any investor in the Securities should be able to bear the economic risk of an investment in the Securities for an indefinite period of time.

The Issuer reserves the right to withdraw this offering of the Securities at any time. The Issuer and the Joint Lead Managers also reserve the right to reject any offer to purchase the Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Securities sought by such investor.

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See "*Subscription and Sale*". Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investors may not reproduce or distribute this Offering Circular in whole or in part, and investors may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Securities.

Investors are advised to read and understand the contents of this Offering Circular before investing. Investors agree to the foregoing by accepting delivery of this Offering Circular.

Forward-Looking Statements

This Offering Circular contains forward-looking statements and other information that involves risks, uncertainties and assumptions. Forward-looking statements are statements that concern the Issuer's and the Guarantor's plans, objectives, goals, strategies, future operations or performance and underlying assumptions and other statements that are other than statements of historical fact, including, but not limited to, those that are identified by the use of words such as aims, anticipates, believes, estimates, expects, intends, plans, predicts, projects seeks, may, will, should and any similar expressions generally identify forward-looking statements. Such forward-looking statements include, without limitation, statements relating to expansion plans, the competitive environment in which the Issuer and the Company operate, general economic and business conditions, political, economic and social developments in the jurisdictions in which the Group operates, changes in governmental regulations relating to the businesses which the Group engages in, liability for remedial action under relevant regulations, the cost and availability of adequate insurance coverage and financing, changes in interest rates and other factors beyond the Group's control. Risks and uncertainties that could affect the Group include, without limitation:

- risks associated with the strategic expansion into new geographic markets, or expansion into new businesses where the Group may have little or no prior experience in;
- instability in the social, political, legal and economic conditions in the countries in which the Group operates, particularly in the Philippines;
- the need for unexpected capital expenditures;
- changes in Government regulations and increases in regulatory burdens in the jurisdictions in which the Group operates, including those pertaining to operational, health, food safety and environmental standards;
- changes in Philippine, global or regional economic conditions that could affect the businesses that the Group engage in and the demand for the products that the Group provides;
- difficulties in raising additional financing to fund existing and future capital expenditures, acquisitions and other general corporate activities;
- changes in import or export controls, duties, levies or taxes, either in international markets or in the Philippines;
- risks arising from the significant and rapid fluctuations in currency exchange markets and the decisions and positions that the Group takes to hedge such volatility;
- the risks of operating in developing or emerging markets in which there are significant uncertainties regarding the interpretation, application and enforceability of laws and regulations and the enforceability of contract rights and intellectual property rights; and
- other risks related to the businesses, the industries or the regions in which the Group operates.

Should one or more of such risks and uncertainties materialise, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Offering Circular speaks only as of the date the statement was made.

All of the Group's forward-looking statements made herein and elsewhere are qualified in their entirety by the risk factors discussed in "*Risk Factors*". These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Offering Circular.

The Issuer, the Company, the Joint Lead Managers, the Trustee and the Agents assume no obligation to update any of the forward-looking statements after the date of this Offering Circular to conform those statements to actual results, subject to compliance with all applicable laws. The Issuer, the Company, the Joint Lead Managers, the Trustee and the Agents assume no obligation to update any information contained in this Offering Circular or to publicly release any revisions to any forward-looking statements to reflect events or circumstances, or to reflect that the Issuer or the Company became aware of any such events or circumstances, that occur after the date of this Offering Circular.

Industry and Market Data

Market data and certain industry forecasts used throughout this Offering Circular were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information are not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Company, the Joint Lead Managers, the Trustee nor the Agents makes any representation as to the accuracy or completeness of that information.

Certain Defined Terms and Conventions

All references to dates and times are to Manila dates and times, unless otherwise specified.

All references in this Offering Circular to the **Government** are to the government of the Republic of the Philippines and all references to the **Philippines** are to the Republic of the Philippines. References to **management, Directors** and **executive officers** refer to the management, Directors and executive officers of the Company.

References to **financial year** in this Offering Circular are to the Company's financial year ended or ending 31 December.

References to the **United States** or **U.S.** in this Offering Circular shall be to the United States of America, its territories and possessions, any State of the United States and the District of Columbia.

In this Offering Circular, where information has been presented in percentages, thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

Presentation of Financial Information

In this Offering Circular, references to **U.S.$** and **U.S. dollars** are to the lawful currency of the United States of America; references to **Peso** or **₱** are to the lawful currency of the Republic of the Philippines; references to **SG$** are to the lawful currency of the Republic of Singapore and references to **RMB** are to the lawful currency of the People's Republic of China (the **PRC**).

The Group's audited consolidated financial statements as of 31 December 2016, 2017 and 2018 and for each of the three years in the period ended 31 December 2018 included in this Offering Circular have been prepared in accordance with the Philippine Financial Reporting Standard (**PFRS**). The Group's unaudited interim condensed consolidated financial statements as of 30 September 2019 and for the nine months ended 30 September 2018 and 2019 included in this Offering Circular have been prepared in accordance with Philippine Accounting Standard (**PAS**) 34, Interim Financial Reporting. The Company maintains its books and prepares and reports its consolidated financial statements using the Peso in accordance with the provisions of PAS 21, "The Effects of Changes in Foreign Exchange Rates", an accounting standard that became effective for annual periods beginning on or after 1 January 2005.

Effective 1 January 2018, the Group adopted PFRS 15, using the full retrospective method of adoption. The consolidated statements of comprehensive income of the Group for the years ended 31 December 2016 and 2017 have been restated to include the impact of the adoption of PFRS 15, reclassifying franchisees' contribution to advertising expenses as revenues instead as a deduction from the Group's advertising expenses. Please refer to Note 2 of the Group's audited consolidated financial statements included in this Offering Circular.

PFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group adopted PFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. Thus, the Group adjusted the comparative amounts in the unaudited interim condensed consolidated financial statements of the Group as of and for the nine months ended 30 September 2019. Please refer to Note 2 of the unaudited interim condensed consolidated financial statements of the Group on the application of PFRS 16 which resulted in changes to the Group's accounting policies. The historical information attached to the Offering Circular was not adjusted. Thus, information pertaining to leases as of 31 December 2016, 2017 and 2018 continue to be reported under PAS 17 and is not comparable to similar information as of 30 September 2019.

Certain Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate on 30 September 2019 of ₱52.04 = U.S.$1.00, being the closing rate for that date for the purchase of U.S. dollars with Pesos under the Bangko Sentral ng Pilipinas (**BSP**). Such translations should not be construed as representations that the Peso or U.S. dollar amounts referred to could have been, or could be, converted into U.S. dollars or Pesos, as the case may be, at that or any other rate, or at all.

Non-PFRS Financial Measures

This Offering Circular includes presentation of certain financial measures such as EBITDA. EBITDA is calculated by the Group as earnings before interest, taxes, depreciation and amortisation. Earnings is equivalent to "net income" in the consolidated financial statements included in this Offering Circular. EBITDA is not a measure of performance under PFRS, and investors should not consider EBITDA in isolation or as an alternative to net income as an indicator of the Company's operating performance on a consolidated basis or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA calculation methods, the Company's presentation of this measure may not be comparable to similarly titled measures used by other companies.

Enforceability of Civil Liabilities

The Company is established in the Philippines and a substantial portion of its operating assets are located in the Philippines. Substantially all of its directors and senior management reside in the Philippines. The Company has been advised by its Philippine legal counsel, Romulo Mabanta Buenaventura Sayoc & de los Angeles, that a final and conclusive judgment on the merits rendered against the Company and these persons by courts outside the Philippines obtained in an action predicated upon the civil liability provisions of laws other than Philippine laws would be recognised and enforced by the courts in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, provided the following conditions are satisfied, namely: (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) such persons had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of law or fact and (iv) such judgment was not contrary to public policy, law, morals or good customs in the Philippines.

TABLE OF CONTENTS

SUMMARY

The following summary is qualified in its entirety, and is subject to, the more detailed information and the financial information contained or referred to elsewhere in this Offering Circular The meanings of terms not defined in this summary can be found elsewhere in this Offering Circular.

OVERVIEW

Jollibee Foods Corporation and its subsidiaries (collectively, the **Group**) believe it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. It had 2,429 Group-owned and franchised stores outside the Philippines as of the same date. In addition, the Group believes it is among the largest food service companies in Asia in terms of sales and store network as of 30 September 2019. The Group's principal business comprise the development, operation and franchising of stores under the Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Hong Zhuang Yuan, Mang Inasal, Burger King, Highlands Coffee, PHO24, Hard Rock Cafe, Dunkin' Donuts, Smashburger, Panda Express and CBTL brands. The Group is also engaged in the manufacturing of food products, logistics services and property leasing in support of its operations.

As of 30 September 2019, the Group owned and operated 1,267 stores in the Philippines while 2,167 stores were franchised. As of the same date, the Group had a presence outside the Philippines in 36 countries and territories, with 1,363 Group-owned and operated stores and 1,066 franchised stores, including in Brunei, Canada, Hong Kong SAR, Indonesia, India, Italy, Macau SAR, Malaysia, the Middle East (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (**UAE**)), the PRC, Singapore, South Korea, the United Kingdom, the United States and Vietnam.

The Group's stores offer a quality menu with a wide variety of affordable and locally-relevant food and beverages. Its store formats and sales channels offer convenience, accessibility and availability to its consumers. The Group's store formats include free standing/full store, in store/in line, mall and food court. It also employs comprehensive sales channels including dine-in, take-away, drive-thru, kiddie party, bulk order and delivery. The Group believes that store technology initiatives and delivery arrangements are becoming increasingly important aspects of its sales channel and the consumer experience. The technology that the Group has implemented includes, among others, website ordering, mobile ordering, mobile payment, cashless payment and in-store self-service technologies. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, DoorDash and Uber Eats.

SWS is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's SWS were ₱149,142.1 million, ₱171,761.0 million, ₱212,185.4 million (U.S.$4,077.4 million) and ₱171,068.1 million (U.S.$3,287.2 million), respectively. For the same periods, the SWS of the Group's businesses in the Philippines accounted for 81 per cent., 79 per cent., 74 per cent. and 73 per cent., respectively, of the Group's SWS. The SWS of the Group's businesses outside the Philippines represented 19 per cent., 21 per cent., 26 per cent. and 27 per cent., respectively, of the Group's SWS for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019.

Net sales pertains to gross sales less sales discounts. For the years ended 31 December 2016, 2017 and 2018, the Group's net sales were ₱107,924.5 million, ₱124,663.5 million and ₱150,200.8 million (U.S.$2,886.3 million), respectively. Sales in the Philippines accounted for 78.6 per cent., 77.2 per cent. and 72.9 per cent. of net sales for the years ended 31 December 2016, 2017 and 2018, respectively. For the same periods, foreign sales represented 21.4 per cent., 22.8 per cent. and 27.1 per cent., respectively, of net sales. For the nine months ended 30 September 2019, the Group's total net sales was ₱118,247.5 million (U.S.$2,272.2 million), of which 71.4 per cent. and 28.6 per cent. comprised sales in the Philippines and foreign sales, respectively.

For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's net income were ₱6,053.5 million, ₱6,672.6 million, ₱7,771.3 million (U.S.$149.3 million) and ₱3,992.3 million (U.S.$76.7 million), respectively.

As of 31 December 2017 and 2018 and as of 30 September 2019, the Group's total assets were ₱89,783.9 million, ₱113,851.8 million (U.S.$2,187.8 million) and ₱167,225.1 million (U.S.$3,214.0 million), respectively.

COMPETITIVE STRENGTHS

The Group believes that its principal competitive strengths include the following:

Well-recognised, diverse and distinctive brands with an iconic following driving market leadership

The Group has a portfolio of well-recognised brands comprised of its own, acquired or franchised brands in the quick-service and fast casual dining segments. The Group believes that its flagship brand, the Jollibee brand, for example, is the most recognised brand in the Philippines that continues to outperform and outgrow chained restaurant peers in the Philippines. A Carter Claims study has shown that 8 out of 10 respondents voted Jollibee's "Chickenjoy" as the best-tasting fried chicken in the Philippines. Jollibee's iconic following also extends internationally. Jollibee's store openings overseas have been blockbusters seeing massive customer turnouts demonstrating a loyal customer base especially among migrant Filipinos who serves as natural brand ambassadors, thereby also helping the Jollibee brand to get greater global recognition.

Jollibee was founded by Mr. Tony Tan Caktiong and his family with its humble beginnings as an ice cream parlour in 1975 which later grew into an emerging global brand. Since the start, the Group has differentiated itself from competition through its family-oriented approach to management and a passionate commitment towards delivering superior tasting and great value for money products while adhering to world class operating standards.

The Group's values are echoed in its brand marketing. The Jollibee brand knows its target audience very well, which is the traditional family, and the universal importance of family values, making Jollibee the number one family-oriented fast food chain in the Philippines and a fast-growing international QSR player. The Jollibee brand has won in various categories in marketing, advertising and public relations in the recent Asia Pacific Tambuli Awards, Philippine Anvil and Quill Awards, and the IN2 Sabre Awards 2019 Asia Pacific.

In 2013, USA's Restaurant Business Magazine included Jollibee as among the 50 fastest growing chains in the United States. The following year, 2014, Jollibee was listed as among the top ten international fast foods restaurants in the United States by The Daily Meal and was hailed as the best international restaurant chain by the Thrillist, a US-based food and lifestyle website. Thrillist released a 2018 article that named Jollibee as one of the "Top restaurant chains that could take over America". Technomic has included Jollibee for the past few years now as among the 500 leading chains in the United States.

The Group manages a portfolio of 17 brands, 11 of which are owned by the Group. The others are brands that the Group partnered with as a franchisee, namely Burger King, Panda Express, Dunkin Donuts' and Hard Rock Cafe. The Group also expects to enter into franchise agreements to operate stores under the Tim Ho Wan brand in the PRC and under the PHO24 brand in the Philippines. The Group was cited by Business Insider in 2019 as among the top ten global restaurant companies that control more than 50 of the biggest restaurant chains in the world.

The other brands owned by the Group have also been gaining prominence in their respective segments and markets. In 2017, Technomic mentioned the Group's brands back in its list of 25 fastest growing global chains, naming Jollibee, Highlands Coffee, Chowking and Red Ribbon in their list. The Group believes Highlands Coffee was the most recognised and largest coffee chain in Vietnam beating Starbucks in terms of store network as of 30 September 2019. YongHe King in China was the number one Chinese QSR in the China Brand Power Index from 2011 to 2015 as well as in 2018 and 2019. Smashburger was named "America's Most Promising Company" in 2011 by Forbes. In 2014, it again made this list coming in at number six for "America's Most Promising Companies". In 2017, the chain was named as the 9th burger restaurant brand in America by The Harris Poll's annual EquiTrend Study.

The strong recognition of the Group's brands, together with the diversity of its brand portfolio, provides the Group a unique opportunity to access and compete in new markets and fast-growing segments.

Well-established leading market position in the Philippines' fast-growing food service and restaurant industry

The Group believes it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. In 2018, the Group was the largest limited-service restaurant and had a leading market share of more than 50 per cent., and the Jollibee brand was the leading quick service restaurant (**QSR**) and had a market share of more than 30 per cent., based on the Group's in-house tracking. As of the same period, the Group also believes that its Group-owned brands Chowking, Greenwich and Mang Inasal were market leaders, in terms of store network and market share in the Philippines, in their respective segments, namely, Chinese QSR, pizza and pasta and grilled chicken segments. The Group believes that, as of 30 September 2019, Chowking, Greenwich and Mang Inasal held a leading market share of 88.0 per cent., 32.0 per cent. and 93.0 per cent., respectively, in the Chinese QSR, pizza and pasta and grilled chicken segments, respectively. As of the same period, the Group believes that Chowking, Greenwich and Mang Inasal had an estimated total store network of 602 stores, 282 stores and 586 stores, respectively, and were leaders in their respective segments in terms of store network. The Group operates stores as a franchisee under the Burger King brand. In 2016, Burger King Philippines received the 2016 Gold Crown Franchisee of the Year at the Asia Pacific Franchisee Convention in Florida.

The Group believes that its strong market and consumer research and operations teams provide an in-depth understanding of the food service and restaurant industry and extensive consumer insights which, in turn, enables the Group to maintain market leadership and achieve sustainable growth. This established market leadership in the Philippines combined with favourable conditions in the overall Philippine economy provide the Group a highly defensible and strong base for growth in the future. According to the World Bank, gross domestic product in the Philippines is expected to grow between five per cent. to seven per cent. annually due to an increase in the young population and domestic household consumption (resulting from, among others, an increase in disposable income), sustained foreign direct investments, growth in remittances and an increase in Government spending on infrastructure and services. The Group expects increasing affluence among select urban customer base to support its introduction of certain brands such as Burger King and Panda Express.

The Group also believes that its focus on the mass market and low- to mid-income income segments further protects it throughout the economic cycle. The Group expects to benefit from stronger household consumption during economic growth and a switch in spending at higher end fine or casual dining establishments to relatively lower-priced QSR (such as those of the Group's) during economic decline. In addition, the Group's presence in various food service and restaurant segments allows the Group to offer consumers with products that cater to different household budgets or that may have an increased demand at certain stages of the economic cycle. For example, in the burger chain segment, the Group offers lower priced burgers such as the Yumburger under its Jollibee brand and mid-tier to premium priced burgers under its Burger King brand.

The Group believes that it will continue to achieve increased demand for its food products and sustained positive growth as a result of an increase in same store sales growth complemented by the expansion of its store network. From 2014 to 2018, the Group recorded a compound annual growth rate (**CAGR**) of 15.3 per cent. in SWS from same store sales and from new store openings. CAGR refers to the compounded annual growth from the initial year to the final year over a certain period of time. For the nine months ended 30 September 2019, the Group attained positive SWS arising from a 2.2 per cent. growth in SWS from same store sales and a 10.4 per cent. growth in SWS from new store openings. The Group remains resilient and intends to deploy a more effective portfolio strategy to maintain its leadership and capture a broader customer base.

Strong and stable operating cash flows

The Group has historically delivered consistent operating cash flow generation and believes that the consolidated operating cash flow of its businesses is sufficient to fund new store openings and renovations in existing stores. For example, in the PRC, the Group opens new stores using internally generated cash without relying on the Company for funding. The Group's strong cash flows has also enabled it to service debt and maintain a consistent annual dividend payout in recent years.

The Group believes it has strong financial discipline by investing in its food service and franchising businesses and exercising strict capital allocation wherein capital is deployed towards projects that yield the best returns, avoiding real estate purchases and prudent debt management which includes a well-managed debt profile, lower cost of debt and leverage and only incurring debt after utilising excess cash reserves even if interest rates are low. Solid unit economics support investments on new stores and renovations on existing stores. This has enabled a healthy expansion of new stores for both Group-owned and franchised stores. The Group also closely tracks payback period, rate of return, same store sales growth and other metrics to track the performance of expansion projects. Furthermore, the Group has additional sources of cash, such as increasing revenue from its franchising and international operations, as well as revenue from its commissaries which supply raw materials to stores including franchisees.

Best-in-class operational expertise across the value chain

The Group maintains an integrated value chain in the Philippines that enables operating efficiencies and cost savings, allowing the Group to have a scalable support infrastructure, which provides significant competitive advantages for the Group in the Philippines and as it expands overseas.

Stores

The Group's store operating model revolves around its strong focus on its food, customers and operational expertise. Through this operating model, the Group has implemented food, service, and cleanliness standards, which has resulted in superior customer satisfaction and consistency in food taste and quality. See "—*Food Safety and Quality Assurance*".

Manufacturing, supply and distribution

The Group believes it has an unparalleled supply chain that operates the one of the largest commissaries in Asia in terms of production capacity as of 30 September 2019. The Group has an extensive network of manufacturing and logistics operations which comprises 15 manufacturing sites and 20 logistics centres in the Philippines. The Group also has manufacturing sites in the PRC, Vietnam and the United States. The Group has established closing working relationships with key suppliers in the Philippines and overseas. For example, the Group has a joint venture partnership with Cargill, which enables the Group to augment its poultry requirements and harness Cargill's expertise, technology and best practices from poultry farming to meat processing. The Group has received world-class and industry leading quality and safety certifications, including on Good Agricultural Practices, Good Animal Husbandry Practices, Hazards Analysis and Critical Control Points, Good Distribution Practices, Good Warehousing Practices as well as awards/certifications from the National Meat Inspection Service of the Philippines (**NMIS**) and the International Organisation for Standardisation. See "—*Supply and Distribution*".

Franchise management

The Group also believes it has an established and well-managed franchise network and support infrastructure for its franchise business model. For example, for the Jollibee brand, the Group has designated training stores where it conducts product, basic operations and management development training programmes for its franchisees. In addition, it assists franchisees in the training of their management teams. The Group has collaborated with a leading university in the Philippines for the establishment of JFC University to train and develop store management personnel. Most of the store managers of the Group-owned brands in the Philippines have undergone training at JFC University. The Group imposes the highest standards on its franchisees which are documented in the franchise agreement such as strict order completion times and strict observance of food, service and cleanliness standards. In addition, the Group has highly robust and well-established standard operating procedures and guidelines that enable more consistent and easier facilitation of franchising. In 2019, the Group received the Inclusive Business Model and Best in Overall Marketing Campaign awards from the Philippine Franchise Association.

Support infrastructure

The Group, through JWS, has a well-established back and middle office support infrastructure that allows it to take advantage of economies of scale and have cost-efficient and scalable operations globally. JWS provides accounting, cash and banking, human resources, training, quality management, process engineering, network development and business technology (information technology and digital) services to certain of the Group's brands. The Group expects it will continue to expand JWS' scope of services to cover more of its business overseas. As of the date of this Offering Circular, the Group is able to support back office operations for its foreign franchised brands, including PHO24, Panda Express and Burger King.

Management systems

Being a pure-play company focused on restaurants and food service, together with its 40-year history, has enabled the Group to establish robust management systems that revolve around market-relevant and data- and fact-based decision-making combined with strong performance benchmarks. These management systems enable the Group to manage its various businesses at various economic cycles, to be able to identify and maximise opportunities and address challenges of restaurants in their respective stages of development and markets. The Group's business systems comprise the entire restaurant value chain. For example, there is a process relating to, among others, determining and driving a clear brand strategy to guide current and future investments and business decisions; establishing in-depth market and consumer research capability that provides among others, in-house tracking of market share data, usage, attitude and image studies, price sensitivity, brand equity and value for money studies; real estate/network development that provide guidance to market development and strategic expansion; financial performance benchmarks that guide financial planning, analysis and decision making; and restaurant operational excellence standards, which includes a "menu architecture" for each brand to drive product launches, innovations and marketing programmes.

Environmental and social responsibility-rooted strategies

The Group has been developing community-based and socially responsible sourcing programmes through a partnership with its corporate social responsibility arm, the Jollibee Group Foundation. Some of these programmes include sourcing up to 20 per cent. of produce requirements of certain of the Group's restaurants from partner farmers. The Group believes that its various brands were the first, among major global restaurant companies, to embark on environment-friendly and sustainability projects such as utilising reusable plates and utensils in restaurants, shifting from plastic to paper packaging and eliminating plastic straws. In December 2019, the Mr. Jose Ma. A. Miñana, Jr. was appointed as Chief Sustainability and Public Affairs Officer of the Group.

Track record of profitable growth and successful integration of acquisitions

Over the past five years, the Group has recorded a CAGR of 15.3 per cent. and 12.3 per cent. in sales and net profit, respectively, primarily due to consistent same store sales growth, opening of new stores, and successful strategic acquisitions and partnerships. For the period 2005 to 2018, the Group has recorded a CAGR of 14.1 per cent. in total revenues and 13.1 per cent. in net income. For the years ended 31 December 2016, 2017 and 2018, the Group's net income increased year-on-year to ₱6,053.5 million, ₱6,672.6 million, ₱7,771.3 million (U.S.$149.3 million).

The scalability of the Group's proprietary systems and the integrated structure of the Group's back office enable it to continue to lower costs and maintain profitability, even as the Group expands rapidly with the addition of new stores, entry into new markets or launch of new products or brands. For example, the utilisation of the Group's back office services provided by JWS enables the expansion of the Jollibee business to Hong Kong SAR, Italy, London and Singapore to be profitable despite having few stores. The Group believes it is in a good position to make its franchise business with Panda Express profitable in view of its systems and structures. In addition, the strong management systems of the Group ensure that it can sustain and improve profitability of its food, restaurants and back office operations.

The Group has had a track record of scaling up and creating significant value from acquisitions. For example, after the Group completed the respective acquisitions, the Yonghe King business grew from 77 stores in 2004 to over 300 stores in the PRC, the Highlands Coffee business grew from 56 stores in 2011 to over 360 stores, the Mang Inasal business grew from 303 stores in 2010 to over 580 stores and the Chowking business grew from 164 stores in 2000 to over 600 stores, in each case as of 30 September 2019. Mang Inasal's average daily sales improved from less than approximately ₱50,000 per day, per store in 2010 to approximately ₱125,000 per day, per store and Yonghe King's average daily sales improved from approximately RMB10,000 per day, per store to RMB18,000 per day, per store, in each case as of 30 September 2019. In addition to the expansion of the store network, the Yonghe King business also support new sales channel growth such as online delivery. As a result, since the Group took over the Yonghe King brand, the Group has recorded a CAGR of 15.5 per cent. in sales.

As of 30 September 2019, the Group's acquired businesses accounted for more than 50 per cent. of the Group's total SWS. The Group believes it has a strong understanding of relevant industry segments and market dynamics, allowing it to implement growth, integration, or turnaround strategies in a timely manner for its various acquired businesses.

Strong corporate culture and experienced, award-winning management team

The Group was founded by Mr. Tony Tan Caktiong and his family with its inception as an ice cream parlour in 1975 in line with the family's humble vision of serving affordable, great-tasting food and being a family-oriented brand. These values continue to be key aspects of the Group's culture and day-to-day operations. For example, the Group believes its success is a result of, among others, its focus on its people and its family-oriented approach to personnel management and as a result, it is a highly sought-after employer. For example, in 2017, the Group was awarded Company of the Year by Southern California Asian Business League, and in 2019, the Group was recognised by Asian Business Association as Corporation of the Year and by the Provincial Government of Ontario, Canada for its positive impact to the community.

The Group has a professional, visionary and strong management team with extensive food service and restaurant industry experience and a track record of operational excellence that the Group believes is necessary to successfully lead the development and expansion of the its businesses. For example, the senior management team of the Company has an average of 17 years of experience with the Group. The Group believes that its management team is stable and has long-term expertise in the food service and restaurant industry in the Philippines and overseas. Certain members of the Group's management team have received awards for their leadership in the Group. For example, Mr. Tony Tan Caktiong, the Company's chairman, was awarded Global Filipino Executive of the Year by CEO Asia Awards in 2013. Mr. Ysmael Baysa, the Company's chief financial officer, was awarded CFO of the Year by ING-FINEX in 2010 and Best CFO by FinanceAsia in 2014, and was ranked in the top three Best CFO Emerging Markets (Philippines) by Institutional Investor All Asia ex-Japan in 2018.

The various awards received by the Group's brands are also a testament of a strong market research and brand marketing team which have also, over the years, received awards for excellence in advertising, public relations and marketing. The Group has also contracted with reputable human resource agencies to track and help improve employee engagement.

The Group believes that its unique company culture as well as the professionalism and dedication of its management team bring about a passionate commitment to deliver superior-tasting, high quality food and great value for money products adhering to world-class operating standards.

STRATEGIES

The Group's principal strategies for achieving its growth objectives are set out below.

Continue the Group's recipe for success anchored on great-tasting food and superior value for money

The Group offers its customers a wide-ranging choice of food and beverage products under its various brands that it believes are consistently differentiated from the products of its competitors in terms of superior taste, craveability and value for money. The Group plans to further expand and develop its market position, improve margins and increase its customer base by: (i) implementing sustained education and marketing campaigns for its products, (ii) leveraging its expertise and experience from operating its own stores as well as its access to market research to better understand consumer preferences and thus continue offering innovative and value for money products and (iii) continuing to develop its processes and tools and to invest in product research and development to further improve existing and introduce new products in order to meet evolving consumer tastes and enhance overall customer experience. To encourage repeat customers and attract new customers, the Group will continue to replicate its recipe for success that it has tried and tested for its best-selling products such as the iconic ChickenJoy by focusing on taste, affordability, innovation and accessibility of its products.

Maintain market leadership in the fast-growing Philippine market

The Group believes it is the largest food service and restaurant company in the Philippines in terms of store network. It believes it is well-positioned to pursue growth opportunities presented by a Philippine market that features favourable demographics and consumption patterns. According to the World Bank, gross domestic product in the Philippines is expected to grow between five per cent. to seven per cent. annually due to an increase in the young population and domestic household consumption (resulting from, among others, an increase in disposable income), sustained foreign direct investments, growth in remittances and an increase in Government spending on infrastructure and services.

The Group intends to continue to grow its business in the Philippines by: (i) leveraging on its multi-brand portfolio to compete in different price points and restaurant segments including fried and grilled chicken, Chinese food, pizza and pasta, bakery and pastry, mid-tier to premium burgers, Asian noodles and coffee. The Group believes that its products complement each other and that the diversity of its product portfolio will enable it to meet various consumer need states. For example, the Group offers fried and grilled chicken products under the Jollibee and Mang Inasal brands, respectively, to suit different consumer tastes; (ii) expanding its store network strategically; and (iii) scaling up its foreign franchised brands including PHO24 and brands where the Group is a franchisee such as Burger King and Panda Express to capture key untapped segments and thus increase its revenues from its Philippine businesses.

Implement a strategic and profitable expansion in international markets and segment diversification

As of 30 September 2019, the Group had a presence outside the Philippines in 36 countries and territories, with 1,363 Group-owned and operated stores and 1,066 franchised stores. The Group targets to increase the contribution of its international business from 27 per cent. as of 30 September 2019 to 50 per cent. of its total SWS. The Group believes that this will be achieved by increasing its presence and driving faster growth in key identified focus markets through existing brands that are already in those markets or through opportunistic value-accretive acquisitions or partnerships, including franchising.

The Group intends to strengthen its existing brands by focusing its expansion plans on key large restaurant markets such as North America and the PRC. In fast-growing consumer countries and territories in Southeast Asia, such as Vietnam, Indonesia, Singapore and Malaysia, the Group plans to replicate its recipe for success that it has tried and tested for its best-selling products by focusing on taste, affordability, innovation and accessibility of its products. For example, in the case of Highlands Coffee, the Company implemented changes in its management systems that saw improvements such as streamlined menu architecture, optimisation of store network and implementation of food, service and cleanliness standards, resulting in an increase in same store sales, reduction of costs and better scores in food quality, service and guest experience as well as value for money. The Company aims to implement similar strategies for its other acquired brands.

The Jollibee brand has seen impressive market reception overseas first with migrant Filipino communities and then with the mainstream market, including in the United States, Canada, Vietnam, Hong Kong and Singapore. Markets with considerable migrant Filipinos will continue to be the Jollibee brand's target market which will be a strong base of support which the Group will then use as springboard to eventually access the broader mainstream/local market.

Furthermore, the Group aims to increase its franchising revenues from CBTL in Southeast Asia, Smashburger in North America and Jollibee in the Philippines and in select markets, including in Indonesia

By leveraging on the strength of its value chain in the Philippines and its presence in Asia, the Group is continually exploring potential acquisitions of or partnerships with global/western brands that it can bring to and operate in Asia. For instance, in 2018, the Company established a joint venture with Panda Restaurant Group Inc. to bring Panda Express stores to the Philippines and made investments in Tim Ho Wan to open stores in Shanghai. In addition, the Group continually evaluates potential investments in strategic and scalable segments to promote segment diversification in its global businesses.

Enhance operational efficiency and synergies across the Group

The Group seeks to further strengthen its operational excellence culture. The Group also intends to deploy scalable business models pertaining to, among others, its stores, supply chain, franchise management and shared services that will provide a competitive advantage to its brands and business units. The Group believes that it has the organisation, system and tools in place to implement these.

The Group aims to employ best-in-class tools, processes and standards pertaining to food, service and cleanliness (**FSC**), customer satisfaction and quality management at its stores, including focusing on food safety and proactively preparing against any new challengers and disease outbreaks. It also intends to continue to optimise its manufacturing, supply and distribution network by leveraging on its buying synergies, expertise in food manufacturing and continued enhancement of its operations to ensure cost-efficient, reliable and sufficient capacity to support its various businesses. In addition, the Group plans to strengthen its franchise management expertise and continually improve its franchisee support services and systems. The Group will also continue to enhance and expand the scope of the shared services provided by JWS to benefit its brands and franchisee networks in various countries and territories.

The Group has invested and will continue to invest in digital transformation initiatives especially around customer-facing activities. The Group has invested in a dedicated team based in the United States that is focused on digital transformation. The Group plans to partner with third-party digital service providers relating to store technology and delivery arrangements which have become increasingly channels for sales and the consumer experience. The technology that the Group has implemented and will continue to iterate and improve includes, among others, website ordering, mobile ordering, mobile payments, cashless payment, in-store self-service technologies and digital advertising. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, Door Dash and Uber Eats. For example, in the PRC, the partnership by the Group with delivery aggregators enables its businesses to be profitable despite having few stores.

Further strengthen its financial position and exercise prudent financial management supportive of growth

The Group will continue to exercise financial discipline that is supportive of its expansion and growth plans for its businesses. Financial targets for the Group's businesses are set such that revenue growth is broadly achieved through store expansion and healthy, sustainable organic same store sales growth. The Group will continue to drive improvements in its operating profit margins through cost management programmes and innovations in, among others, food and packaging costs as well as store operating expenses and by increasing productivity. It also intends to maintain its capital allocation strategy that deploys capital towards projects or investments that yield the best returns. In particular, the Group intends for its businesses with better returns on new store investments to get a bigger share of capital expenditures. Each of the Group's businesses is required to deliver a composite return on their investments that is higher than the Company's weighted average cost of capital.

The Group believes its debt covenants are set conservatively compared to its global competitors which, as a result, provides the financial flexibility to the Group as needed. The Group will continue to maintain a lower cost of financing which may be achieved from an optimal mix of and flexibility between floating- and fixed-rate debt supported by the Group's strong credit profile. In addition, the Group believes it can maintain a well-managed debt maturity profile and has multicurrency denominated sources of funding through its expanding operations outside of the Philippines.

Build a world-class organisation

The Group believes that building organisation capability will add value to and sustain its business performance and execution of its business plans.

The Group management systems is contained in the JFC Business Systems (**JBS**) programme which the Group developed and which serves as a guide in operations and building capabilities in the businesses and markets where the Group operates. The key systems included in the JBS programme are, among others, the FSC and quality management standards that the Group currently implements across its brands. Marketing capabilities is an area that the Group intends to enhance. As of the date of this Offering Circular, the Group has established a marketing academy and other avenues for its marketing teams to share best practices as well as relevant market and consumer insights. Furthermore, the Group plans to focus on the standardisation and harmonisation of its existing processes, tools and systems, where applicable, to promote and sustain operating efficiencies.

The Group will continue to focus on talent development and retention to realise the full potential of its employees and to promote engagement. The Group will drive synergies, where possible, leveraging on the talent and capabilities established in the Philippines to support its overseas expansion.

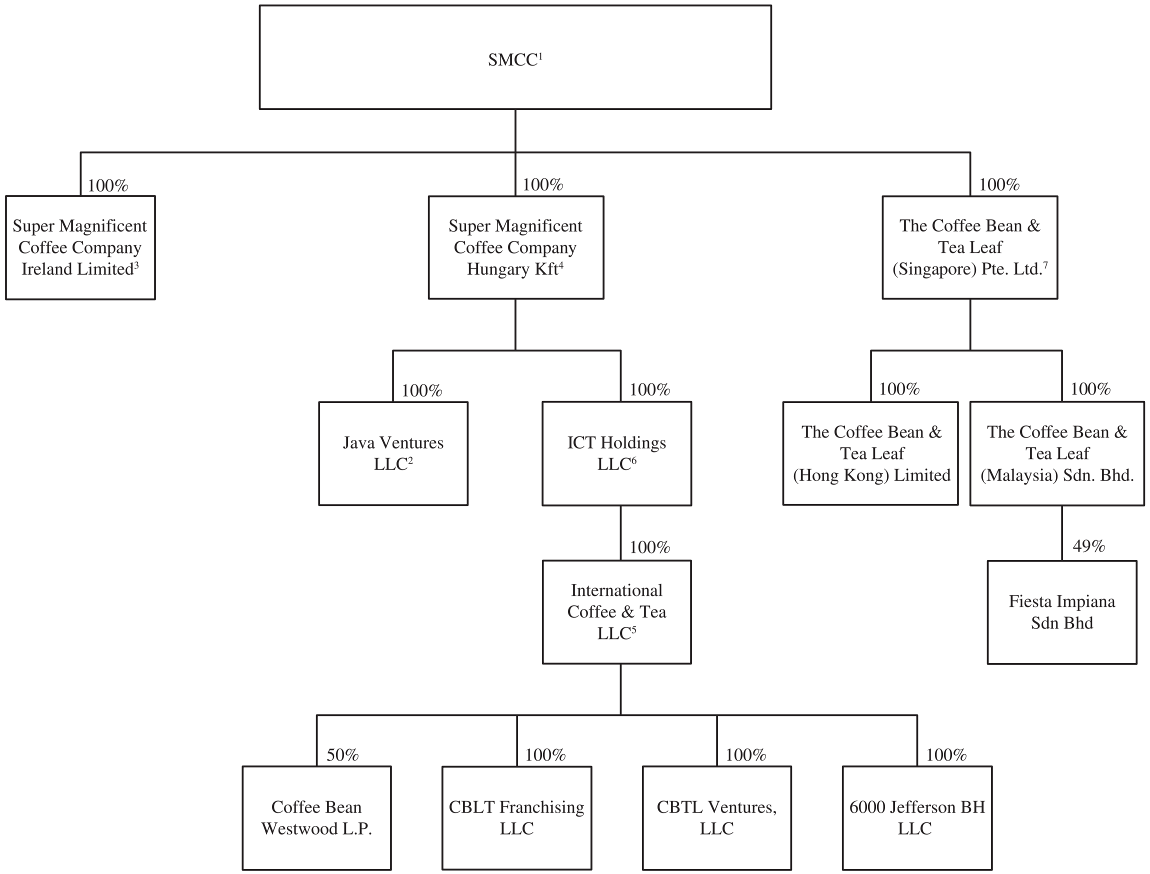
The Group will continue its programmes that promote and ingrain the corporate culture that is set out in the JFC Way. The JFC Way aims to instil the Group's five core values, namely, Customer Focus, Speed with Excellence, Humility to Listen and Learn, Integrity and Spirit of Family and Fun that drives it vision to become one of the top five food service and restaurant company in the world. The Group has partnered and established in-house training programmes at all levels of the organisation from store crew to supply chain and support functions and will continue to implement programmes that create a sense of identity, pride and ways of working in the Group. The Group believes that its in-house training programmes such as the JFC University, a comprehensive programme for store managers, will enable its graduates to support the Group's expanding store network.

RECENT DEVELOPMENTS

Corporate Reorganisation

On 1 October 2019, CBTL's trademark was transferred to Super Magnificent Coffee Company Ireland Limited, a wholly-owned subsidiary of Super Magnificent Coffee Company Pte. Ltd. (**SMCC**). On the same day, the Singapore and Malaysia operations were transferred from International Coffee and Tea, LLC to directly under SMCC. These are part of the long-term plan to optimise profits as CBTL expands internationally.

The chart below provides an overview of the ownership structure of SMCC and its major operating subsidiaries after reorganisation as of 1 October 2019 (unless otherwise stated).



Notes:

1. On 28 June 2019, SMCC was incorporated with the Issuer as sole shareholder.

   On 23 September 2019, Brewheal Pte. Ltd. became a shareholder of SMCC for 20 per cent. with the Issuer as shareholder for the remaining 80 per cent.

   On 24 September 2019, SMCC completed the acquisition of 100 per cent. of The Coffee Bean & Tea Leaf®.

   Restructuring involving SMCC and its subsidiaries took effect on 1 October 2019.

2. On 4 June 2019, Java Ventures LLC was incorporated with the Issuer as sole shareholder.

   On 23 September 2019, Java Ventures LLC became a wholly-owned subsidiary of Super Magnificent Coffee Company Hungary Kft.

3. On 22 August 2019, Super Magnificent Coffee Company Ireland Limited was incorporated.

4. On 11 September 2019, Super Magnificent Coffee Company Hungary Kft. was incorporated. On 1 October 2019, Super Magnificent Coffee Company Hungary Kft. transferred The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. to SMCC.

5. On 24 September 2019, International Coffee & Tea, LLC became a wholly owned subsidiary of Super Magnificent Coffee Company Hungary Kft..

   On 1 October 2019, following the restructuring, the following entities became subsidiaries of International Coffee & Tea LLC: Coffee Bean Westwood L.P., CBTL Franchising LLC, CBTL Ventures, LLC and 6000 Jefferson BH LLC.

6. On 24 September 2019, ICT Holdings LLC was formed and International Coffee & Tea LLC became its subsidiary.

7. On 1 October 2019, The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. was transferred from (a) International Coffee & Tea LLC to Super Magnificent Coffee Company Hungary Kft. and then from (b) Super Magnificent Coffee Company Hungary Kft. to SMCC. Subsidiaries of The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. are: The Coffee Bean & Tea Leaf (Hong Kong) Limited and The Coffee Bean & Tea Leaf (Malaysia) Sdn. Bhd.. The Coffee Bean & Tea Leaf (Malaysia) Sdn. Bhd. owns 49 per cent. of Fiesta Impiana Sdn Bhd.

Additional Investment in Tim Ho Wan

In October 2019, the total maximum fund of Titan Dining LP was increased from SG$100 million to SG$200 million. The Company, through the Issuer, will increase its capital commitment from SG$45 million to SG$120 million which, when completed, will constitute 60 per cent. of the total maximum fund.

Opening of first Panda Express store in the Philippines

On 12 December 2019, the Group opened its first Panda Express store in the Philippines.

SUMMARY FINANCIAL INFORMATION

The summary historical consolidated statement of financial position data as of 31 December 2016, 2017 and 2018 and summary historical consolidated statement of comprehensive income for the years ended 31 December 2016, 2017 and 2018 set forth below have been derived from, and should be read in conjunction with, the audited consolidated financial statements and, including the notes thereto, included elsewhere in this Offering Circular. SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited, has audited the consolidated financial statements in accordance with Philippine Standards on Auditing. The summary historical consolidated statement of financial position data as of 30 September 2019 and as of 31 December 2018 and summary historical consolidated statement of comprehensive income for the nine months ended 30 September 2018 and 2019 have been derived from, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements, which SyCip Gorres Velayo & Co. has reviewed in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". For convenience only, all translations from ₱ to U.S. dollars were made at the rate of ₱52.04 to US$1.00, being the published BSP Closing Rate on 30 September 2019 (the last day in September such Closing Rate was published by BSP).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended 31 December				For the nine months ended 30 September		
	2016[1]	2017[1]	2018[1]		2018[2]	2019[2]	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions, except earnings per share figures)						
	(in ₱) (as restated)	(in ₱) (as restated)	(in ₱)	(in US$)	(in ₱) (as restated)	(in ₱)	(in US$)
Gross sales	108,992.3	126,229.5	153,068.7	2,941.4	110,837.6	120,493.7	2,315.4
Sales discount	(1,067.9)	(1,566.0)	(2,867.8)	(55.1)	(1,978.9)	(2,246.2)	(43.2)
Net sales	107,924.5	124,663.5	150,200.8	2,886.3	108,858.8	118,247.5	2,272.2
Royalty, set-up fees and others	5,887.0	6,913.0	8,475.1	162.9	5,983.9	6,809.1	130.8
PFRS 15 impact on system-wide advertising fees	1,802.1	2,036.5	2,523.5	48.5	1,792.5	2,149.3	41.3
	115,613.5	133,613.1	161,199.4	3,097.6	116,635.1	127,205.9	2,444.4
DIRECT COSTS	94,617.6	109,694.7	133,894.7	2,572.9	96,924.4	106,898.6	2,054.2
GROSS PROFIT	20,996.0	23,918.4	27,304.7	524.7	19,710.7	20,307.3	390.2
EXPENSES							
General and administrative expenses	11,861.4	13,905.8	15,461.5	297.1	10,948.8	13,106.8	251.9
Advertising and promotions	2,669.5	3,342.9	4,027.6	77.4	2,522.2	2,422.2	46.5
	14,530.9	17,248.8	19,489.1	374.5	13,471.0	15,529.0	298.4
INTEREST INCOME (EXPENSE)							
Interest income	286.9	259.6	415.4	8.0	245.7	275.7	5.3
Interest expense	(267.6)	(405.8)	(888.8)	(17.1)	(1,775.8)	(2,302.7)	(44.2)
	19.3	(146.3)	(473.5)	(9.1)	(1,530.1)	(2,027.0)	(39.0)
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES AND ASSOCIATES —Net	(337.1)	(282.6)	(86.8)	(1.7)	(108.4)	36.6	0.7
OTHER INCOME	1,582.9	2,098.8	3,235.2	62.2	1,501.0	2,680.1	51.5
INCOME BEFORE INCOME TAX	7,730.1	8,339.5	10,490.6	201.6	6,102.3	5,468.0	105.1
PROVISION FOR INCOME TAX							
Current	2,334.9	2,310.6	2,822.1	54.2	1,957.6	2,158.4	41.5
Deferred	(658.2)	(643.7)	(102.8)	(2.0)	(613.0)	(682.7)	(13.1)
	1,676.6	1,666.9	2,719.2	52.3	1,344.7	1,475.7	28.4
NET INCOME	6,053.5	6,672.6	7,771.3	149.3	4,757.6	3,992.3	76.7

	For the year ended 31 December				For the nine months ended 30 September		
	2016[1]	2017[1]	2018[1]		2018[2]	2019[2]	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions, except earnings per share figures)						
	(in ₱) (as restated)	(in ₱) (as restated)	(in ₱)	(in US$)	(in ₱) (as restated)	(in ₱)	(in US$)
OTHER COMPREHENSIVE INCOME (LOSS)							
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:							
Translation adjustments of foreign subsidiaries	(137.7)	97.7	667.5	12.8	642.7	(90.1)	(1.7)
Translation adjustments of foreign joint ventures and associates	12.3	269.1	(382.3)	(7.3)	(148.9)	(97.9)	(1.9)
Comprehensive income (loss) on derivative asset (liability)	2.4	45.5	70.9	1.4	131.4	(145.9)	(2.8)
Net unrealised gain on change in fair value of available-for-sale financial assets—net of tax	4.3	2.5	—	—	—	—	—
	(118.8)	414.8	356.1	6.8	625.2	(333.9)	(6.4)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:							
Remeasurement gain (loss) on pension—net of tax	(72.2)	147.0	153.8	3.0	—	—	—
	(191.0)	561.8	509.9	9.8	625.2	(333.9)	(6.4)
TOTAL COMPREHENSIVE INCOME	5,862.5	7,234.4	8,281.2	159.1	5,382.8	3,658.3	70.3
Net income attributable to:							
Equity holders of the Parent Company	6,164.7	7,109.1	8,329.9	160.1	5,157.3	4,108.4	78.9
Non-controlling interests	(111.2)	(436.5)	(558.5)	(10.7)	(399.6)	(116.1)	(2.2)
	6,053.5	6,672.6	7,771.3	149.3	4,757.6	3,992.3	76.7
Earnings per share for net income attributable to equity holders of the Parent Company							
Basic	5.747	6.580	7.663	0.1	4.746	3.761	0.1
Diluted	5.643	6.494	7.550	0.1	4.670	3.715	0.1

1 The Guarantor and its subsidiaries adopted PFRS 9 using modified retrospective approach of adoption with the initial date of application of 1 January 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended 31 December 2017 and 2016 are based on PAS 39, *Financial Instruments: Recognition and Measurement* (superseded by PFRS 9). The comparative financial information for accounts affected by the adoption of PFRS 9 may not be comparable to the audited information presented for 2018. The Guarantor and its subsidiaries adopted PFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method of adoption with the initial date of application of 1 January 2018. Amounts presented in the audited consolidated financial statements as of 31 December 2017 and for the years ended 31 December 2017 and 2016 were adjusted as if PFRS 15 had always been applied. The consolidated statement of financial position as of 31 December 2016 was not presented as comparative in the 2018 audited consolidated financial statements and was extracted from the audited 2017 annual consolidated financial statements. PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. Please refer to Note 2 of the Group's audited consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 9 and PFRS 15.

2 The Guarantor and its subsidiaries adopted PFRS 16, *Leases* using the full retrospective approach of adoption with the initial date of application of 1 January 2019. Amounts presented in the unaudited interim consolidated statement of financial position and unaudited interim consolidated statement of comprehensive income as of 31 December 2018 and for the nine months ended 30 September 2018 were adjusted as if PFRS 16 had always been applied. Please refer to Note 2 of the Group's unaudited interim condensed consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 16.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of 31 December			
	2016[1]	2017[1]	2018[1]	
	(Audited)	(Audited)	(Audited)	(Unaudited)
	(in millions)			
	(in ₱)	(in ₱)	(in ₱)	(in US$)
ASSETS				
Current assets				
Cash and cash equivalents	16,733.3	21,107.5	23,285.9	447.5
Short-term investments	726.0	1,413.4	883.2	17.0
Receivables and contract assets	—	3,941.1	4,862.7	93.4
Receivables	3,376.7	—	—	—
Inventories	5,987.3	6,835.5	8,812.2	169.3
Other current assets	3,545.3	4,031.5	4,894.2	94.0
Total current assets	30,368.7	37,328.9	42,738.2	821.3
Non-current assets				
Financial assets at fair value through profit or loss		—	39.8	0.8
Available-for-sale financial assets	26.2	29.9	—	—
Interests in and advances to joint ventures, co-venturers and associates	9,873.3	7,492.8	3,512.2	67.5
Property, plant and equipment	16,655.6	20,893.8	26,694.0	513.0
Investment properties	983.4	849.0	849.0	16.3
Trademarks, goodwill and other intangible assets	9,086.7	15,730.2	31,830.1	611.6
Operating lease receivables	26.0	28.0	31.6	0.6
Derivative asset	78.3	11.9	82.9	1.6
Deferred tax assets—net	2,585.5	3,908.8	4,323.0	83.1
Other non-current assets	3,044.6	3,510.5	3,751.0	72.1
Total non-current assets	42,359.6	52,455.0	71,113.6	1,366.5
Total assets	72,728.4	89,783.9	113,851.8	2,187.8
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables and other current liabilities and contract liabilities	—	25,254.6	28,716.8	551.8
Trade payables and other current liabilities	21,960.6	—	—	—
Income tax payable	309.3	223.8	263.5	5.1
Current portion of:				
Long-term debt	1,561.5	1,216.2	4,892.1	94.0
Operating lease payables	—	252.2	300.9	5.8
Liability for acquisition of a business	—	—	11.2	0.2
Total current liabilities	23,831.4	26,946.8	34,184.5	656.9
Non-current liabilities				
Non-current portion of:				
Long-term debt	10,593.9	14,901.1	21,372.3	410.7
Liability for acquisition of a business	—	—	2.9	0.1
Pension liability	1,658.2	1,489.5	1,320.6	25.4
Operating lease payables—net of current portion	1,792.9	1,799.3	2,716.0	52.2
Derivative liability	33.5	51.0	—	—
Provisions	30.5	825.1	825.1	15.9
Deferred tax liabilities—net	506.6	1,189.0	3,512.3	67.5
Total non-current liabilities	14,615.5	20,255.1	29,749.1	571.7
Total liabilities	38,446.9	47,201.9	63,933.7	1,228.5
Equity attributable to equity holders of the Parent Company				
Capital stock—net of subscription receivable	1,074.1	1,084.5	1,088.0	20.9
Additional paid-in capital	5,660.1	7,520.4	8,638.4	166.0
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	(20.8)	340.4	589.5	11.3
Remeasurement loss on net defined benefit plan—net of tax	(608.8)	(461.8)	(308.0)	(5.9)
Unrealised gain on change in fair value of available-for-sale financial assets	4.3	6.8	—	—
Comprehensive income on derivative liability	(33.5)	11.9	82.9	1.6
Excess of cost over the carrying value of non-controlling interests acquired	(2,152.2)	(2,152.2)	(1,804.8)	(34.7)
Retained earnings:				
Appropriated for future expansion	18,200.0	18,200.0	20,000.0	384.3
Unappropriated	11,659.5	16,413.1	20,258.0	389.3
	33,782.7	40,963.1	48,544.1	932.8
Less cost of common stock held in treasury	180.5	180.5	180.5	3.5
	33,602.2	40,782.6	48,363.6	929.4
Non-controlling interests	679.2	1,799.3	1,554.6	29.9
Total equity	34,281.4	42,582.0	49,918.2	959.2
Total liabilities and equity	72,728.4	89,783.9	113,851.8	2,187.8

	As of 31 December		As of 30 September	
	2018[2]		2019[2]	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in ₱) (as restated)	(in millions) (in US$)	(in millions) (in ₱)	(in US$)
ASSETS				
Current assets				
Cash and cash equivalents	23,285.9	447.5	23,570.9	452.9
Short-term investments	883.2	17.0	433.9	8.3
Receivables and contract assets	4,862.7	93.4	4,703.4	90.4
Inventories	8,812.2	169.3	9,569.3	183.9
Other current assets	4,902.6	94.2	6,529.3	125.5
Total current assets	42,746.6	821.4	44,806.8	861.0
Non-current assets				
Financial assets at fair value through profit or loss	39.8	0.8	39.8	0.8
Interests in and advances to joint ventures, co-venturers and associates	3,512.2	67.5	4,647.2	89.3
Property, plant and equipment	26,535.4	509.9	29,933.2	575.2
Right-of-use assets	32,406.7	622.7	28,465.7	547.0
Investment properties	849.0	16.3	849.0	16.3
Trademarks, goodwill and other intangible assets	31,512.6	605.5	50,166.2	964.0
Operating lease receivables	31.6	0.6	32.3	0.6
Derivative asset	82.9	1.6	—	—
Deferred tax assets—net	3,746.1	72.0	4,306.1	82.7
Other non-current assets	3,751.0	72.1	4,008.7	77.0
Total non-current assets	102,467.4	1,969.0	122,448.3	2,353.0
Total assets	145,214.0	2,790.4	167,255.1	3,214.0
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables and other current liabilities and contract liabilities	28,650.1	550.5	30,840.5	592.6
Income tax payable	263.5	5.1	181.6	3.5
Short-term debt	—	—	22,027.8	423.3
Current portion of:				
Lease liabilities	825.6	15.9	1,277.1	24.5
Long-term debt	4,892.1	94.0	2,838.0	54.5
Liability for acquisition of a business	11.2	0.2	5.7	0.1
Total current liabilities	34,642.4	665.7	57,170.6	1,098.6
Non-current liabilities				
Non-current portion of:				
Long-term debt	21,372.3	410.7	20,368.3	391.4
Liability for acquisition of a business	2.9	0.1	—	
Pension liability	1,320.6	25.4	1,579.9	30.4
Lease liability—net of current portion	34,875.0	670.2	31,227.0	600.1
Derivative liability	—	—	63.1	1.2
Provisions	825.1	15.9	825.1	15.9
Deferred tax liabilities—net	3,706.2	71.2	4,452.9	85.6
Total non-current liabilities	62,102.0	1,193.4	58,516.2	1,124.4
Total liabilities	96,744.5	1,859.0	115,686.8	2,223.0
Equity attributable to equity holders of the Guarantor				
Capital stock—net of subscription receivable	1,088.0	20.9	1,092.8	21.0
Additional paid-in capital	8,638.4	166.0	9,415.3	180.9
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	559.2	10.7	368.7	7.1
Remeasurement loss on net defined benefit plan—net of tax	(308.0)	(5.9)	(308.0)	(5.9)
Comprehensive income (loss) on derivative liability	82.9	1.6	(63.1)	(1.2)
Excess of cost over the carrying value of non-controlling interests acquired	(1,804.8)	(34.7)	(1,804.8)	(34.7)
Retained earnings:				
Appropriated for future expansion	20,000.0	384.3	20,000.0	384.3
Unappropriated	18,828.8	361.8	21,596.0	415.0
	47,084.6	904.8	50,296.9	966.5
Less cost of common stock held in treasury	180.5	3.5	180.5	3.5
	46,904.0	901.3	50,116.4	963.0
Non-controlling interests	1,565.5	30.1	1,451.9	27.9
Total equity	48,469.5	931.4	51,568.3	990.9
Total liabilities and equity	145,214.0	2,790.4	167,255.1	3,214.0

1 The Guarantor and its subsidiaries adopted PFRS 9 using modified retrospective approach of adoption with the initial date of application of 1 January 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended 31 December 2017 and 2016 are based on PAS 39, *Financial Instruments: Recognition and Measurement* (superseded by PFRS 9). The comparative financial information for accounts affected by the adoption of PFRS 9 may not be comparable to the information presented for 2018. The Guarantor and its subsidiaries adopted PFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method of adoption with the initial date of application of 1 January 2018. Amounts presented in the audited consolidated financial statements as of 31 December 2017 and for the years ended 31 December 2017 and 2016 were adjusted as if PFRS 15 had always been applied. The consolidated statement of financial position as of 31 December 2016 was not presented as comparative in the 2018 annual consolidated financial statements and was extracted from the audited 2017 annual consolidated financial statements. PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. Please refer to Note 2 of the Group's audited consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 9 and PFRS 15.

2 The Guarantor and its subsidiaries adopted PFRS 16, *Leases* using the full retrospective approach of adoption with the initial date of application of 1 January 2019. Amounts presented in the unaudited interim consolidated statement of financial position and unaudited interim consolidated statement of comprehensive income as of 31 December 2018 and for the nine months ended 30 September 2018 were adjusted as if PFRS 16 had always been applied. Please refer to Note 2 of the Group's unaudited interim condensed consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 16.

ADDITIONAL FINANCIAL DATA

The table below sets forth additional financial information for the periods indicated:

	For the year ended 31 December				For the nine months ended 30 September		
	2016	2017	2018[1]		2018	2019[2]	
			(Unaudited)				
	(in millions, except where otherwise indicated)						
	(in ₱)	(in ₱)	(in ₱)	(in US$)	(in ₱)	(in ₱)	(in US$)
System wide sales[(1)]	149,142.1	171,761.0	212,185.4	4,077.4	153,179.4	171,068.1	3,287.2
Same store sales growth[(2)]	7.1 per cent.	6.1 per cent.	6.2 per cent.	—	—	2.2 per cent.	—
EBITDA[(3)]	11,706.6	13,231.0	16,873.8	324.2	16,859.5	16,275.7	312.8
EBITDA margin[(4)]	10.1 per cent.	9.9 per cent.	10.5 per cent.	—	14.5 per cent.	12.8 per cent.	—

(1) System wide sales is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. While the Group does not record franchised store sales as revenues, royalty fees of the Group are based on a percentage of franchised store sales.

(2) Same store sales growth refers to food sales (gross of discount and net of returns and taxes) of Group-owned and franchised stores that have been in operation for at least 15 months. It excludes sales from new store openings.

(3) EBITDA is calculated as earnings before interest, taxes, depreciation and amortisation. Earnings is equivalent to "net income" in the audited and unaudited consolidated financial statements included in this Offering Circular.

The table below sets forth the reconciliation of EBITDA to net income for the periods indicated.

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
			(Unaudited)		
			(in millions)		
EBITDA RECONCILIATION					
Net Income	6,053.5	6,672.6	7,771.3	4,757.6	3,992.3
Add (deduct):					
Income tax	1,676.6	1,666.9	2,719.2	1,344.7	1,475.7
Interest—net	(19.3)	146.3	473.5	1,530.1	2,027.0
Depreciation and amortisation	3,995.8	4,745.2	5,909.8	9,227.1	8,780.7
EBITDA	11,706.6	13,231.0	16,873.8	16,859.5	16,275.7

(4) EBITDA margin is calculated as EBITDA divided by total revenues.

The table below sets forth the reconciliation of EBITDA margin for the periods indicated.

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
			(Unaudited)		
			(in millions)		
EBITDA MARGIN RECONCILIATION					
EBITDA	11,706.6	13,231.0	16,873.8	16,859.5	16,275.7
Divide by:					
Total Revenues	115,613.5	133,613.1	161,199.4	116,635.1	127,205.9
EBITDA Margin	10.1 per cent.	9.9 per cent.	10.5 per cent.	14.5 per cent.	12.8 per cent.

SUMMARY OF OFFER

The following is a brief summary of the terms of the offering of the Securities and is qualified in its entirety by the remainder of this Offering Circular. For a more complete description of the Terms and Conditions of the Securities, see "Terms and Conditions of the Securities" *and* "The Global Certificate". *Some of the terms described below are subject to important limitations and exceptions. Defined terms used in this summary shall have the meanings given to them in* "Terms and Conditions of the Securities" *and* "The Global Certificate".

Issuer . . . . Jollibee Worldwide Pte. Ltd.

Guarantor . . . . Jollibee Foods Corporation.

Guarantee . . . . The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities (the **Securities Guarantee**).

Issue . . . . U.S.$600 million Guaranteed Senior Perpetual Securities.

Issue Price . . . . 100.00 per cent.

Expected Issue Date . . . . 23 January 2020.

Joint Global Coordinators . . . . Citigroup Global Markets Singapore Pte. Ltd. and J.P. Morgan (S.E.A.) Limited.

Joint Lead Managers and Joint Bookrunners . . . . Citigroup Global Markets Singapore Pte. Ltd., Credit Suisse (Singapore) Limited, J.P. Morgan (S.E.A.) Limited and Mizuho Securities (Singapore) Pte. Ltd.

Form and Denomination . . . . The Securities will be issued in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.

Distributions . . . . Subject to Condition 4.4 (*Increase in Rate of Distribution*) and Condition 4.5 (*Optional Deferral of Distributions*), the Securities will confer a right to receive distributions (**Distributions**):

(a) from the period commencing on (and including) the Issue Date to (but excluding) 23 January 2025 (the **Step Up Date**), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Issuer and the Securityholders (in accordance with Condition 12)),

payable semi-annually in arrear on 23 January and 23 July of each year (each a **Distribution Payment Date**) commencing on 23 July 2020.

Reset Date means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

Increase in Rate of Distribution . . . . . . Following the earlier to occur of:

(a) the date which is the 61st day, or if such day is not a Business Day the first Business Day thereafter, following a Change of Control Event; and

(b) the date on which an Indebtedness Default Event occurs,

and the Issuer does not elect to redeem the Securities pursuant to Condition 5.4(a) or 5.4(b), the Rate of Distribution will increase by 2.5 per cent. per annum (the **Step Up Margin**) with effect from the next Distribution Payment Date (or, if the relevant event occurs two Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date provided that the maximum aggregate increase in the Rate of Distribution pursuant to Condition 4.4 shall be the Step Up Margin).

A **Change of Control Event** means the occurrence of any of the following events: (i) any Person, individually, or group of related Persons, acting together, other than the Permitted Holders, directly or indirectly acquiring control of the Guarantor; (ii) the Guarantor ceasing to own, directly or indirectly, at least 50 per cent. of the outstanding Voting Stock of the Issuer, or (iii) the Guarantor consolidates with or merges into or sells or transfers substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Guarantor or the successor entity. For purposes of this definition, control, as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

Indebtedness Default Event means the occurrence of one or more of the following events (and such event is continuing): (i) any Indebtedness of the Issuer, the Guarantor or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or (iii) the Issuer, the Guarantor or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Indebtedness within any originally applicable grace period; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$45 million (or its equivalent in any other currency or currencies).

Optional Deferral of Distributions . . . The Issuer or the Guarantor may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the **Deferral Election Event**). Any such deferred Distribution will constitute **Arrears of Distribution** and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the principal amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

Restrictions in case of Deferral . . . . . . If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, neither the Issuer nor the Guarantor shall:

(a) declare or pay any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is made on its Junior Securities or (except on a *pro-rata* basis) its Parity Securities other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer and/or the Guarantor; or

(b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration its Junior Securities or (except on a pro-rata basis) its Parity Securities,

unless and until (i) the Issuer or the Guarantor has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer or the Guarantor is permitted to do so with the consent of the Securityholders holding more than 50 per cent. in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Guarantor to declare and pay dividends, advance loans or otherwise make payments to the Guarantor.

Payment of Arrears of Distributions .... The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of not less than five Business Days' prior notice to Securityholders (in accordance with Condition 12.1) and to the Trustee and the Principal Paying Agent in writing. If not paid earlier, Arrears of Distribution will become due and payable, and the Issuer must pay such Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a *pro rata* basis between the Securityholders.

Status of the Securities .... The Securities will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, past and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Status of the Guarantee .... The Guarantor has unconditionally and irrevocably agreed on an unsubordinated basis the payment of principal of and Distributions on the Securities and all other moneys payable by the Issuer under or pursuant to the Trust Deed.

The claims of the Securityholders in respect of the Securities Guarantee, including in respect of any claim to Arrears of Distribution, will, in the event of the Winding-Up of the Guarantor (subject to and to the extent permitted by applicable law), rank pari passu with each other and with all unsubordinated obligations of the Guarantor.

Use of Proceeds .... The proceeds from the issue of the Securities, which are U.S.$600 million (without deduction of commissions or expenses), are intended primarily to refinance the short-term debt from the acquisition of CBTL as well as fund initiatives aligned with the Issuer's general corporate purposes.

Redemption .... The Securities are perpetual securities in respect of which there is no fixed redemption date.

Redemption at the option of the Issuer . . . . Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

(a) the Step Up Date; or

(b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

Redemption due to a Gross-up Event . . . . If the Issuer or the Guarantor satisfies the Trustee that a Gross up Event has occurred, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

Gross-up Event means that as a result of any change in, or amendment to, the laws or treaties (or any rules or regulations thereunder) of any Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, treaties or rules or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date, (i) the Issuer (or, if the Guarantor was called, the Guarantor) has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 at a rate greater than the applicable withholding tax rate on the Issue Date; and (ii) the payment obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor, taking reasonable measures available to it.

Redemption due to a Change of Control . . . . If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

Redemption due to an Indebtedness Default Event . . . . If an Indebtedness Default Event occurs, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

Redemption due to an Accounting Event . . . . If an Accounting Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing. An **Accounting Event** means that an opinion of a recognised accountancy firm of international standing or a member

	firm thereof has been delivered to (i) the Issuer or the Guarantor and (ii) the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Guarantor prepared in accordance with PFRS or other recognised accounting standards that the Guarantor has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it.
Redemption due to a Tax Event	If a Tax Event occurs, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.
	A **Tax Event** means that the Issuer and/or the Guarantor receives an opinion from an internationally recognised law firm, accounting firm, or practitioner experienced in taxation that, due to a change in law, rule, regulation or official interpretation, there is more than an insubstantial risk that the Issuer will no longer be able to obtain a deduction for the purposes of corporations tax of the Relevant Jurisdiction for any payment of interest in respect of any distribution under the Securities.
Listing and Trading	Application will be made with the SGX-ST for the listing and quotation of the Securities on the SGX-ST. The Securities will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies) for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require.
	So long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate representing the Securities is exchanged for definitive certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
ISIN	XS2099563228.
Common Code	209956322.
CFI	DBFNPR.
FSIN	JOLLIBEE WORLDW/EUR NT PERP RESTN.
LEI	Issuer: LEI: 213800FIP2SRT2BTBR79.
	Guarantor: LEI: 2138009XN3KTAAKUPR35.
Governing Law	English law.
Selling Restrictions	The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. See "*Subscription and Sale*".
Trustee	Citicorp International Limited.
Paying Agent, Registrar and Transfer Agent	Citibank, N.A., London Branch.

Further Issues	The Issuer may from time to time, without the consent of the Securityholders, create and issue further securities having the same terms and conditions as the Securities in all material respects (or in all respects except for the first payment of distributions on them) so as to be consolidated and form a single series with the Securities.
Risk Factors	For a discussion of certain risk factors that should be considered in evaluating an investment in the Securities, see "*Risk Factors*".

RISK FACTORS

An investment in the Securities involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may, at their own cost, request publicly available information on the Guarantor from the Philippine Securities and Exchange Commission (the ***Philippine SEC****). Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.*

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Offering Circular, including the audited consolidated financial statements of the Group and notes relating thereto included in this Offering Circular, before making any investment decision relating to the Securities. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to the Guarantor or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition and prospects of the Guarantor and prospective investors may lose all or part of their investment.

RISKS RELATING TO THE GROUP

The Group operates in a highly competitive industry, and its business and financial results may be adversely affected by the actions of its competitors and its failure to respond to competitive pressures.

The food service and restaurant industry in the Philippines and other countries where the Group has operations is highly competitive. The Group competes with other well-established international restaurant chains and franchises, as well as other regional and local restaurants on the basis of product choice, quality, affordability, service, location as well as the nature and condition of the stores in the Group's network.

This industry has few barriers to entry for opening one or numerous points of sale and therefore new competitors may emerge at any time. The Group may lose market share to well-established companies such as McDonald's, YUM! Brands, Inc. (which owns the KFC, Pizza Hut and Taco Bell brands) and Restaurant Brands International Inc. (which owns the Tim Hortons®, Burger King® and Popeyes® brands). Particularly in the Philippines, other international and national restaurant chains such as McDonald's, KFC, Shakey's, Pizza Hut, Wendy's and Max's Group may also take market share as they expand in the Philippines, and new emerging restaurant chains may scale up or enter the market. The Group also competes with restaurants that focus on fried chicken, sandwiches, burgers, pizza, grilled chicken, baked goods (including pastries), coffee and tea, or offer alternative menus. Lastly, the Group also competes with certain segments of the food industry, such as convenience stores and prepared food counters in grocery stores.

The Group's ability to compete depends on its ability to maintain a high standard in the taste and quality of its food, efficient service and price-value relationship, and to expand its store network, develop and roll-out new products and product line extensions, effectively respond to consumer preferences, manage the complexity of its store operations and franchisee network as well as the impact of its competitors' actions, and maintain its customer's perception of the quality and value of its products.

In addition to competing for customers, the Group also competes for franchisees, management personnel and employees. The Group's competitors may be able to offer greater resources and benefits to their franchisees (for example, in terms of lower franchise royalties, advertising programmes, greater training and more extensive franchise support), as well as better salaries, compensation and benefits to their management personnel and employees, all of which may enable them to attract and retain franchisees, management personnel and employees more effectively than the Group. The market for suitable store locations is also highly competitive and food service and restaurant companies, restaurant chains and other retail companies compete for prime real estate sites. As a result of their size advantage, higher levels of consumer awareness for their brands and/or their greater financial resources, some of the Group's competitors may have the ability to negotiate more favourable commercial lease terms than the Group can and some landlords and developers may offer priority or grant exclusivity to some of the Group's competitors for desirable locations. As a result, the Group may not be able to obtain leases for new stores or renew leases for existing stores on acceptable terms, if at all, which could adversely affect the Group's business, results of operations and financial condition. Furthermore, to the extent that one of the Group's existing or future competitors offers items that are better priced or more appealing to consumer tastes, increases the number of restaurants it operates in one of the Group's key markets, rebrands its restaurant portfolio to better enhance the restaurant experience or has more effective advertising and marketing programmes than the Group, the Group's revenue and those of the Group's franchisees could be adversely affected. If the Group is unable to maintain its competitive position, the Group could experience downward pressure on prices, lower demand for the Group's products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, which could have a material adverse effect on the Group's business, results of operations and financial condition.

If the Group does not successfully evolve and execute its business strategies, it may not be able to increase operating income.

To drive operating income growth, the Group's business strategies must be effective in maintaining and strengthening customer appeal, delivering sustainable customer count growth, increasing system wide sales (**SWS**) and expanding the Group's operations. Whether these strategies are successful depends mainly on the Group's ability to:

- anticipate and address changing consumer preferences;
- acquire, retain, regain and/or convert customers through the Group's pricing, promotional and marketing activities as well as its ability to maximise the price-value equation of its products;
- continue to innovate and differentiate the Group's experience by preparing and serving the Group's food in a way that balances quality, value and convenience to its customers with profitability;
- capitalise on the Group's various brands in the international and local market presence to enhance its ability to retain, regain and convert key customer groups;
- identify and develop store sites consistent with the Group's growth plans;
- operate stores with high service levels and optimal capacity while managing the increasing complexity of the Group's store operations and create efficiencies through innovative use of technology; and
- identify and assess investment and acquisition opportunities as well as potential strategic joint venture partners, and to successfully finance, close and integrate such investments and acquisitions growth opportunities, investments and partnerships.

As part of its business strategy, the Group has conducted and expects to continue to carry out acquisitions of varying sizes. For example, in April 2018, the Group increased its equity interest in Smashburger from 40 per cent. to 85 per cent. and in December 2018, the Group further increased such equity interest to 100 per cent. Furthermore, in September 2019, the Group acquired an 80 per cent. equity interest in The Coffee Bean & Tea Leaf® **(CBTL)** and in October 2019, the Group further increased its investment in the private equity fund Titan Dining LP (which is the master franchise holder in Asia Pacific for the Tim Ho Wan brand). These acquisitions involve numerous risks, including, without limitation, the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (ii) the Group may not integrate acquired businesses, technologies, products, personnel, and operations promptly and effectively; (iii) the Group may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Group may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavourable terms; and (v) the Group may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialise within the time periods or to the extent anticipated, or have a material adverse effect on the Group's financial condition.

Furthermore, the Group has a significant network of Group-owned stores and, as part of its business strategy, will continue to open new Group-owned stores in the future which may not realise short or long term gains, or may have a material adverse effect on the Group's financial condition.

If the Group is delayed or unsuccessful in executing its business strategies, or if the Group's business strategies do not yield the desired results, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group's franchise business model presents a number of risks.

As the Group's business model has evolved and will continue to evolve to a more heavily franchised structure, its success relies to large degree on the financial success and cooperation of its franchisees. As of 30 September 2019, the Group's global store network comprised 5,863 Group-owned and franchised stores, of which 3,233 are franchised stores. The Group has existing franchise agreements with franchisees for the latter to operate stores under the Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Hong Zhuang Yuan, Mang Inasal, Highlands Coffee, PHO24, Smashburger and CBTL brands. For each brand, the Group enters into a franchise agreement with a standard set of terms and conditions. The franchise agreement provides the franchisee the right to own and operate a store on a site approved by the Group and to utilise the Group's system in connection with the operation of the store. Franchisees pay set-up fees, monthly royalty fees equivalent to a certain percentage of the franchisees' net sales and service fees for various services, including repairs and maintenance services, rendered by the Group's personnel. The Group's franchisees manage their businesses independently, and therefore are responsible for the day-to-day operation of their stores. Business risks affecting the Group's operations also affect its franchisees. If the Group's franchisees do not experience sales growth, royalty fees and other payments due to the Group and, in turn, the Group's revenue and margins could be negatively affected. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, store closures, or delayed or reduced payments to the Group.

The Group's success also relies on the willingness and ability of its independent franchisees to implement major initiatives, which may include financial investment, and to remain aligned with the Group on operating, promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of the Group's plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of the Group's franchisees or the Group or by banks' lending practices. If the Group's franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, the Group's future growth and results of operations could be adversely affected.

The Group's operating performance could also be negatively affected if its franchisees experience food safety or other operational problems or project an image inconsistent with the Group's brand and values, particularly if its contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If the Group's franchisees do not successfully operate stores and deliver products and services in a manner consistent with the Group's required standards and processes, the Group's and its brands' image and reputation could be harmed, which in turn could have a material adverse effect on the Group's SWS and business and operating results.

The ability of the Group to expand through franchising is also dependent on the Group's ability to find and select new franchisees into its international network. The Group's future prospects depend on (i) its ability to attract new franchisees for each of its brands that meet the Group's criteria and (ii) the willingness and ability of franchisees to open stores in existing and new markets. There can be no assurance that the Group will be able to identify franchisees that meet the Group's criteria, or if the Group successfully identifies such franchisees, that such franchisees will successfully implement their expansion plans.

The decision to own stores or to operate under franchise agreements is driven by many factors whose interrelationship is complex. The benefits of the Group's more heavily franchised structure depend on various factors including whether the Group has effectively selected franchisees that meet its rigorous standards, whether the Group is able to successfully integrate them into its structure and whether their performance and the resulting mix of stores support the Group's brand and financial objectives.

The Group may not achieve its target development goals, aggressive development could cannibalise existing sales and new stores may not be profitable.

The Group's growth strategy depends on its ability to increase the number of stores in its global store network. The successful development of new stores depends in large part on the ability of the Group and the Group's franchisees to open new stores and to operate these stores profitably. There is no assurance that the Group will be able to achieve its expansion goals or that new stores will be operated profitably. Further, there is no assurance that any new store will produce operating results similar to those of the Group's existing stores. Other risks that could impact the Group's ability to increase the number of stores in its global store network include prevailing economic conditions and trade or economic sanctions and the Group's or the Group's franchisees' ability to obtain suitable store locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified management teams and store crews, and meet construction schedules.

Expansion into target markets could also be affected by the willingness of the Group's franchisees to invest capital or ability to obtain financing to construct and open new stores. If it becomes more difficult or more expensive for the Group's franchisees to obtain financing to develop new stores, or if the perceived return on invested capital is not sufficiently attractive, the expected growth of the Group's store network could slow and the Group's future revenues and operating cash flows could be adversely impacted.

In addition, the development of new stores could impact the sales of the Group's existing stores nearby. There can be no assurance that sales cannibalisation will not occur or become more significant in the future as the Group increases its presence in existing markets.

The Group may not be able to adequately influence the operations of its associate companies and joint venture companies.

The Group derives some of its income from associate companies and joint venture companies, which have incurred a net loss in recent years. The Group does not have majority voting control of its associate companies and certain of its joint venture companies and, therefore, may not be able to direct the operations of these entities. As a result, cooperation among its partners or consensus with other shareholders in these entities is crucial to these businesses' sound operation and financial success. Disagreements with these partners or other shareholders over business strategy and direction may lead to a material impact on the Group's results of operations.

The Group has experienced rapid growth in recent years. The failure to successfully manage this or any future growth may adversely affect the Group's results of operations.

The Group's business has grown significantly in recent years, largely due to the sustained strong performance of its existing stores and the opening of new stores in existing and new markets within the Philippines and other countries and territories. As of 30 September 2019, the Group's global store network comprised 5,863 Group-owned and franchised stores.

The Group's growth is, to a certain extent, dependent on new store openings. There are many obstacles to opening new stores, including determining the availability of desirable locations, securing reliable suppliers, training new personnel and negotiating acceptable lease terms, and, in times of adverse economic conditions, franchisees may be more reluctant to provide the investment required to open new stores and may have difficulty obtaining sufficient financing. Furthermore, there can be no assurance that the Group will not experience material difficulties or failures in obtaining the necessary permits, licences or approvals for opening new stores, which could delay the opening of such stores in the future, or that the Group will be able to obtain, maintain and renew the relevant permits and licences necessary for the operation of its stores in general. See "*—Changes in, or non-compliance with, governmental regulations may have a material adverse effect on the Group's business operations, growth prospects or financial condition*". In addition, the Group's growth in same store sales is dependent on continued economic growth in the countries in which the Group operates as well as the Group's ability to continue to predict and satisfy changing consumer preferences. It is therefore possible that the Group may not be able to successfully maintain the Group's recent growth rate.

The Group plans its capital expenditures on an annual basis, taking into account historical information, regional economic trends, store opening and reimaging plans, site availability and the investment requirements in order to maximise the Group's returns on invested capital. The success of the Group's investment plan may, however, be harmed by factors outside the Group's control, such as changes in macroeconomic conditions, changes in demand and construction difficulties that could have a material adverse effect on the Group's investment returns, future results and financial condition.

Failure to preserve the value and relevance of the Group's brands could have an adverse impact on the Group's financial results.

To be successful in the future, the Group believes it must preserve, enhance and leverage the value of its brands. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of subjective factors, including the nutritional content and preparation of the Group's food, the ingredients the Group uses, the manner in which it sources commodities and its general business practices. Consumer acceptance of the Group's offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behaviour) in ways that affect the food service and restaurant industry or perceptions of the Group's brand generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the food service and restaurant industry, its brand, its operations, its suppliers or its franchisees. If the Group is unsuccessful in addressing adverse commentary, whether or not accurate, the Group's brand and its financial results may suffer.

Additionally, the on-going relevance of the Group's brand may depend on the success of its sustainability initiatives, which require coordination and alignment amongst the Group and its franchisees. If the Group is not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in the Group's brands may suffer. In particular, business incidents or practices whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on the Group's financial results.

The Group's brands may be harmed or diluted through franchisee and third-party activity.

Although the Group monitors and regulates franchisee activities through its franchise agreements, franchisees or other third parties may refer to or make statements about the Group's brands that do not make proper use of its trademarks or required designations, that improperly alter trademarks or branding, or that are critical of the Group's brands or place the Group's brands in a context that may tarnish their reputation. This may result in dilution of, or harm to, the Group's intellectual property or the value of the Group's brands.

Franchisee non-compliance with the terms and conditions of the Group's franchise agreements may reduce the overall goodwill of the Group's brands, whether through the failure to meet health and safety standards, engage in quality control or maintain product consistency, or through the participation in improper or objectionable business practices. Moreover, unauthorised third parties, which may include the Group's current and former franchisees, may use the Group's intellectual property to trade on the goodwill of the Group's brands, resulting in consumer confusion or brand dilution. There can be no assurance that the Group's policies to protect its intellectual property will be adequate, and defending or enforcing the Group's service marks and other intellectual property could result in the expenditure of significant resources. Furthermore, any reduction of the Group's brands' goodwill, consumer confusion, or brand dilution is likely to impact sales, and could materially and adversely impact the Group's business and results of operations.

The Group's main global competitors have a substantially larger network than the Group, and therefore the Group may be at a disadvantage in competing with such competitors.

The Group believes it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. While the Group believes it is among the largest food service and restaurant companies in Asia in terms of sales and store network as of 30 September 2019, its sales and store network is not yet as large as its global competitors. The Group's global competitors include YUM! Brands, Inc., (which owns the KFC, Pizza Hut and Taco Bell brands), McDonald's, and Restaurant Brands International Inc. (which owns the Tim Hortons®, Burger King® and Popeyes® brands). These global competitors are generally well-established branded chains and have substantially greater financial resources, higher revenue and greater economies of scale than the Group. Their significantly greater size may enable them to negotiate lower prices than the Group can from suppliers (for example, in respect of raw materials), better absorb increases in its cost base (for example, due to inflation of raw material prices and increases in labour, rental and other operating costs), have access to desirable locations for their restaurants and invest more resources in technology. These competitive advantages may enable these brands to react to changes in pricing more quickly and more effectively than the Group. Certain of the Group's competitors may also spend significantly more on advertising, marketing and other promotional activities than the Group, which may give them a competitive advantage through higher levels of brand awareness among consumers. In addition, certain of the Group's competitors may be able to deploy greater resources in order to accelerate restaurant openings and refurbishment efforts, to rapidly expand their offer of new products or to implement aggressive product discounting, all of which could give them a competitive advantage over the Group and could as a result have a material adverse effect on the Group's business, results of operations and financial condition. Under challenging economic conditions, the competitive advantages resulting from greater financial resources and economies of scale may intensify, thereby permitting certain of the Group's competitors to gain market share. If the Group is unable to maintain its competitive position, it could experience downward pressure on prices, lower demand for its products, reduced margins and revenue from the Group's stores and royalty payments from the Group's franchisees, the inability to take advantage of new business opportunities and the loss of market share, all of which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's international operations subject it to risks that could negatively affect its business.

A significant portion of the Group's stores are operated in countries and territories outside of the Philippines where there is a relatively high concentration of Filipinos, including in emerging markets, and the Group intends to continue expansion of its international operations. As of 30 September 2019, the Group's store network comprised 5,863 stores. Of these stores, 2,429 stores were in operation in 36 countries and territories, of which 1,363 were owned and operated by the Group and 1,066 were franchised. As a result, the Group's business and the businesses of the Group's franchisees are increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by country, include political instability, corruption and social and ethnic unrest, a subsequent decrease in the Filipino population as well as changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), the regulatory environment including competition laws, income and non-income based tax rates and laws, sanctions, foreign exchange control regimes including restrictions on currency conversion, consumer preferences, trends in the food service and restaurant industry, and the laws and policies that govern foreign investment in countries where the Group's stores are operated and other legal entities are established.

The Group may not be able to obtain financing or capital on terms acceptable to it or at all which could adversely impact the execution of the Group's expansion and growth plans and the Group may not be able to fulfil its debt obligations.

The Group may need to obtain external debt and equity financing, through public or private financing, and the proceeds from the offering may not be sufficient to finance the opening of new Group-owned stores in accordance with expansion plans. The Group's ability to finance capital expenditure plans is subject to factors beyond its control. In addition, the Group's existing debt facilities generally restrict the Group's ability to incur further indebtedness or encumber assets as security, unless such, among others, does not materially and adversely affect the Group's ability to perform its obligations under such debt facilities. There can be no assurance that the Group would be able to secure consent to incur any further indebtedness under existing or future debt facilities.

If the Group is unable to make payments in connection with its debt and other fixed payment obligations as they become due, the Group may need to renegotiate the terms and conditions of such obligations or to obtain additional equity or debt financing. There can be no assurance that renegotiation efforts would be successful or timely or that the Group would be able to refinance obligations on acceptable terms or at all. If financial institutions decline to lend additional funds or to refinance or extend the Group's existing liabilities when they mature on acceptable terms, whether as a result of perceived credit risk or otherwise, and the Group fails to raise financing through other means, the Group's business, financial condition and results of operations may be materially and adversely affected. To the extent that the Issuer undertakes operating activities in the future, engaging in such operating activities may cause the Issuer to incur additional debt or other liabilities, and may involve operating expenses and operating losses, which could affect the Issuer's financial position. If the Issuer experiences negative cash flow from operations over a prolonged period of time, or if the Issuer suffers unexpected cash outflows, the Issuer's liquidity and ability to fulfil the payment obligations under the Securities may be adversely affected.

The Group may not be able to extend its leases, find new premises to lease for its new store openings or cancel unprofitable leases.

The Group operates stores which are located either on premises or in buildings owned by the Group or leased by the Group from third parties under land or building lease agreements. In addition, certain of the Group's franchisees operate stores which are located on premises leased by such franchisees from third parties under lease agreements. The Group may be unable to negotiate a new lease or lease extension, either on commercially acceptable terms or at all, which could cause the Group to close stores in desirable locations. As a result, the Group's sales and brand building initiatives could be materially and adversely affected.

In certain of its international operations, the Group generally cannot cancel its leases; therefore, if an existing or future store is not profitable, and the Group decides to close such store, the Group may nonetheless be committed to perform its obligations under the relevant lease agreement.

Termination of franchise agreements with certain franchise owners could adversely impact the Group's revenue and results of operations.

The Group has entered into franchise agreements with franchisors to operate stores under the Burger King, Hard Rock Cafe, Dunkin' Donuts and Panda Express brands. The Group also expects to enter into franchise agreements to operate stores under the Tim Ho Wan brand in the PRC and under the PHO24 brand in the Philippines. The termination of or the failure to renew such franchise agreements could result in the discontinuation or an interruption in the operations in a particular market or markets. The Group may not be able to resume operations in such market or markets and any such delay, discontinuation or interruption would result in a delay in, or loss of, revenues and could materially and adversely affect the Group's business, financial condition or results of operations. Moreover, the Group is required to comply and ensure compliance with the franchisor's policies, standards, specifications and procedures to ensure consistency and quality in food products and service under the franchise agreements for a particular brand and any failure to comply with such standards could adversely impact the Group's ability to retain such franchise, which could adversely affect the Group's revenue and results of operations.

Unreliable or inefficient store or consumer interfacing technology or the failure to successfully implement technology initiatives in the future could adversely impact operating results.

The Group relies heavily on information technology systems in the conduct of its business, some of which are managed, hosted, provided and/or used by third parties, including, for example, point-of-sale processing in stores, management of supply chain, enterprise resource planning and various other processes and procedures. These systems are subject to damage, interruption or failure due to theft, fire, power outages, telecommunications failure, computer viruses, security breaches, malicious cyber-attacks or other catastrophic events. Certain technology systems may also be unreliable or inefficient, and technology vendors may limit or terminate product support and maintenance, which could impact the reliability of critical systems operations. If the Group's information technology systems are damaged or fail to function properly, the Group may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in the Group's ability to manage inventories or process transactions, which could result in lost sales, customer or employee dissatisfaction, or negative publicity that could adversely impact the Group's reputation, results of operations and financial condition.

The Group relies on technology not only to efficiently operate stores but also to drive the customer experience, sales growth and margin improvement. Execution of the Group's growth strategy will be dependent on the Group's initiatives to implement technology solutions and gather and leverage data to enhance store operations and improve the customer experience. The Group's strategic technology initiatives may not be timely implemented or may not achieve the desired results. Even if the Group effectively implements and manages its technology initiatives, such technology initiatives may not result in sales growth or margin improvement. Additionally, implementing the evolving technology demands of consumers may place a significant financial burden on the Group's and the Group's franchisees.

The Group's failure to protect the integrity and security of personal information of its customers and employees could result in substantial costs, expose the Group to litigation and damage the Group's reputation.

The Group receives and maintains certain personal, financial and other information about its customers, employees and franchisees. The use and handling of this information is regulated by evolving and increasingly demanding laws and regulations in various jurisdictions, as well as by certain third-party contracts. If the Group's security and information systems are compromised as a result of data corruption or loss, cyber-attack or a network security incident or if the Group's employees, franchisees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorised persons or used inappropriately, it could result in liabilities and penalties and could damage the Group's reputation, cause the Group to incur substantial costs and result in a loss of customer confidence, which could adversely affect the Group's results of operations and financial condition. Additionally, the Group could be subject to litigation and government enforcement actions as a result of any such failure.

Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries where the Group operates. For example, the European Union adopted a new regulation that became effective in May 2018, The General Data Protection Regulation (**GDPR**), which requires companies to meet new requirements regarding the handling of personal data. In addition, in June 2018, the State of California enacted the California Consumer Privacy Act (**CCPA**), which became effective on 1 January 2020, requiring companies that process information on California residents to, among other things, make new disclosures to consumers about data collection, use and sharing practices. In the Philippines, the Group is required to comply with Republic Act No. 10173, or the Data Privacy Act of 2012 (**DPA**), and its implementing rules and regulations, which became effective in September 2016, as well as the issuances of the National Privacy Commission, and other applicable laws and regulations relating to privacy and data protection, particularly with respect to the processing and handling of personal information. The Group's failure to adhere to or successfully implement appropriate processes to adhere to the requirements of GDPR, CCPA, DPA and other evolving laws and regulations in this area could result in financial penalties, legal liability and could damage brands' reputations of the Group.

Labour shortages or difficulty finding qualified employees could slow the Group's growth, harm the Group's business and reduce the Group's profitability.

Store operations are highly service-oriented and the Group's success depends in part upon the Group's and the Group's franchisees' ability to attract, retain and motivate a sufficient number of qualified employees, including franchisee management, store managers and other crew members. The market for qualified employees in the retail food industry is very competitive. Any future inability to recruit and retain qualified individuals may delay the planned openings of new stores by the Group and could materially and adversely impact the operation of its existing stores. Any such delays, material increases in employee turnover rate in franchisee management or existing stores or widespread employee dissatisfaction could have a material adverse effect on the Group's business and results of operations.

The Group's potential exposure to reputational and other harm resulting from any claim against it by an employee could, even if later found in favour of the Group, have a negative impact on consumer perceptions of the Group and its business. In addition, strikes, work slowdowns, campaigns by labour organisations or other job actions may become more common. In the event of a strike, work slowdown or other labour unrest, the ability to adequately staff the Group's stores and commissaries and the Group's franchisees' stores could be impaired, which could result in reduced revenue, and may distract the Group's management from focusing on the Group's business and strategic priorities.

Changes in labour and other operating costs and regulations could adversely affect the Group's performance.

An increase in the costs of employee wages, benefits and insurance (including workers' compensation, general liability, property and health) as well as other operating costs such as rent and energy costs could adversely affect the Group's operating results. Such increases could result from government imposition of higher minimum wages or from general economic or competitive conditions. Any increase in such operating expenses could have a material adverse effect on the Group's profit margins. In addition, competition for qualified employees could also compel the Group to pay higher wages to attract or retain key crew members, which could result in higher labour costs and decreased profitability. Conversely, the Group's failure to pay higher wages to attract or retain qualified employees may result in the Group's employees (tenured or otherwise) to seek and/or accept employment from competitors and potentially disclose to these competitors confidential and/or proprietary information of the Group.

The Group may also be affected by labour-related matters that are beyond its control relating to its various third-party service providers. For example, if employees of such third-party service providers assert that they are employees of the Group or go on strike, the reputation of the Group may be harmed and its operations may be disrupted. There can be no assurance that similar actions of employees of the Group's third-party service providers will not have an adverse effect on the Group's business.

Changes in, or non-compliance with, governmental regulations may have a material adverse effect on the Group's business operations, growth prospects or financial condition.

The Group and the Group's franchisees are subject to numerous laws and regulations around the world. These laws change regularly and are increasingly complex. For example, the laws and regulations to which the Group is subject include:

- Laws and regulations relating to fair labour standards, including minimum wages, overtime and other working conditions, as well as family leave mandates and other employment law matters.
- Laws and regulations relating to health care benefits.
- Laws and regulations relating to nutritional content, nutritional labelling, product safety, product marketing and menu labelling.
- Laws and regulations relating to licencing.
- Laws and regulations relating to mandatory discounts.
- Laws and regulations relating to the relationship between franchisors and franchisees.
- Laws and regulations relating to health, sanitation, food, workplace safety, child labour, including laws regulating the use of certain "hazardous equipment", and fire safety and prevention.
- Laws and regulations relating to union organising rights and activities.
- Laws and regulations relating to information security, privacy, cashless payments, and consumer protection.
- Laws and regulations relating to currency conversion or exchange.
- Laws and regulations relating to international trade and sanctions.
- Tax laws and regulations.
- Anti-bribery and anti-corruption laws.

- Anti-trust and competition laws.
- Data privacy laws.
- Environmental laws and regulations.

Compliance with new or existing laws and regulations could impact the Group's or the Group's franchisees' operations. The compliance costs associated with these laws and regulations could be substantial. Any failure or alleged failure to comply with these laws or regulations could adversely affect the Group's reputation, international expansion efforts, growth prospects and financial results or result in, among other things, litigation, revocation of required licences, internal investigations, governmental investigations or proceedings, administrative enforcement actions, fines and civil and criminal liability. Publicity relating to any such non-compliance could also harm the Group's reputation and/or the market price of the Company's common shares which are listed and traded on the Philippine Stock Exchange (**PSE**). Any of the aforementioned factors may have a material adverse effect on the Group's business, results of operations and financial condition.

Changes in tax policies affecting tax exemptions and tax incentives could adversely affect the Group's results of operations.

Certain subsidiaries, affiliates and joint ventures of the Company are registered with the Board of Investments and benefit from certain incentives including, among others, income tax holidays for a certain period and lower corporate income tax upon expiry of the applicable income tax holidays.

On 13 September 2019, House Bill No. 4157, otherwise known as the Corporate Income Tax and Incentive Rationalisation Act (**CITIRA Bill**) was passed on the third and final reading. The CITIRA Bill is the renamed version of the TRABAHO Bill which is the second package of the Comprehensive Tax Reform Programme (**CTRP**) of the current administration. The second package of the CTRP aims to lower corporate income taxes while rationalising fiscal incentives for corporations, such as income tax holidays, special rates and custom duty exemptions. If passed into law, fiscal incentives enjoyed by certain members of the Group may be affected.

If the second package of the CTRP is passed into law, or if these tax exemptions or tax incentives expire, are revoked, or are repealed or other new laws are enacted, the income from these sources will be subject to the corporate income tax rate, which is 30 per cent. of net taxable income as of 30 September 2019 or the new tax rates as per any new laws enacted. As a result, the Group's tax expense would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, the enactment of any new laws and any associated impact on the Group could have a material adverse effect on the Group's business, financial condition and results of operations.

Failure to comply with anti-bribery or anti-corruption laws could adversely affect the Group's business operations.

The U.S. Foreign Corrupt Practices Act, the UK Bribery Act and other similar applicable laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing emphasis and enforcement around the world. There can be no assurance that the Group's employees, contractors, agents or other third parties will not take actions in violation of the Group's policies or applicable law, particularly as the Group expands its operations in emerging markets and elsewhere. Any such violations or suspected violations could subject the Group to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage the Group's reputation, brands, international expansion efforts and growth prospects, business and operating results. Publicity relating to any non-compliance or alleged non-compliance could also harm the Group's reputation. Any of the aforementioned factors may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's business, reputation and prospects may be adversely affected if the Group is not able to detect and prevent fraud or other misconduct committed by the Group's employees or outsiders on a timely basis.

The Group is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Any occurrence of such fraudulent events may damage the reputation of the Group and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of the Group to prevent such fraudulent actions may result in penalties under relevant laws and regulations. Although the Group has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Group will be able to avoid incidents of fraud in the course of its business.

The Group could be party to litigation and other legal proceedings that could adversely affect the Group by increasing the Group's expenses, diverting management attention or subjecting the Group to significant monetary damages and other remedies.

The Group is involved in litigations, claims, disputes and other legal proceedings which are normal to its business. Such litigations, claims, disputes and other legal proceedings may include consumer, employment, real estate related, tort, intellectual property, breach of contract, disputes relating to franchise agreements, securities, derivative and other litigation. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any such claims have merit, or whether the Group is ultimately held liable or settle, such litigation may be expensive to defend and may divert resources and management attention away from the Group's operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect the Group's financial condition or results of operations. Any adverse publicity resulting from these allegations may also have a material adverse effect on the Group's reputation and/or the market price of the Company's common shares which are listed and traded in the PSE, which in turn could materially and adversely affect the Group's results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. These concerns could lead to an increase in the regulation of the content or marketing of the Group's products. The Group may also be subject to such claims in the future and, even if the Group is not, publicity about these matters (particularly directed at the quick service and fast-casual segments of the retail food industry) may harm the Group's reputation and have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may not be able to adequately protect its intellectual property or adequately ensure that the Group is not infringing the intellectual property of others, which could harm the value of the Group's brand and the Group's business.

The success of the Group's business depends on its continued ability to use its existing trademarks and service marks in order to increase brand awareness and further develop the Group's branded products in both domestic and international markets. The Group relies on a combination of trademarks, copyrights, service marks, trade secrets and other intellectual property rights to protect the Group's brand and branded products. The Group has registered certain trademarks and has other trademark registrations pending in the Philippines and foreign jurisdictions in which the Group currently operates or intends to operate. Although the Group has policies and processes which set out reasonable steps to protect the Group's intellectual property in accordance with relevant law in the Philippines and foreign countries, such policies and processes may not be adequate. In addition, although in the past the Group generally has been the plaintiff in intellectual property claims, the steps the Group has taken may not adequately ensure that the Group does not infringe the intellectual property of others, and third parties may claim infringement by the Group in the future. In particular, the Group may be involved in intellectual property claims, which may have a material adverse effect on the Group's business, results of operations and financial condition. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm the Group's business.

The Group cannot ensure that franchisees and other third parties who hold licences to the Group's intellectual property will not take actions that hurt the value of the Group's intellectual property.

The Group's advertising and marketing campaigns may not be successful.

The Group believes that its various brands are critical to its business. The Group incurs costs and expends other resources in its marketing efforts to raise brand awareness and attract and retain customers using a variety of media. In addition, the support of franchise owners is critical for the success of advertising and marketing campaigns, and the successful execution of these campaigns will depend on the Group's ability to maintain alignment with its franchise owners. These advertising and marketing initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues. Additionally, some competitors have greater financial resources, which enable them to spend significantly more on marketing and advertising. Should competitors increase spending on marketing and advertising or the Group's marketing funds decrease for any reason, or should the Group's advertising and promotions be less effective than competitors, there could be a material adverse effect on the Group's business, results of operations and financial condition.

The Group outsources certain aspects of its business to third-party service providers which subjects the Group to risks, including disruptions in the Group's business and increased costs.

The Group has outsourced certain functions for its business to third-party service providers. The Group also outsources certain information technology support services and benefit plan administration. In the future, the Group may outsource other functions to achieve cost savings and efficiencies. If the service providers to which the Group outsources these functions do not perform effectively, the Group may not be able to achieve the expected cost savings and may have to incur additional costs in connection with such failure to perform. Depending on the function involved, such failures may also lead to business disruption, transaction errors, processing inefficiencies, the loss of sales and customers, the loss of or damage to intellectual property through security breach, and the loss of sensitive data through security breach or otherwise. Any such damage or interruption could have a material adverse effect on the Group's business, cause the Group to face significant fines, customer notice obligations or costly litigation, harm the Group's reputation with its customers or prevent the Group from paying its collective suppliers or employees or receiving payments on a timely basis.

A significant portion of the Group's revenue, debt, and capital expenditure as well as costs related to sourcing raw materials are denominated in currencies other than the Peso which may pose some foreign exchange risk.

The functional and presentation currency of the Company is Philippine Peso. The functional currencies of the Group's foreign operations primarily include U.S. dollar, Renminbi, Vietnam dong, Singapore dollar, Canadian dollar, Euro, British pound, Hong Kong dollar and Macau pataca. The Group's foreign exchange risk results primarily from movements of the Peso against such currencies with respect to its revenue, assets, liabilities, and expenditures as well as costs related to sourcing raw materials which are denominated in such currencies. In addition, part of its long-term debt is denominated in U.S. dollar and Vietnam dong before taking into account any related hedges. There can be no assurance that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. The occurrence of these conditions may have a material adverse effect on the Group's financial condition and results of operations.

The Group may be exposed to risk of inventory wastage, working capital tied up in inventories and investments in new facilities.

The Group may be exposed to a risk of inventory wastage, working capital tied up in inventories and investments in new facilities that may not deliver expected returns because of rapidly changing technology and consumer requirements. Inventory wastage may require the Group to make adjustments to write down inventory to the lower of cost or net realisable value, which may have a material adverse effect on the Group's results of operations.

The Guarantor is controlled by certain controlling shareholders, whose interests may not be the same as those of holders of the Securities.

Mr. Tony Tan Caktiong and his family, directly and indirectly, through various holding companies, are the majority shareholders of, and effectively control, the Guarantor as of 30 September 2019. Accordingly, these majority shareholders effectively are able to elect members of the Board of Directors of the Guarantor (the **Board**) and pass shareholder resolutions (not including special resolutions, which require a two-thirds majority), which under the by-laws generally require a majority vote by its shareholders. If the interests of these majority shareholders conflict with the interests of the holders of the Securities, there can be no assurance that these majority shareholders would not cause the Guarantor to take action in a manner which might differ from the interests of holders of the Securities.

Members of the Group enter into transactions with related parties.

In the ordinary course of business, the 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 Group, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Group. Individuals owning, directly or indirectly, an interest in the voting power of the Group that give them significant influence over the enterprise, key management personnel, including directors and officers of the Group, and close members of the family of these individuals and companies associated with these individuals also constitute related parties. These transactions have principally consisted of sale and purchase of food items to/from related parties at market prices, purchased items warehoused with related parties which are charged for logistics and warehousing costs, short-term advances made to related parties, advances made by a related party for another (including payments for various expenditures incurred on behalf of another party) and entering into commercial property leases with related party lessees.

Although the Guarantor has instituted internal policies with respect to related party transactions, including having a board committee to oversee such matters, and believes that all past related party transactions have been conducted at arm's length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may negatively impact the Group.

For further information on the Group's related party transactions, see "*Certain Relationships and Related Party Transactions*" and Note 27 to the Group's audited consolidated financial statements included in this Offering Circular.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect the Group's future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to the Group's critical accounting estimates, could adversely affect the Issuer's future results. The Group may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce its earnings. In assessing the recoverability of the Group's long-lived assets, the Group considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and the Group's restructuring activities. If the Group's estimates or underlying assumptions change in the future, the Group may be required to record impairment charges. If the Group experiences any such changes, they could have a significant adverse effect on the Group's reported results for the affected periods.

The comparative financial information for accounts affected by the adoption of PFRS 16 may not be comparable to the information presented for the nine months ended 30 September 2019.

In preparing the unaudited interim condensed consolidated financial statements for the nine months ended 30 September 2019, the Group has applied Philippine Financial Reporting Standards (**PFRS**) 16, *Leases* which superseded PAS 17, *Leases* and the related interpretations. The standard includes two recognition exemptions for lessees—leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. The Group, as a lessor, is thus not required to make any adjustment on transition for leases but to account for these leases in accordance with PFRS 16 with effect from 1 January 2019.

PFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group adopted PFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. Thus, the Group adjusted the comparative amounts in the unaudited interim condensed consolidated financial statements of the Group as of and for the nine months ended 30 September 2019. Please refer to Note 2 of the unaudited interim condensed consolidated financial statements of the Group on the application of PFRS 16 which resulted in changes to the Group's accounting policies. The historical information attached to the Offering Circular was not adjusted. Thus, information pertaining to leases as of 31 December 2016, 2017 and 2018 continue to be reported under PAS 17 and is not comparable to similar information as of 30 September 2019.

The transactions of the Group may be subject to review under the Philippine Competition Act.

Republic Act (**R.A.**) No. 10667, the Philippine Competition Act (**PCA**) became effective on 8 August 2015. The PCA prohibits and penalises anti-competitive agreements and abuse of dominance; however, it provides that administrative, civil and criminal penalties may only be imposed if violations are not cured upon the expiration of two years after the effectivity of the PCA. This transition period ended on 8 August 2017. Under the PCA, there is a rebuttable presumption of dominance when an entity has a market share of 50 per cent. or more. Members of the Group that possess a market share of 50 per cent. or more are proscribed from committing any of the acts listed as abuse of dominance. As the Group continues its strategy of acquisitions and joint ventures, there could be more reason for certain of its transactions to be subject to the PCA. There can be no assurance that none of the Group's existing or future businesses or strategies will be subject to PCA scrutiny, and the result of any such scrutiny, whether in terms of review, penalties or any conditions imposed on the Guarantor, may have a material adverse effect on its business and strategies.

In addition, the PCA authorises the Philippine Competition Commission (the **PCC**) to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its implementing rules and regulations, as amended, (the **PCA IRR**) and the Rules on Merger Procedure (collectively, the **Merger Rules**) provides for mandatory notification to the PCC of any merger or acquisition (which includes joint venture transactions) within 30 days of signing any definitive agreement relating to the transaction, where the value of such transaction exceeds ₱2.2 billion, where the size of the ultimate parent entity of either party exceeds ₱5.6 billion and other prescribed thresholds are met. For any transaction that is covered by the mandatory notification requirements under the Merger Rules, the parties may not consummate the transaction prior to receiving PCC approval or the lapse of the waiting periods stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void, and will subject the parties to a fine between one per cent. to five per cent. of the value of the transaction. Criminal penalties for entities that enter into anticompetitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offences. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

The Group's insurance policies may not provide adequate levels of coverage for all claims associated with the Group's business operations.

The Group currently maintains insurance it believes is customary for businesses of its size and type. However, there are types of losses the Group may incur that cannot be insured against or that it believes are not economically reasonable to insure, such as losses due to natural disasters or acts of terrorism. To the extent that the Group suffers loss or damage that is not covered by insurance or that exceeds the limit of its insurance coverage, its business, financial condition, results of operations, prospects and cash flow may be materially and adversely affected. In addition, renegotiation with insurance companies upon the expiration of insurance policies the Group maintains exposes it to the volatility of the insurance markets, including the possibility of rate increases. Any material increase in insurance premiums or decrease in available coverage in the future could adversely affect the Group's business, financial condition, results of operations and prospects.

The loss of key management personnel or the Group's inability to attract and retain new qualified personnel could hurt the Group's business and inhibit the Group's ability to operate and grow successfully.

The Group is dependent on the efforts and abilities of its senior management, including the executives managing each of the Group's brands, and the Group's success will also depend on the Group's ability to attract and retain additional qualified employees. Failure to attract personnel sufficiently qualified to execute the Group's business strategy, or to retain existing key personnel, could have a material adverse effect on the Group's business, results of operations and financial condition.

Unfavourable general economic conditions and consumer spending could materially and adversely affect the Group's business and financial results.

The Group's results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in the Group's markets could pressure its operating performance, and the Group's business and financial results may suffer.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, may materially and adversely affect the Group's results of operations and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect the Group's results of operations and prospects. The Group's receipt of proceeds under any insurance the Group maintains with respect to some of these risks may be delayed or the proceeds may be insufficient to cover the Group's losses fully.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Company, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Company may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Company complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. Failure by the Group to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the Philippine SEC could harm the Group's business and results of operations and/or result in a loss of investor confidence in the Group's financial reports, which could have a material adverse effect on the Group's business.

RISKS RELATING TO THE FOOD SERVICE AND RESTAURANT INDUSTRY

Supply chain interruptions may increase costs or reduce revenue and the Group relies on key third-party suppliers for certain of its raw materials.

The Group depends on the effectiveness of its supply chain management to assure reliable and sufficient supply of quality products on favourable terms. Although many of the products the Group sells are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase the Group's reliance on those suppliers. In the Philippines, the Group purchases a significant amount of its chicken, sauces, dressings and beverages from a number of third-party suppliers. Supply chain interruptions, including shortages, transportation issues, failure or breakdown of equipment or IT systems, price increases and any other failure by third-party suppliers to deliver raw materials, and disruptions in commissary operations, including inventory wastage, tied up working capital, labour issues and underperforming commissary investments, may have a material adverse effect on the Group's business as well as the Group's suppliers and franchisees whose performance may have a significant impact on the Group's results of operations. Such shortages or disruptions could be caused by factors beyond the control of the Group's suppliers, franchisees or the Group. If the Group experiences interruptions in its supply chain, its costs could increase and it could limit the availability of products critical to the Group's operations.

Food safety concerns may have an adverse effect on the Group's business.

The Group relies on third-party food suppliers, distributors, logistics and warehousing partners to supply ingredients used in the preparation of the meals it sells, including sauces, meat and fresh produce. Although such third parties are subject to regulations, including food safety and environmental regulations, such regulations may not prevent such third parties from experiencing problems related to food safety and hygiene. As a result, the Group's reliance on third-party food suppliers, distributors, logistics and warehousing partners increases the risk that food-borne illness incidents could be caused by factors outside of the Group's control and that multiple locations would be affected rather than a single store. Additionally, failure by any of the Group's third-party food suppliers, distributors, logistics and warehousing partners to comply with regulations, allegations of compliance failure, claims of intentional or negligent contamination of ingredients and raw materials or prolonged and intense negative publicity may disrupt their operations and result in a disruption of the Group's food supply. Disruption of the Group's third-party food suppliers, distributors, logistics and warehousing partners' operations could in turn reduce or impair the Group's supply of ingredients or other raw materials, which could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, food safety issues such as food tampering, contamination and adulteration may occur within the Group's store network from time to time. Any report or publicity linking the Group or one of the Group's stores or one of its franchisee's store, or linking the Group's competitors or the retail food industry generally, to instances of food safety issues could adversely affect the Group's brands and reputations as well as the Group's revenue and profits, and possibly lead to product liability claims, litigation and damages.

If a customer of one of the Group's stores becomes ill from as a result of food safety issues, stores in the Group's network may be temporarily closed, which could disrupt the Group's operations and have a material adverse effect on the Group's business, financial condition and results of operations. In addition, instances or allegations of food safety issues, real or perceived, involving the Group's stores, restaurants of competitors, or suppliers or distributors (regardless of whether the Group uses or has used those suppliers or distributors), or otherwise involving the types of food served at the Group's stores, could result in negative publicity that could adversely affect the Group's sales or the sales of the Group's franchisees. The occurrence of food safety issues could also materially and adversely affect the price and availability of affected ingredients, which could result in disruptions in the Group's supply chain and/or lower margins for the Group and the Group's franchisees.

Health concerns arising from food-borne illnesses, outbreaks of viruses or other diseases may have an adverse effect on the Group's business.

Food-borne illnesses, such as E. coli, Listeria, Salmonella and Trichinosis, may occur within the Group's system from time to time. Any report or publicity linking the Group or one of the Group's stores or one of its franchisee's store, or linking the Group's competitors or the retail food industry generally, to instances of food-borne illness could adversely affect the Group's brands and reputations as well as the Group's revenue and profits, and possibly lead to product liability claims, litigation and damages.

Moreover, the Group's business could be materially and adversely affected by the outbreak of a widespread health epidemic, including various strains of avian flu or swine flu, such as H1N1. The occurrence of such an outbreak of an epidemic, illness or other adverse public health developments could materially disrupt the Group's business and operations. Such events could also significantly impact the food service and restaurant industry and cause a temporary closure of stores, which could severely disrupt the Group's operations and have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's operations could be disrupted if any of the Group's employees or employees of the Group's business partners or franchisees were suspected of having illnesses including the avian flu, swine flu, hepatitis A or norovirus, since this could require the Group or the Group's business partners or franchisees to quarantine some or all of such employees or disinfect the relevant store facilities. Outbreaks of avian flu occur from time to time around the world, and such outbreaks have resulted in confirmed human cases. It is possible that outbreaks could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. As poultry is a menu offering of the Group under certain brands, including Jollibee and Mang Inasal, this would likely result in lower revenue and profits for the Group and the Group's franchisees. Avian flu outbreaks could also materially and adversely affect the price and availability of poultry, which could negatively impact profit margins and revenue for the Group and the Group's franchisees.

Furthermore, other viruses may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect store guest traffic or the ability to adequately staff stores. The Group may also be materially and adversely affected if government authorities impose mandatory closures, seek voluntary closures, impose restrictions on operations of stores, or restrict the import or export of products, or if suppliers issue mass recalls of products. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect the Group's business, results of operations and financial condition.

An increase in food prices may have a material adverse effect on the Group's profit margins.

The Group and the Group's franchisees' businesses depend on reliable sources of large quantities of raw materials such as proteins (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables. Raw materials purchased for use in the Group's stores are subject to price volatility caused by any fluctuation in aggregate supply and demand, or other external conditions, such as weather conditions or natural events or disasters that affect expected harvests of such raw materials, or taxes and tariffs including as a result of trade disputes. As a result, the historical prices of raw materials used in the operation of the Group's stores have fluctuated. There is no assurance that the Group will continue to be able to purchase raw materials at reasonable prices, or that the cost of raw materials will remain stable in the future. In addition, a significant increase in gasoline prices could result in the imposition of fuel surcharges by the Group's distributors. As the Group and the Group's franchisees provide competitively priced food, the Group may not have the ability to pass through to its customers the full amount of any commodity price increases. If the Group and the Group's franchisees are unable to manage the cost of raw materials or to increase the prices of products proportionately, the Group's business, results of operations and financial condition may be materially and adversely affected.

The Group's business is affected by changes in consumer preferences and perceptions.

The restaurant industry is affected by consumer preferences and perceptions. Prevailing health or dietary preferences and perceptions may cause consumers to avoid the Group's products in favour of alternative food options, which may have a material adverse effect on the Group's business, results of operations and financial condition. In addition, negative publicity about the Group's products may also have a material adverse effect on the Group's business, results of operations and financial condition. In recent years, numerous companies in the fast food industry have introduced products positioned to capitalise on the growing consumer preference for food products that are, or are perceived to be, healthy, nutritious, and low in calories, sodium and fat content. The Group's success will depend in part on the Group's ability to anticipate and respond to changing consumer preferences, tastes and eating and purchasing habits.

The Group may not be able to maintain effective quality control systems for outlets and supply chain.

The quality and safety of the food the Group serves is critical to its success. Maintaining consistent food quality depends significantly on the effectiveness of the Group's quality control systems, which in turn depends on a number of factors, including the design of quality control systems and employee implementation and compliance with those quality control policies and guidelines. There can be no assurance that quality control systems will be effective. Any significant failure or deterioration of these quality control systems could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

RISKS RELATING TO THE PHILIPPINES

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Company's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. dollar and other currencies. As of 31 December 2017, according to BSP data, the Peso remained steady at ₱49.93 per U.S.$1.00 from ₱49.81 per U.S.$1.00 at the end of 2016. More recently, the Peso has depreciated to ₱52.72 against the U.S. dollar as of 31 December 2018. As of 30 September 2019, the published BSP Closing Rate was ₱52.04 per U.S.$1.00 (the last day in September such Closing Rate was published by BSP). On 3 January 2020, the closing rate quoted on the Reference Exchange Rate Bulletin was ₱50.646 = U.S.$1.00.

A significant portion of the Company's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Company's business, financial position and results of operations.

A significant portion of the Company's business operations and assets are based in the Philippines. As a result, the Company's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls. In January 2018, inflation rose to an over three-year high of 3.4 per cent. and rose steadily to 5.2 per cent. by June 2018 with the BSP projecting inflation to be at 4.6 per cent. on average in 2018. The Monetary Board of the BSP (the **Monetary Board**) assessed that the balance of risks to the inflation outlook continues to lean toward the upside, with price pressures emanating from possible adjustments in transport fares, utility rates, and wages. On 9 August 2018, the Monetary Board decided to raise the interest rate on the BSP's overnight reverse repurchase facility by 50 basis points to 4 per cent., effective 10 August 2018. On 27 September 2018, the Monetary Board decided to raise the interest rate further on the BSP's overnight reverse repurchase facility by 50 basis points to 4.5 per cent., effective 28 September 2018. At the Monetary Board meeting on 15 November 2018, the BSP implemented a rate hike for the fifth consecutive time. The Monetary Board decided to raise its key policy rates by 25 basis points to 4.75 per cent. for overnight borrowing, effective 16 November 2018. On 8 August 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight reverse repurchase facility to 4.25 per cent. As price pressures continue to ease further with baseline forecasts of the BSP indicating that inflation was likely to settle within the lower half of the target band of 3.0 per cent. +/- 1 per cent. for 2019 to 2021, the Monetary Board decided to further reduce the interest rate on the BSP's overnight reverse repurchase facility by 25 basis points to 4.0 per cent., effective 27 September 2019. The interest rates on the overnight lending and deposit facilities were reduced accordingly.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies and regulations, including tax laws and regulations that impact or may impact inflation and consumer demand such as the Train Law or any subsequent legislation;
- Government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- public health epidemics or outbreaks of diseases, such as re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

The Philippines' economic growth rate in 2018 was 6.2 per cent., which was slower than the 6.7 per cent. growth rate registered in 2017. For the first half of 2019, GDP growth was at 5.5 per cent., compared to 6.2 per cent. in the first half of 2018. Moreover, uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Government policies will continue to be conducive to sustaining economic growth. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Company's financial position and results of operations, including the Company's ability to grow its energy portfolio, and its ability to implement the Company's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition or results of operations.

Political instability may have a negative effect on the business, financial position or results of operations of the Company.

The Philippines has from time to time experienced political and military instability, including acts of political violence. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there were instances of political instability, including impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by the previous administration. In addition, a number of current and past officials of the Government are currently under investigation or have been indicted for graft, corruption, plunder, extortion, bribery, or usurpation of authority.

In May 2019, the Philippine legislative and local elections were held. Majority of the senatorial candidates endorsed by the administration won the 2019 elections. The senators elected in the 2019 elections joined the senators elected in the 2016 elections. There were allegations of fraud and voter disenfranchisement in the conduct of the 2019 elections.

Under the current administration's Philippine Development Plan for 2017 to 2022, the Government has a "Ten-Point Socio-Economic Agenda" focusing on peace and order, ease of doing business, policy continuity, tax reform, infrastructure spending and countryside development, among others.

Based on news reports, the Government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups.

Further, the current administration initially pushed for a shift to a federal form of government and for this purpose, a consultative committee to review the 1987 Constitution and draft a federal constitution was formed. In recent news reports, however, President Duterte was quoted as saying that a shift to federalism may not be necessary but the current Constitution must be amended to strengthen its anti-corruption provisions.

There can be no assurance that there will be no future political events that could destabilise the Philippines resulting in a negative effect on the general economic conditions of the country. Any such event could have a material impact on the Company's business, financial position, and results of operations.

Acts of terrorism and violent crimes could destabilise the country and could have a material adverse effect on the Company's business, financial position and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally, there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, it was reported that a faction of the Moro National Liberation Front (**MNLF**) staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the MNLF in the southern part of the country. In an operation to capture a wanted international terrorist, 44 police commandos were killed in a 12-hour fire fight with two Muslim rebel groups in the Southern Philippines.

On 23 May 2017, it was reported that a clash erupted in Marawi, Lanao del Sur between Government security forces and the ISIS affiliated-Maute group, following the Government's offensive to capture an alleged ISIS leader in Southeast Asia who was believed to be in the city. Martial law was declared in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on 22 July 2017, both Houses of Congress voted to grant the request of President Duterte to extend martial law in Mindanao until the end of 2017 as the rebellion could not be completely quashed over the initial 60-day period of martial law. Prior to the end of 2017, in a special joint session convened on 13 December 2017, both Houses of Congress voted to grant the request of President Duterte to further extend martial law in Mindanao until the end of 2018 as there are continued threats from local and ISIS-inspired terrorist groups. Some sectors however are wary of the prolonged extension of the martial law, citing its negative impact on business, tourism, the country's image (as this relates to the current administration's ability to quickly restore peace and order in Marawi), and investor confidence. The on-going clashes have resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilisation could cause interruption to parts of the Company's businesses and materially and adversely affect its financial conditions, results of operations and prospects. For the third time on 17 December 2018, Martial Law was extended by both Houses of Congress until 31 December 2019. In January 2019, members of the House of Representatives, human rights lawyers, and Mindanao residents filed separate petitions with the Supreme Court questioning the third extension of Martial Law in Mindanao. On 19 February 2019, the Supreme Court *en banc* voted to uphold the constitutionality of the third extension of martial law in Mindanao and to dismiss the petitions.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Company's business, materially disrupt the Company's operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's power plants, assets and operations. While the Company carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Company believes are in line with general industry practices in the Philippines, there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. The Company also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Company's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Company, than is regularly made available by public companies in the United States and other countries.

As a result, public shareholders of the Company may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the United States and many other jurisdictions. Furthermore, although the Company complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions.

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

Competing and overlapping territorial claims by the Philippines, the PRC and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts.

The PRC claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of the PRC in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea. In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of the PRC is invalid. The Government, under the current administration, has taken action to de-escalate tensions concerning the territorial dispute with the PRC.

There is no guarantee that the territorial dispute between the Philippines and other countries, including the PRC, would end or that any existing tension will not escalate further, as the PRC has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rate, may adversely affect the Company's operations. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Company has operations could materially and adversely affect the Company's business, financial condition and results of operations.

Investors may face difficulties enforcing judgments against the Company.

Considering that the Company is organised under the laws of the Republic of the Philippines and a significant portion of its operating assets are located in the Philippines, it may be difficult for investors to enforce judgments against the Company obtained outside of the Philippines. In addition, all of the directors and officers of the Company are residents of the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction in accordance with its jurisdictional rules; (ii) the party against whom enforcement is sought did not receive notice of the proceedings; (iii) judgment was obtained by collusion, fraud, or on the basis of a clear mistake of law or fact; or (iv) the judgment is contrary to the laws, public policy, customs or public order of the Philippines.

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

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents in the Philippines, including the Company. As of 30 September 2019, the Philippines' long-term foreign currency-denominated debt was rated BBB by Fitch and Baa2 by Moody's. On 30 April 2019, S&P Global

Ratings upgraded its rating from BBB to BBB+ stable. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

RISKS RELATING TO THE SECURITIES AND THE GUARANTEE OF THE SECURITIES

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of investing in the Securities in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference (if any) in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or distribution payments is different from the potential investor's currency;
- understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Securities and the Securities Guarantee are unsecured obligations.

The Securities and the Securities Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Securities and payment under the Securities Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Securities.

The Issuer is primarily a holding company with limited assets and will depend on collections from its subsidiaries and franchisees to provide it with funds to meet its obligations under the Securities.

The Issuer is primarily a holding company for the Group's investments outside the Philippines (except for its owned brands, namely Jollibee, Chowking and Red Ribbon, in North America, as of the date of this Offering Circular) and has limited business operations. It performs various shared services for the Group through Jollibee Worldwide Services—Regional Operating Headquarters in the Philippines (**JWS**). See "*Description of the Issuer*". Upon completion of this offering of Securities, its assets will comprise the net proceeds from the issuance of the Securities, to the extent retained, investments in certain Group entities operating in the United States and Europe, Middle East and Asia (**EMEA**), in particular, in Vietnam and the PRC, dividends from its subsidiaries and royalties from its franchisees. Accordingly, the Issuer will be wholly dependent upon collections from its subsidiaries and franchisees to make payments due on the Securities.

The Securities are perpetual securities and investors have no right to require redemption.

The Securities are undated and have no fixed final maturity date. Securityholders have no right to require the Issuer to redeem the Securities at any time and they can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, holders of Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

Securityholders may not receive Distribution payments if the Issuer elects to defer Distribution payments.

Subject to the Conditions, the Issuer may, at its sole and absolute discretion, elect to defer any scheduled Distributions on the Securities for any period of time. The Issuer is not subject to any limits as to the number of times Distributions and Arrears of Distributions can be deferred. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Conditions, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distributions shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4.7 (*Payment of Arrears of Distribution*).

Any deferral of Distributions will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distributions deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the business, financial condition, results of operations and prospects of the Issuer.

The Securities may be redeemed at the option of the Issuer on the Step Up Date or any subsequent Distribution Payment Date or upon the occurrence of certain other events.

The Securities are redeemable at the option of the Issuer, in whole but not in part, on the Step Up Date or any Distribution Payment Date falling after the Step Up Date at the principal amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable (the **Redemption Price**).

The Securities may also be redeemed (in whole but not in part) at the option of the Issuer at the Redemption Price upon the occurrence of certain changes in Singapore or Philippine tax law requiring the payment of Additional Amounts. In addition, the Securities may be redeemed (in whole but not in part) at the option of the Issuer (A) upon the occurrence of Change of Control Event (i) at any time prior to (but excluding) the Step Up Date at 101 per cent. of the principal amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of distributions accrued thereon in accordance with Condition 4.5(a)) (the **Special Redemption Price**) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence of an Indebtedness Default Event at any time at the Redemption Price, (C) upon the occurrence of an Accounting Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, (D) upon the occurrence of a Tax Event at any time at the Redemption Price or (E) in the event 25 per cent. or less of the aggregate principal amount of the Securities originally issued remain outstanding at any time at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 *(Notices to Securityholders).*

The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There may be insufficient distributions upon liquidation.

The obligations of the Issuer under the Securities, the Guarantor under the Securities Guarantee, and Issuer and the Guarantor under the Trust Deed will constitute its direct, unconditional, unsecured and unsubordinated obligations. In the event of liquidation or winding-up, the claims of Securityholders in respect of the Securities, including in respect of any claim to Arrears of Distribution, will (subject to and to the extent permitted by applicable law) be preferred over the subordinated obligations of the Issuer and the Company and will rank at least *pari passu* with each other and with all other unconditional, unsecured and unsubordinated obligations of the Issuer and the Company. In the event of such liquidation or winding-up, there is a risk that an investor will not receive full return of principal amount or any unpaid amounts or distributions under the Securities.

There are limited remedies for default under the Securities.

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment has become due and the Issuer or the Guarantor fails to make the payment when due. The only remedy against the Issuer or the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Issuer or the Guarantor, as provided in the Conditions) any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of the payment obligations of the Issuer or the Guarantor arising from the Securities and the Trust Deed.

The adoption of new accounting policies of PFRS may have a significant impact on the financial condition and results of operations of the Company and/or may result in a change to the accounting treatment of the Securities, which could give the Issuer the right to elect to redeem the Securities.

The FRSC is continuing its policy of issuing PFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board (**IASB**). The FRSC has issued and may in the future issue new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new PFRS will not have a significant impact on the financial condition and results of operations of the Company. In addition, any change or amendment to, or any change or amendment to any interpretation of, PFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as equity in the audited consolidated financial statements of the Group prepared in accordance with PFRS and will give the Issuer the right to elect to redeem the Securities. See "*—Risks Relating to the Securities and the Guarantee of the Securities—Securities may be redeemed at the option of the Issuer on the Step Up Date or any subsequent Distribution Payment Date or upon the occurrence of certain other events"* and Condition 5.4(c) of the Terms and Conditions of the Securities.

The applicable Rate of Distribution may decline on any Reset Date.

The Rate of Distribution will be reset on each Reset Date by reference to the then Treasury Rate (as defined in the Conditions). Accordingly, a Securityholder is exposed to the risk of a fluctuating Rate of Distribution and uncertain distribution income. A fluctuating Rate of Distribution makes it impossible to determine the yield of the Securities with respect to any Reset Period in advance.

The Issuer, Company and its subsidiaries may raise other capital and incur substantial indebtedness in the future and may not be able to generate sufficient cash flows to meet its obligations.

The Issuer may from time to time and without prior consultation of the holders of the Securities create and issue further Securities (see Condition 9 (*Further Issues*)). Furthermore, the Issuer, the Company and its subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Under the terms of the Securities, there is no restriction, contractual or otherwise, on the amount of Securities that the Issuer may further issue or securities or other liabilities that the Issuer, the Company and its subsidiaries may issue or incur and that rank senior to, or *pari passu* with, the Securities. If the Issuer, the Company or its subsidiaries incur additional debt, that could have important consequences to investors. For example, it could: (1) limit the ability of the Issuer to satisfy its obligations under the Securities and other debt and the Guarantor to satisfy its obligations under the Securities Guarantee; (2) increase the vulnerability of the Issuer and the Guarantor to adverse general economic and industry conditions; (3) require the Issuer or the Guarantor to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, planned capital expenditures, acquisitions, joint ventures and other general corporate purposes; (4) limit the flexibility of the Issuer or the Guarantor in planning for or reacting to changes in its businesses and the industries in which it operates; (5) limit the Issuer's or the Guarantor's ability to borrow additional funds and increase the cost of additional financing; and (6) place the Issuer or the Guarantor at a competitive disadvantage compared to its competitors that have less debt. If the subsidiaries of the Issuer or the Guarantor incur additional indebtedness, that could also have adverse effects on the subsidiaries similar to those described above, and therefore on the Issuer and the Guarantor. The issue of any further Securities or such other securities, or the incurrence of any such other liabilities, may reduce the amount (if any) recoverable by holders of the Securities on a winding-up of the Issuer or the Guarantor and may also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell them.

Payments under the Securities and the Securities Guarantee will be structurally subordinated to liabilities and obligations of certain of the Company's subsidiaries, associates and joint ventures, and the Securities are not secured.

The Issuer is primarily a holding company with limited business operations. The operations of the Issuer are primarily conducted through its subsidiaries and, therefore, the Issuer depends on the cash flow of its subsidiaries to meet its obligations. Further, none of the Company's subsidiaries will guarantee the Securities on the issue date. Accordingly, the Securities and the Securities Guarantee will be structurally subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's subsidiaries, unless such subsidiaries guarantee the Securities in the future.

Any right of the Company to receive assets of any of its subsidiaries upon the subsidiary's liquidation or reorganisation (and the consequent right of the Securityholders to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that the Company is itself recognised as a creditor of the subsidiary, in which case the claims of the Company would still be subordinated in right of payment to any security in the assets of the subsidiary and any indebtedness of the subsidiary which is senior to that held by the Company. In addition, the Securityholders will not have the benefit of any security interest over the shares of any of the Company's other subsidiaries or any security interest over the assets of any of the Company's other subsidiaries.

Debt notarised under Philippine law has effective priority over a guarantee.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit is made) may be sufficient to constitute a debt evidenced by a public instrument.

There has been no prior market for the Securities, an active trading market for the Securities may not develop, and the trading price of the Securities could be materially and adversely affected.

The Securities are a new issue for which there is currently no trading market. The Company has been advised that the Joint Lead Managers intend to make a market in the Securities, but are not obligated to do so and may discontinue such market making activity at any time without notice. The Company cannot predict whether an active trading market for the Securities will develop or be sustained. If an active trading market were to develop, the Securities could trade at prices that may be lower than the initial offering price. The price at which the Securities trade depends on many factors, including but not limited to:

- prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- the Company's financial condition, historical financial performance and future prospects.

If an active market for the Securities fails to develop or be sustained, the trading price of the Securities could be materially and adversely affected. Application will be made for the listing and quotation of the Securities on the SGX-ST. However, there can be no assurance that the Company will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Securities on the SGX-ST. The Issuer does not intend to apply for listing of the Securities on any securities exchange other than the SGX-ST. Lack of a liquid, active trading market for the Securities may adversely affect the price of the Securities or may otherwise impede a holder's ability to dispose of the Securities.

The transfer of Securities is restricted which may adversely affect Securityholders' ability to sell the Securities, impacting their liquidity and the price at which they may be sold.

The Securities and the Securities Guarantee have not been registered under, and Issuer and the Company are not obligated to register the Securities or the Securities Guarantee under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "*Subscription and Sale*". The Issuer and the Company have not agreed to or otherwise undertaken to register the Securities (including by way of an exchange offer), and the Issuer and the Company have no intention of doing so. Hence, future resales of the Securities may only be made pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such applicable laws.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, and such standards may be different from those applicable to debt securities listed in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Securities to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what investors in the Securities may be accustomed to.

The Securities Guarantee will not be registered with the BSP and without BSP registration, the Guarantor cannot access the Philippine banking system to purchase U.S. dollars to fulfil its obligations under the Securities Guarantee.

The Guarantor has not obtained the approval of the BSP for the issuance of the Securities Guarantee, and accordingly, the Guarantor will not be able to purchase U.S. dollars from the Philippine banking system for the purpose of funding payments under the Securities Guarantee. The Guarantor believes that it will be able to obtain sufficient U.S. dollars to meet its obligations under the Securities Guarantee from sources outside the Philippine banking system.

If a holder holds Securities which are not denominated in such holder's home currency, such Securityholder will be exposed to movements in exchange rates adversely affecting the value of the Securities held. In addition, the imposition of exchange controls in relation to any Securities could result in a holder not receiving payments on those Securities.

The Issuer will pay Distributions on the Securities in the Specified Currency. This presents certain risks relating to currency conversions if a holder's financial activities are denominated principally in a currency or currency unit (**Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Securities; (2) the Investor's Currency equivalent value of the principal payable on the Securities; and (3) the Investor's Currency equivalent market value of the Securities.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licencing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. Neither the Issuer nor the Company is aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of holders to repatriate foreign currency upon sale of the Securities or receipt of any dividends.

Securityholders are required to rely on the procedures of the relevant clearing system and its participants while the Securities are held in global form through the relevant clearing system.

The Securities will be represented on issue by one or more Global Certificates that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Securities in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Securities are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Securities are represented by Global Certificates, the Issuer and the Guarantor will discharge its payment obligation under the Securities by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Securities. The Issuer and the Guarantor has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Securities so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

If definitive Securities are issued, holders should be aware that definitive Securities that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Conditions contain provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority.

The liquidity and price of the Securities following this offering may be volatile.

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Company and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies, any adverse change in results of operations could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the volume and price at which the Securities will trade. There can be no assurance that these developments will not occur in the future.

The Trustee may decline to take actions requested by Securityholders and may request holders of the Securities to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation the giving of notice to the Issuer or the Guarantor and the taking of enforcement steps pursuant to Condition 12 of the Conditions, the Trustee may, at its sole discretion, request holders of the Securities to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of holders of the Securities. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed or the Conditions and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Securities to take such actions directly.

Modifications and waivers may be made in respect of the Conditions and the Trust Deed by the Trustee or less than all of the holders of the Securities.

The Conditions provide that the Trustee may, without the consent of Securityholders, agree to any modification of the Securities and the Trust Deed (with certain exceptions) which in the opinion of the Trustee will not be materially prejudicial to the interests of Securityholders and to any modification of the Conditions of the Securities and the Trust Deed (with certain exceptions) which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Securityholders, authorise or waive any proposed breach or breach of the Securities and the Trust Deed (with certain exceptions) if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby.

Singapore taxation risk.

The Singapore income tax treatment of the Securities as described in "*Taxation—Singapore Taxation*" is subject to the agreement of the Inland Revenue Authority of Singapore (**IRAS**). It is not clear whether the Securities will be regarded as "debt securities" by the IRAS for the purposes of the Income Tax Act, Chapter 134 of Singapore (the **ITA**) and therefore if the holders of the Securities may be eligible to receive the tax concessions available for "qualifying debt securities" under the qualifying debt securities scheme (as described in the section entitled "*Taxation—Singapore Taxation*").

If the Securities are not regarded as "debt securities" or the distribution payments made under the Securities are not regarded as interest payable on indebtedness for the purposes of the ITA and Securityholders thereof are not eligible for the tax concessions under the qualifying debt securities scheme, the tax treatment to Securityholders may differ. Investors and Securityholders should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Securities.

TERMS AND CONDITIONS OF THE SECURITIES

The following (other than sentences in italics and subject to completion and amendment) are the terms and conditions of the Securities, substantially in the form in which they will be endorsed on the Securities if issued in definitive certificated form, and which will be incorporated by reference into the Global Certificate representing the Securities, subject to the provisions of such Global Certificate.

The issue of the securities in registered form comprising the U.S.$600,000,000 guaranteed senior perpetual capital securities (the **Securities**, which expression shall, in these Conditions, unless the context otherwise requires, include any further guaranteed senior perpetual capital securities issued pursuant to Condition 9 and forming a single series with the Securities) of Jollibee Worldwide Pte. Ltd. (the **Issuer**) are constituted by a trust deed (as amended and/or supplemented from time to time, the **Trust Deed**) to be dated on or about 23 January 2020 among the Issuer, Jollibee Foods Corporation (the **Guarantor**) as guarantor and Citicorp International Limited (the **Trustee**, which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) for the holders of the Securities.

The Issuer and the Guarantor have entered into an agency agreement (as amended and/or supplemented from time to time, the **Agency Agreement**) to be dated on or about 23 January 2020 with the Trustee, Citibank, N.A., London Branch as principal paying agent (the **Principal Paying Agent**) and as transfer agent (the **Transfer Agent**), Citibank, N.A., London Branch as calculation agent (the **Calculation Agent**) and Citibank, N.A., London Branch as registrar (the **Registrar**) and the other agents appointed under it, relating to the Securities. The expression **Paying Agents** includes the Principal Paying Agent. The Principal Paying Agent, the Registrar, the Transfer Agent, the Calculation Agent and any other agents appointed under the Agency Agreement are collectively referred to as the **Agents**, and such expression includes any successor or additional agent appointed pursuant to the Agency Agreement with respect to the Securities. References to the **Principal Paying Agent**, **Paying Agent**, **Registrar**, **Transfer Agent**, **Calculation Agent** and **Agents** below are references to the principal paying agent, paying agent, registrar, transfer agent, calculation agent and agents for the time being. The statements in these terms and conditions (these **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement. Copies of the Trust Deed and of the Agency Agreement are available for inspection upon prior written request and satisfactory proof of holding at all reasonable times during normal business hours on any weekday (except public holidays) by Securityholders at the principal place of business of the Trustee, being at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement applicable to them. Capitalised terms not otherwise defined herein or in Condition 18 shall have the meaning given to them in the Trust Deed unless the context otherwise requires.

1. THE SECURITIES

1.1 Status of the Securities

The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, past and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The claims of the Securityholders in respect of the Securities, including in respect of any claim to Arrears of Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank *pari passu* with each other and with all other unsubordinated obligations of the Issuer.

1.2 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

1.3 No Voting Rights

The Securities do not confer any voting rights to Securityholders with respect to the ordinary shares or any other class of share capital of the Issuer.

2. THE SECURITIES GUARANTEE

2.1 Status of the Securities Guarantee

The payment of principal of and Distributions on the Securities and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed on an unsubordinated basis by the Guarantor (the **Securities Guarantee**) in the Trust Deed.

The claims of the Securityholders in respect of the Securities Guarantee, including in respect of any claim to Arrears of Distribution, will, in the event of the Winding-Up of the Guarantor (subject to and to the extent permitted by applicable law), rank *pari passu* with each other and with all unsubordinated obligations of the Guarantor.

2.2 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Guarantor in respect of, or arising from, the Securities Guarantee and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3. FORM, DENOMINATION AND TITLE

3.1 Form and Denomination

The Securities are issued in registered form in the specified denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Security). An individual certificate (a **Certificate**) will be issued to each Securityholder in respect of its registered holding or holdings of Securities.

Each Certificate will be serially numbered with an identifying number which will be recorded in the register of Securityholders (the **Register**).

*Upon issue, the Securities will be represented by a Global Certificate deposited with and registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). The Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate". The Securities are not issuable in bearer form.*

3.2 Title and Transfer

(a) **Register and Title:** Title to the Securities passes upon registration of transfers in the Register which the Issuer will procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. The registered Holder of any Security will (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment in respect of it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (other than a duly completed and endorsed form of transfer in respect of such Security) or its theft or loss) and no person will be liable for so treating such Holder. In these Conditions, **Securityholder** and (in relation to a Security) **Holder** mean the person in whose name a Security is registered in the Register.

For a description of the procedures for transferring title to book-entry interests in the Securities, see "Clearance and Settlement of the Securities".

(b) **Transfers:** Subject to Condition 3.2(e) and 3.2(f), one or more Securities may be transferred in whole or in part in their principal amount(s). Any Securities represented by one or more Certificates may be transferred only upon the surrender, at the specified office of the Registrar or any Transfer Agent, of the Certificate(s) representing such Securities to be transferred, with the form of transfer endorsed on such Certificate duly completed and executed and together with such other evidence as the Registrar or the relevant Transfer Agent may require to prove the title of the transferor and the authority of the individual who has executed the form of transfer; *provided*, however, that such Securities may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Securityholder are being transferred) the principal amount of the balance of Securities not transferred are in authorised denominations described in Condition 3.1. In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

Transfers of interests in the Securities evidenced by the Global Certificate will be affected in accordance with the rules of the relevant clearing systems.

For a description of certain restrictions on transfers of interests in the Securities, see "Subscription and Sale".

(c) **Delivery:** Each new Certificate to be issued pursuant to Condition 3.2(b) will be available for delivery and the Registrar shall register the transfer in question within five business days of receipt of such form of transfer. Delivery of new Certificate(s) shall be made at the specified office of the Transfer Agent or the Registrar, as the case may be, to whom delivery shall have been made or, at the option of the Holder making such delivery as aforesaid and as specified in the form of transfer or otherwise in writing, shall be mailed by pre-paid first class mail (airmail, if overseas) at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. For the purposes only of this Condition 3.2(c), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent and the Registrar.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

(d) **No charge:** Transfers of Securities and Certificates representing such Securities in accordance with these Conditions on registration or transfer will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent, but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax, duty or other governmental charges which may be imposed in relation to it.

(e) **Closed periods:** No Securityholder may require the transfer of a Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal, premium (if any) or Distributions of that Security.

(f) **Regulations:** All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer in any manner which is reasonably required by the Issuer with the prior written approval of the Trustee and the Registrar, and by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be sent by the Registrar to any Securityholder (free of charge to the Holder and at the Issuer's (failing which, the Guarantor's) expense) upon written request and satisfactory proof of holding.

4. DISTRIBUTIONS

4.1 Rate of Distribution

Subject to Condition 4.4 and Condition 4.5, the Securities will confer a right to receive distributions (**Distributions**):

(a) from the period commencing on (and including) the Issue Date to (but excluding) 23 January 2025 (the **Step Up Date**), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Issuer and the Securityholders (in accordance with Condition 12),

payable semi-annually in arrear on 23 January and 23 July of each year (each a **Distribution Payment Date**) commencing on 23 July 2020.

4.2 Distribution Accrual

Each Security will cease to accrue Distributions from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event Distributions shall continue to accrue as provided in the Trust Deed.

4.3 **Broken Amounts**

When any Distribution is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

4.4 **Increase in Rate of Distribution**

Following the earlier to occur of:

(a) the date which is the 61st day, or if such day is not a Business Day, the first Business Day thereafter, following a Change of Control Event; and

(b) the date on which an Indebtedness Default Event occurs,

and the Issuer does not elect to redeem the Securities pursuant to Condition 5.4(a) or 5.4(b), the Rate of Distribution will increase by the Step Up Margin with effect from the next Distribution Payment Date (or, if the relevant event occurs two Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date), provided that the maximum aggregate increase in the Rate of Distribution pursuant to this Condition 4.4 shall be the Step Up Margin.

If, following an increase in the Rate of Distribution after a Change of Control Event or Indebtedness Default Event occurs, such Change of Control Event or Indebtedness Default Event is cured or no longer exists, upon written notice of such facts being given to the Securityholders (in accordance with Condition 12), the Trustee and the Principal Paying Agent, the Rate of Distribution shall be decreased by the Step Up Margin with effect from (and including) the Distribution Payment Date immediately following the date falling 30 days after the date on which the Trustee receives notice of the cure of such Change of Control Event or Indebtedness Default Event, provided that the maximum aggregate decrease in the Rate of Distribution pursuant to this paragraph shall be the Step Up Margin.

4.5 **Optional Deferral of Distributions**

(a) The Issuer or the Guarantor may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the **Deferral Election Event**). Any such deferred Distribution will constitute **Arrears of Distribution** and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the principal amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

(b) The Issuer or, as the case may be, the Guarantor will notify the Securityholders (in accordance with Condition 12.1) and the Trustee and the Principal Paying Agent in writing of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the **Deferral Election Notice**). Deferral of a Distribution pursuant to Condition 4.5(a) will not constitute a default by the Issuer or the Guarantor or any other breach of their respective obligations under the Securities or the Trust Deed or for any other purpose.

(c) Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by an Authorised Signatory of the Guarantor confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event and it shall be conclusive and binding on the Securityholders.

(d) Neither the Issuer nor the Guarantor is subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a).

4.6 **Restrictions in the case of Deferral**

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, neither the Issuer nor the Guarantor shall:

(a) declare or pay any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is made on its Junior Securities or (except on a *pro-rata* basis) its Parity Securities other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer and/or the Guarantor; or

(b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration its Junior Securities or (except on a pro-rata basis) its Parity Securities,

unless and until (i) the Issuer or the Guarantor has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer or the Guarantor is permitted to do so with the consent of the Securityholders holding more than 50 per cent. in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Guarantor to declare and pay dividends, advance loans or otherwise make payments to the Guarantor.

4.7 **Payment of Arrears of Distribution**

The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of not less than five Business Days' prior notice to Securityholders (in accordance with Condition 12.1) and to the Trustee and the Principal Paying Agent in writing. If not paid earlier, Arrears of Distribution will become due and payable, and the Issuer must pay such Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a *pro-rata* basis between the Securityholders.

5. REDEMPTION AND PURCHASE

5.1 **Redemption**

The Securities are perpetual securities in respect of which there is no fixed redemption date.

5.2 **Redemption at the option of the Issuer**

Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

(a) the **Step Up Date**; or

(b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

5.3 **Early redemption due to a Gross-up Event**

(a) If the Issuer or the Guarantor satisfies the Trustee that a Gross-up Event has occurred, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

(b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer or, as the case may be, the Guarantor would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

(c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there are delivered to the Trustee:

(i) a certificate signed by an Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Issuer to redeem have been satisfied and that the obligation to pay Additional Amounts (as defined in Condition 7.1) cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it; and

(ii) an opinion of an independent legal or tax adviser of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders.

5.4 **Early redemption due to a Change of Control Event, Indebtedness Default Event, or Accounting Event or Tax Event**

(a) If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

(b) If an Indebtedness Default Event occurs, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

(c) If an Accounting Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

(d) If a Tax Event occurs, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

Such notice of redemption as provided in Conditions 5.4(a), 5.4(b), 5.4(c) and 5.4(d) may only be given simultaneously with or after a notification by the Issuer to the Securityholders in accordance with Condition 12.1 and notice in writing to the Trustee and the Principal Paying Agent that a Change of Control Event, an Indebtedness Default Event, an Accounting Event or a Tax Event (as the case may be) has occurred.

5.5 **Purchase of Securities**

The Issuer, the Guarantor or any of their respective Subsidiaries may, in compliance with applicable laws, purchase Securities in any manner and at any price. Such acquired Securities may be surrendered for cancellation or held or resold. The Securities so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Securityholders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purposes of calculating quorums at meetings of the Securityholders or for the purposes of Conditions 10 or 14.1.

5.6 **Redemption of Securities in the case of minimal outstanding amounts**

In the event that the Issuer, the Guarantor and/or any Subsidiary of the Guarantor has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75 per cent. of the aggregate principal amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part) at their Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 and to the Trustee and the Principal Paying Agent in writing.

5.7 **Responsibility of Trustee and Agents**

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Gross-Up Event, Change of Control Event, Indebtedness Default Event, Accounting Event or Tax Event has occurred and shall not be responsible or liable to the Securityholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

6. PAYMENTS

6.1 **Principal and Distributions**

Payments of principal, premium (if any), and Distributions (including any Arrears of Distribution) will be made by transfer to the registered account of the Securityholder. Payments of principal, premium (if any) and payments of distributions due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant Certificate at the specified office of any Paying Agent. Distributions (including any Arrears of Distribution) on Securities due on a Distribution Payment Date will be paid to the Holder shown on the Register at the close of business on the date (the **record date**) being the fifteenth calendar day before the relevant Distribution Payment Date.

For the purposes of this Condition 6.1, a Securityholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business, in the case of principal, premium (if any) and distributions due otherwise than on a Distribution Payment Date, on the second Business Day (as defined below) before the due date for payment and, in the case of distributions due on a Distribution Payment Date, on the relevant record date.

So long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Securityholder in the register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

6.2 **Payments subject to Applicable Laws**

Payments in respect of principal, premium (if any) and distributions on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

6.3 **No Commissions**

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition 6.

6.4 **Payment on Business Days**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day, will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any), or a payment of distributions due otherwise than on a Distribution Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

Securityholders will not be entitled to any Distributions or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day or if the Securityholder is late in surrendering its Certificate (if required to do so).

In these Conditions, **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City, Hong Kong, London, Singapore and Manila, and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 **Partial Payments**

If the amount of principal, premium (if any) or distributions which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or distributions in fact paid.

6.6 **Agents**

The names of the initial Agents and their initial specified offices are set out below and in the Agency Agreement. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) so long as the Securities are listed on the Singapore Exchange Securities Trading Limited (the **SGX-ST**) and the rules of the SGX-ST so require, if the Securities are issued in definitive form, there will be at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates, including details of the Paying Agent in Singapore;

(c) there will at all times be a Registrar; and

(d) there will at all times be a Transfer Agent.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Securityholders promptly by the Issuer in accordance with Condition 12.1.

7. TAXATION AND GROSS-UP

7.1 Payment without withholding

All payments of principal, premium (if applicable) and Distributions (including Arrears of Distribution) by or on behalf of the Issuer or the Guarantor in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law.

If the Issuer or, as the case may be, the Guarantor, is required to make a deduction or withholding by the Relevant Jurisdiction, the Issuer or, as the case may be, the Guarantor, shall pay such additional amount (**Additional Amounts**) as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Security:

(a) presented for payment (if applicable) by or on behalf of a Securityholder who is liable to the Taxes in respect of such Security by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Security;

(b) presented for payment (if applicable) more than 30 days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Security would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6.4);

(c) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Security, after written request made to that Holder at least 30 calendar days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by a statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction; or

(d) presented for payment (if applicable) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

7.2 Interpretation

In these Conditions:

(a) The **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the moneys payable has not been received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, on or before such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 12.1.

(b) The **Relevant Jurisdiction** means, in respect of the Issuer, Singapore, or any political subdivision or any authority thereof or therein having power to tax and, in respect of the Guarantor, the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, and in the event of any substitution or other corporate action resulting in either the Issuer or the Guarantor (as the case may be) being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

7.3 **Additional Amounts, principal and distributions**

Any reference in these Conditions to any amounts in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to **principal** includes any instalment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and **distributions** includes all amounts payable pursuant to Condition 4 and any other amounts in the nature of distributions payable pursuant to these Conditions.

7.4 **Responsibility of Trustee and Agents for Payment of Taxes**

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Securityholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), Distributions or other amount under or in respect of the Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. PRESCRIPTION

Claims against the Issuer or the Guarantor for payment in respect of the Securities or the Securities Guarantee will prescribe and become void unless made within 10 years (in the case of principal or premium, if any) and five years (in the case of Distributions and Arrears of Distribution) from the appropriate Relevant Date in respect of the Securities, subject to the provisions of Condition 6.

9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further securities either (a) ranking *pari passu* in all respects (or in all respects save for the issue date and the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further Securities which are to form a single series with the Securities will be constituted by a deed supplemental to the Trust Deed.

10. NON-PAYMENT

10.1 **Non-payment when due**

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer and/or the Guarantor, as the case may be, in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

10.2 **Proceedings for Winding-Up**

If (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor or (ii) the Issuer or the Guarantor fails to make payment in respect of the Securities or the Securities Guarantee, as the case may be, for a period of 10 days or more after the date on which such payment is due, the Issuer and the Guarantor shall be deemed to be in default under the Trust Deed and the Securities (in the case of the Issuer) and the Trustee may, subject to the provisions of Condition 10.4 and subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or prove in the Winding-Up of the Issuer, the Guarantor or both of them (as applicable) and/or claim in the liquidation of the Issuer, the Guarantor or both of them (as applicable) for such payment.

10.3 **Enforcement**

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4, the Trustee may without further notice to the Issuer and/or the Guarantor institute such proceedings against the Issuer, the

Guarantor or both of them (as applicable) as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor under the Trust Deed or the Securities (other than any payment obligation of the Issuer or the Guarantor under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution) in respect of the Securities or the Securities Guarantee, including any damages awarded for breach of any obligations) and in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

10.4 **Entitlement of Trustee**

The Trustee shall not and shall not be obliged to take any of the actions referred to in Condition 10.2 or 10.3 above against the Issuer, the Guarantor or both of them (as applicable) to enforce the terms of the Trust Deed or the Securities unless (i) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the Securityholders holding at least 25 per cent. in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee shall have no obligation to monitor whether (i) an order has been made or an effective resolution passed for the Winding-Up of the Issuer or the Guarantor or (ii) the Issuer or the Guarantor has failed to make any payment due in respect of the Securities or the Securities Guarantee, and shall not be liable to the Securityholders or any other person for not doing so.

10.5 **Right of Securityholders**

Securityholders are not entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer or the Guarantor (as the case may be) or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 **Extent of Securityholders' remedy**

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 10, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Securities or under the Trust Deed.

11. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Transfer Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require or, as the case may be, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity and/or security as the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.

12. NOTICES

12.1 **Notices to Securityholders**

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the Register and shall be deemed to have been received on the seventh calendar day after being so mailed. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, notices to Securityholders shall be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or such additional or substitute clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

12.2 **Notices from Securityholders**

Notices to be given by any Securityholder must be in writing and given by lodging the same, together with any Certificate in respect of such Security or Securities, with the Registrar or, if the Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

13. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT, ACCOUNTING EVENT OR TAX EVENT

The Trustee may (but shall not be obliged to), without the consent of the Securityholders, agree with the Issuer and the Guarantor to:

(a) the substitution in place of the Issuer (or of any previous substitute under this Condition 13) as the principal debtor under the Securities and the Trust Deed of the Guarantor or any of its Subsidiaries; or

(b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event, Accounting Event or Tax Event provided that:

(i) in the case of a substitution of an entity other than the Guarantor, the Securities remaining unconditionally and irrevocably guaranteed by the Guarantor in a manner which would give the Securityholders a status in a Winding-Up of the Guarantor which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer;

(ii) the Trustee being satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification;

(iii) the Issuer procures, at its own cost, the delivery of a legal opinion(s) as to English and any other relevant law, addressed to the Trustee, dated the date of such substitution of the Issuer or modification of these Conditions, as the case may be, and in a form acceptable to the Trustee from legal advisers acceptable to the Trustee; and

(iv) compliance with certain other conditions set out in the Trust Deed.

14. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 **Meetings of Securityholders**

The Trust Deed contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if it receives a written request from Securityholders holding not less than 50 per cent. in principal amount of the Securities for the time being outstanding and subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing more than 50 per cent. in principal amount of the Securities for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Securities held or represented, except that, at any meeting the business of which includes any of the following matters:

(a) modification of the Step Up Date;

(b) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Trustee bound to result in an increase, of the method of calculating the amount payable or modification of the date of payment or, where applicable, of the method of calculating the date of payment in respect of any principal, premium (if any) or Distribution in respect of the Securities;

(c) alteration of the currency in which payments under the Securities are to be made;

(d) modification or cancellation of the Securities Guarantee; or

(e) alteration of this provision or to modify the provisions concerning the quorum required to pass an Extraordinary Resolution or the majority required to pass an Extraordinary Resolution,

(each of (a), (b), (c), (d) and (e) above, a **Reserved Matter**), the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than 25 per cent., of the aggregate principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Securityholders or passed by way of electronic consent given by the Securityholders through the relevant clearing systems in accordance with the Trust Deed will be binding on all Securityholders, whether or not they are present at the meeting at which such resolution was passed.

The Trust Deed provides that a written resolution signed by or on behalf of the Securityholders of not less than 90 per cent. of the aggregate principal amount of the Securities for the time being outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

The provisions of this Condition 14.1 are subject to the further provisions of the Trust Deed.

14.2 **Modification, Waiver, Authorisation and Determination**

The Trustee may (but shall not be obliged to), without the consent of the Securityholders, agree (i) to any modification of these Conditions or the Trust Deed (in each case, other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Securityholders, and (ii) to any modification of the Securities or the Trust Deed which is in the opinion of the Trustee of a formal, minor or technical nature or is to correct a manifest error or is made to comply with mandatory provisions of law. In addition, the Trustee may (but shall not be obliged to), without the consent of the Securityholders, authorise or waive any proposed breach or breach of the Securities or the Trust Deed if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby.

14.3 **Trustee to have Regard to Interests of Securityholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Securityholders as a class and shall not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require, nor will any Securityholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14.4 **Notification to Securityholders**

Any modification, waiver, authorisation, determination or substitution agreed to by the Trustee will be binding on the Securityholders and, unless the Trustee agrees otherwise, any modification, waiver, authorisation, determination or substitution will be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 12.1.

15. INDEMNIFICATION OF THE TRUSTEE, ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR AND OTHER MATTERS

15.1 **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or pre-funded and/or secured to its satisfaction.

15.2 **Right to obtain instructions from Securityholders**

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking or refraining from any such action, making any such decision or giving any such direction, to seek directions or clarification of directions from the Securityholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Securityholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Securityholders or in the event that no direction is given to the Trustee by the Securityholders. None of the Trustee or any Agent shall be liable to any Securityholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Securityholders. The Trustee shall be entitled to rely on any direction, request or resolution of Securityholders given by Securityholders holding the requisite principal amount of Securities outstanding or passed at a meeting of Securityholders convened and held in accordance with the Trust Deed.

15.3 **Trustee Contracting with the Issuer and the Guarantor**

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's Subsidiaries and/or any entity related directly or indirectly to the Issuer or the Guarantor and to act as trustee, agent or depositary for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's Subsidiaries and/or any entity related directly or indirectly to the Issuer or the Guarantor, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 **Governing Law**

The Trust Deed, the Agency Agreement and the Securities, and any non-contractual obligations arising out of or in connection with these documents are governed by and shall be construed in accordance with English law.

17.2 **Jurisdiction of English courts**

(a) Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and has accordingly submitted to the exclusive jurisdiction of the English courts.

(b) Each of the Issuer and the Guarantor has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Securityholders may take any suit, action or proceeding (referred to as **Proceedings**) arising out of, or in connection with the Trust Deed or the Securities respectively (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities respectively) against the Issuer or the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

17.3 **Appointment of process agent**

Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will promptly appoint another person as its agent for that purpose and shall deliver to the Trustee a copy of that new agent's acceptance of appointment within 30 days of such cessation.

18. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

Accounting Event means that an opinion of a recognised accountancy firm of international standing or a member firm thereof has been delivered to (i) the Issuer or the Guarantor and (ii) the Trustee, stating the Securities may no longer be recorded as "equity" in the audited consolidated financial statements of the Guarantor prepared in accordance with PFRS or other recognised accounting standards that the Guarantor has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it.

Authorised Signatory has the meaning given to it in the Trust Deed.

Change of Control Event means the occurrence of any of the following events: (i) any Person, individually, or group of related Persons, acting together, other than the Permitted Holders, directly or indirectly acquiring control of the Guarantor; (ii) the Guarantor ceasing to own, directly or indirectly, at least 50 per cent. of the outstanding Voting Stock of the Issuer, or (iii) the Guarantor consolidates with or merges into or sells or transfers substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Guarantor or the successor entity. For purposes of this definition, control, as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

Compulsory Distribution Payment Event means (i) a discretionary dividend, distribution or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro-rata basis) Parity Securities of the Issuer and/or the Guarantor, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer and/or the Guarantor; or (ii) at the discretion of the Issuer or the Guarantor, any Junior Securities or (except on a pro-rata basis) Parity Securities have been redeemed, repurchased or otherwise acquired by the Issuer or the Guarantor.

Extraordinary Resolution has the meaning given to it in the Trust Deed.

Gross-up Event means that as a result of any change in, or amendment to, the laws or treaties (or any rules or regulations thereunder) of any Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, treaties or rules or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date, (i) the Issuer (or, if the Guarantor was called, the Guarantor) has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 at a rate greater than the applicable withholding tax rate on the Issue Date; and (ii) the payment obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor, taking reasonable measures available to it.

Indebtedness of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of moneys borrowed (including bonds, debentures, notes, certificates or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables; and (ii) all Indebtedness of others guaranteed by such Person.

Indebtedness Default Event means the occurrence of one or more of the following events (and such event is continuing): (i) any Indebtedness of the Issuer, the Guarantor or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or (iii) the Issuer, the Guarantor or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Indebtedness within any originally applicable grace period; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$45 million (or its equivalent in any other currency or currencies).

Initial Credit Spread means 2.284 per cent.

Initial Rate of Distribution means 3.90 per cent. per annum plus any increase pursuant to Condition 4.4.

Issue Date means 23 January 2020.

Junior Securities means any class of share capital (including preference shares) of the Issuer or the Guarantor (as the case may be) and (i) any security issued by the Issuer or the Guarantor (as the case may be) which ranks, or is expressed to rank, junior to the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer or the Guarantor (as the case may be) where the Issuer's or the Guarantor's (as the case may be) obligations under the relevant guarantee or indemnity rank, or is expressed to rank, junior to the Issuer's or the Guarantor's (as the case may be) obligations under the Securities.

Parity Securities means: (i) any security issued by the Issuer or the Guarantor (as the case may be) which ranks, or is expressed to rank, *pari passu* with the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer or the Guarantor (as the case may be) where the Issuer's or the Guarantor's (as the case may be) obligations under the relevant guarantee or indemnity rank, or is expressed to rank, *pari passu* with the Issuer's or the Guarantor's (as the case may be) obligations under the Securities.

Payment Reference Date means the date which is the earliest of:

(i) the date on which the Securities are redeemed;

(ii) the date on which an order is made for the Winding-Up of the Guarantor;

(iii) the date on which the Issuer or the Guarantor is in violation of Condition 4.6 or the date on which a Compulsory Distribution Payment Event has occurred; and

(iv) the date of any substitution or modification of the Securities pursuant to Condition 13.

Permitted Holder means any or all of the following: (i) Mr. Tony Tan Caktiong and his spouse; (ii) the relatives until the fourth degree of consanguinity or affinity of the persons named or described in clause (i) above and such relatives' spouses; (iii) the descendants of the persons named or described in clauses (i) and (ii) above; (iv) the estates or legal representatives of any person named or described in clauses (i) to (iii) above; (v) trusts or other analogous arrangements established for the benefit of any person named or described in clauses (i) to (iv) above or of which any such person is a trustee or holder of an analogous office; or (vi) any Person directly or indirectly controlled by any Person named or described in clauses (i) to (v) above. For purposes of this definition, **control**, as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

Person means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof.

PFRS means Philippine Financial Reporting Standards and includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) as in effect from time to time.

Rate of Distribution means the Initial Rate of Distribution or the Reset Rate of Distribution, as applicable.

Redemption Price means the principal amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable.

Reset Date means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

Reset Determination Date means, in relation to the calculation of a Reset Rate of Distribution, the second Business Day before the commencement of the relevant Reset Period.

Reset Period means the period from and including the Step Up Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

Reset Rate of Distribution means, in respect of any Reset Period, the Treasury Rate calculated on the Reset Determination Date in respect of that Reset Period plus the Initial Credit Spread and the Step Up Margin.

Special Redemption Price means 101 per cent. of the principal amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of distributions accrued thereon in accordance with Condition 4.5(a)).

Step Up Margin means 2.5 per cent. per annum.

Subsidiary means, with respect to any Person, any corporation, association or other business entity, more than 50 per cent. of the voting power of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be "controlled" by another means that the other (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, by contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and "control" shall be construed accordingly.

Tax Event means that the Issuer and/or the Guarantor receives an opinion from an internationally recognised law firm, accounting firm, or practitioner experienced in taxation that, due to a change in law, rule, regulation or official interpretation, there is more than an insubstantial risk that the Issuer will no longer be able to obtain a deduction for the purposes of corporations tax of the Relevant Jurisdiction for any payment of interest in respect of any distribution under the Securities.

Treasury Rate means the rate in per cent. per annum equal to the yield, under the heading that represents the average for the week immediately prior to the Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" (currently set out on the website http://www.federalreserve.gov/releases/h15/current/default.htm) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded non-inflation indexed U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities", for the maturity corresponding to five years. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, Treasury Rate shall be obtained from an internationally recognised investment bank selected by the Issuer and notified in writing to the Trustee, the Principal Paying Agent and the Calculation Agent.

Voting Stock means, with respect to any Person, share capital of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Winding-Up means, with respect to the Issuer or the Guarantor, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer or the Guarantor, as the case may be.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Securities in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Terms and Conditions of the Securities. Terms defined in the Terms and Conditions of the Securities have the same meaning below.

ACCOUNTHOLDERS

For so long as all of the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Securities (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Securities (and the expression **Securityholders** and references to **holding of Securities** and to a **holder of Securities** shall be construed accordingly) for all purposes other than with respect to payments on such Securities, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the nominee for the relevant clearing system (**Relevant Nominee**) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any Securities following its redemption or purchase by the Issuer or the Guarantor will be effected by reduction in the aggregate principal amount of the Securities in the register of Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Payments of principal and distributions in respect of Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where **Clearing System Business Day** means a weekday (Monday to Friday, inclusive) on which Euroclear and Clearstream, Luxembourg are open for business.

Distributions of amounts with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

NOTICES

So long as all the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Conditions. For so long as the Securities are listed on the SGX-ST, notices shall also be published in the manner required by the rules and regulations of the SGX-ST.

REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Securities so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "*Clearance and Settlement*". No Securityholder may require the transfer of a Note to be registered during the period from the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) on the date before the relevant due date for any payment of principal or distributions on the Securities.

RECORD DATE

Interest on the Securities due on an Interest Payment Date will be paid to the holder shown on the register of Securityholders at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date (the **record date**).

USE OF PROCEEDS

The proceeds from the issue of the Securities, which are U.S.$600 million (without deduction of commissions or expenses), are intended primarily to refinance the short-term debt from the acquisition of CBTL as well as fund initiatives aligned with the Issuer's general corporate purposes.

EXCHANGE RATES

The Bankers' Association of the Philippines (**BAP**) announced that beginning 2 April 2018, spot and forward currency exchange transactions will be effected using the Bloomberg trading platform. As a result, the BSP's Reference Exchange Rate Bulletin now refers to the closing rate quoted on the Bloomberg platform as the closing rate for the purchase of U.S. dollars with Pesos. Prior to this, the PDS rate appearing on the PDS platform, a computer network supervised by the BSP, was quoted as the spot reference rate for foreign exchange transactions.

The following table sets forth certain information concerning the exchange rate between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per U.S.$1.00 based on the BSP Reference Exchange Rate Bulletin:

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average(1)**	**High(2)**	**Low(3)**
2013	44.414	42.446	44.660	40.569
2014	44.617	44.395	45.406	43.280
2015	47.166	45.502	47.435	44.053
2016	49.813	47.493	49.984	45.917
2017	49.923	50.404	51.799	49.404
2018	52.724	52.661	54.345	49.69
2019				
July	51.013	51.143	51.408	50.944
August	52.339	52.055	52.519	50.865
September	52.042	52.105	52.337	51.835
October	51.033	51.504	51.950	51.033
November	50.798	50.727	50.959	50.489
December	50.744	50.767	51.067	50.569
2020				
January (as of 3 January 2020)	50.646	50.724	50.802	50.646

(1) Weighted average rate for the period ended.

(2) Highest daily closing exchange rate for the period.

(3) Lowest daily closing exchange rate for the period.

On 3 January 2020, the closing rate quoted on the Reference Exchange Rate Bulleting was ₱50.646 = U.S.$1.00.

CAPITALISATION

The following table sets forth the consolidated capitalisation and indebtedness of the Group as of 30 September 2019 and as adjusted to give effect to the issue of the Securities. This table should be read in conjunction with the Group's unaudited interim condensed consolidated financial statements and the notes thereto, included elsewhere in this Offering Circular.

	As of 30 September 2019			
	Actual		As Adjusted	
	(Unaudited) (in millions)			
	(in ₱)	(in US$)	(in ₱)	(in US$)
Debt				
Short-term debt and current portion of long-term debt	24,865.7	477.8	24,865.7	477.8
Long-term debt—net of current portion	20,368.3	391.4	20,368.3	391.4
Total debt (a)	**45,234.0**	**869.2**	**45,234.0**	**869.2**
Less:				
Cash and cash equivalents	23,570.9	452.9	54,794.9	1,052.9
Short-term investments	433.9	8.3	433.9	8.3
Net debt	**21,229.2**	**408.0**	**(9,994.9)**	**(192.1)**
Equity				
Capital stock—net of subscription receivable	1,092.8	21.0	1,092.8	21.0
Additional paid-in capital	9,415.3	180.9	9,415.3	180.9
Securities to be issued	—	—	31,224.0	600.0
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	368.7	7.1	368.7	7.1
Remeasurement loss on net defined benefit plan—net of tax	(308.0)	(5.9)	(308.0)	(5.9)
Comprehensive loss on derivative liability	(63.1)	(1.2)	(63.1)	(1.2)
Excess of cost over the carrying value of non-controlling interests acquired	(1,804.8)	(34.7)	(1,804.8)	(34.7)
Retained earnings				
Appropriated for future expansion	20,000.0	384.3	20,000.0	384.3
Unappropriated	21,596.0	415.0	21,596.0	415.0
	50,296.9	966.5	81,520.9	1,566.5
Less cost of common stock held in treasury	180.5	3.5	180.5	3.5
	50,116.4	963.0	81,340.4	1,563.0
Non-controlling interests	1,451.9	27.9	1,451.9	27.9
Total equity (b)	**51,568.3**	**990.9**	**82,792.3**	**1,590.9**
Total capitalisation (a+b)	**96,802.3**	**1,860.1**	**128,026.3**	**2,460.2**

(1) Total debt includes short-term debt and current portion of long-term debt and long-term debt—net of current portion.

(2) Net debt is total debt less cash and cash equivalents and short-term investments.

Other than the issuance of the Securities, there has been no material change in the capitalisation of the Group since 30 September 2019.

THE ISSUER

GENERAL

The Issuer was incorporated as a private limited liability company under the laws of Singapore on 1 June 2005 with company registration number 200507479R. The registered office of the Issuer is at 80 Robinson Road #02-00 Singapore (068898). 100 per cent. of the Issuer's shares are held directly by the Guarantor.

BUSINESS ACTIVITY

The Issuer was established for the purpose of primarily being a holding company for the Group's investments in outside the Philippines (except for its owned brands, namely Jollibee, Chowking and Red Ribbon, in North America). It performs various shared services for the Group through JWS.

MANAGEMENT

The board of the directors of the Issuer consists of Mr. Tony Tan Caktiong, Mr. Ernesto Tanmantiong and Mr. Lu Kee Hong.

The officers of the Issuer are Mr. Toon Choi Fan and Mr. Liu Weikang who are both company secretaries.

CAPITALISATION

The authorised share capital of the Issuer is SG$849,649,026 and consists of 849,649,026 ordinary shares with a par value of SG$1 per share.

As of 30 September 2019, the Issuer had a total of U.S.$113.6 million of borrowings (long-term debt) with varying maturities.

As of 30 September 2019, the total capitalisation of the Issuer was ₱32,299.8 million (US$620.7 million). The Issuer's total capitalisation is the sum of its capital stock, cumulative translation adjustments and unappropriated retained earnings. Other than the issuance of the Securities, there has been no material change in the capitalisation of the Issuer since 30 September 2019.

SELECTED FINANCIAL INFORMATION

The selected historical consolidated statement of financial position data as of 31 December 2016, 2017 and 2018 and selected historical consolidated statement of comprehensive income for the years ended 31 December 2016, 2017 and 2018 set forth below have been derived from, and should be read in conjunction with, the audited consolidated financial statements and, including the notes thereto, included elsewhere in this Offering Circular. SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited, has audited the consolidated financial statements in accordance with Philippine Standards on Auditing. The selected historical consolidated statement of financial position data as of 30 September 2019 and as of 31 December 2018 and selected historical consolidated statement of comprehensive income for the nine months ended 30 September 2018 and 2019 have been derived from, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements, which SyCip Gorres Velayo & Co. has reviewed in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". For convenience only, all translations from ₱ to U.S. dollars were made at the rate of ₱52.04 to US$1.00, being the published BSP Closing Rate on 30 September 2019 (the last day in September such Closing Rate was published by BSP).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended 31 December				For the nine months ended 30 September		
	2016[1]	2017[1]	2018[1]		2018[2]	2019[2]	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions, except earnings per share figures)						
	(in ₱) (as restated)	(in ₱) (as restated)	(in ₱)	(in US$)	(in ₱) (as restated)	(in ₱)	(in US$)
Gross sales	108,992.3	126,229.5	153,068.7	2,941.4	110,837.6	120,493.7	2,315.4
Sales discount	(1,067.9)	(1,566.0)	(2,867.8)	(55.1)	(1,978.9)	(2,246.2)	(43.2)
Net sales	107,924.5	124,663.5	150,200.8	2,886.3	108,858.8	118,247.5	2,272.2
Royalty, set-up fees and others	5,887.0	6,913.0	8,475.1	162.9	5,983.9	6,809.1	130.8
PFRS 15 impact on system-wide advertising fees	1,802.1	2,036.5	2,523.5	48.5	1,792.5	2,149.3	41.3
	115,613.5	133,613.1	161,199.4	3,097.6	116,635.1	127,205.9	2,444.4
DIRECT COSTS	94,617.6	109,694.7	133,894.7	2,572.9	96,924.4	106,898.6	2,054.2
GROSS PROFIT	20,996.0	23,918.4	27,304.7	524.7	19,710.7	20,307.3	390.2
EXPENSES							
General and administrative expenses	11,861.4	13,905.8	15,461.5	297.1	10,948.8	13,106.8	251.9
Advertising and promotions	2,669.5	3,342.9	4,027.6	77.4	2,522.2	2,422.2	46.5
	14,530.9	17,248.8	19,489.1	374.5	13,471.0	15,529.0	298.4
INTEREST INCOME (EXPENSE)							
Interest income	286.9	259.6	415.4	8.0	245.7	275.7	5.3
Interest expense	(267.6)	(405.8)	(888.8)	(17.1)	(1,775.8)	(2,302.7)	(44.2)
	19.3	(146.3)	(473.5)	(9.1)	(1,530.1)	(2,027.0)	(39.0)
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES AND ASSOCIATES—Net	(337.1)	(282.6)	(86.8)	(1.7)	(108.4)	36.6	0.7
OTHER INCOME	1,582.9	2,098.8	3,235.2	62.2	1,501.0	2,680.1	51.5
INCOME BEFORE INCOME TAX	7,730.1	8,339.5	10,490.6	201.6	6,102.3	5,468.0	105.1
PROVISION FOR INCOME TAX							
Current	2,334.9	2,310.6	2,822.1	54.2	1,957.6	2,158.4	41.5
Deferred	(658.2)	(643.7)	(102.8)	(2.0)	(613.0)	(682.7)	(13.1)
	1,676.6	1,666.9	2,719.2	52.3	1,344.7	1,475.7	28.4
NET INCOME	6,053.5	6,672.6	7,771.3	149.3	4,757.6	3,992.3	76.7

	For the year ended 31 December				For the nine months ended 30 September		
	2016[1]	2017[1]	2018[1]		2018[2]	2019[2]	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions, except earnings per share figures)						
	(in ₱) (as restated)	(in ₱) (as restated)	(in ₱)	(in US$)	(in ₱) (as restated)	(in ₱)	(in US$)
OTHER COMPREHENSIVE INCOME (LOSS)							
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:							
Translation adjustments of foreign subsidiaries	(137.7)	97.7	667.5	12.8	642.7	(90.1)	(1.7)
Translation adjustments of foreign joint ventures and associates	12.3	269.1	(382.3)	(7.3)	(148.9)	(97.9)	(1.9)
Comprehensive income (loss) on derivative asset (liability)	2.4	45.5	70.9	1.4	131.4	(145.9)	(2.8)
Net unrealised gain on change in fair value of available-for-sale financial assets—net of tax	4.3	2.5	—	—	—	—	—
	(118.8)	414.8	356.1	6.8	625.2	(333.9)	(6.4)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:							
Remeasurement gain (loss) on pension—net of tax	(72.2)	147.0	153.8	3.0	—	—	—
	(191.0)	561.8	509.9	9.8	625.2	(333.9)	(6.4)
TOTAL COMPREHENSIVE INCOME	5,862.5	7,234.4	8,281.2	159.1	5,382.8	3,658.3	70.3
Net income attributable to:							
Equity holders of the Parent Company	6,164.7	7,109.1	8,329.9	160.1	5,157.3	4,108.4	78.9
Non-controlling interests	(111.2)	(436.5)	(558.5)	(10.7)	(399.6)	(116.1)	(2.2)
	6,053.5	6,672.6	7,771.3	149.3	4,757.6	3,992.3	76.7
Earnings per share for net income attributable to equity holders of the Parent Company							
Basic	5.747	6.580	7.663	0.1	4.746	3.761	0.1
Diluted	5.643	6.494	7.550	0.1	4.670	3.715	0.1

1 The Guarantor and its subsidiaries adopted PFRS 9 using modified retrospective approach of adoption with the initial date of application of 1 January 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended 31 December 2017 and 2016 are based on PAS 39, *Financial Instruments: Recognition and Measurement* (superseded by PFRS 9). The comparative financial information for accounts affected by the adoption of PFRS 9 may not be comparable to the audited information presented for 2018. The Guarantor and its subsidiaries adopted PFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method of adoption with the initial date of application of 1 January 2018. Amounts presented in the audited consolidated financial statements as of 31 December 2017 and for the years ended 31 December 2017 and 2016 were adjusted as if PFRS 15 had always been applied. The consolidated statement of financial position as of 31 December 2016 was not presented as comparative in the 2018 audited consolidated financial statements and was extracted from the audited 2017 annual consolidated financial statements. PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. Please refer to Note 2 of the Group's audited consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 9 and PFRS 15.

2 The Guarantor and its subsidiaries adopted PFRS 16, *Leases* using the full retrospective approach of adoption with the initial date of application of 1 January 2019. Amounts presented in the unaudited interim consolidated statement of financial position and unaudited interim consolidated statement of comprehensive income as of 31 December 2018 and for the nine months ended 30 September 2018 were adjusted as if PFRS 16 had always been applied. Please refer to Note 2 of the Group's unaudited interim condensed consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 16.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of 31 December			
	2016[1]	2017[1]	2018[1]	
	(Audited)	(Audited)	(Audited)	(Unaudited)
	(in millions)			
	(in ₱)	(in ₱)	(in ₱)	(in US$)
ASSETS				
Current assets				
Cash and cash equivalents	16,733.3	21,107.5	23,285.9	447.5
Short-term investments	726.0	1,413.4	883.2	17.0
Receivables and contract assets	—	3,941.1	4,862.7	93.4
Receivables	3,376.7	—	—	—
Inventories	5,987.3	6,835.5	8,812.2	169.3
Other current assets	3,545.3	4,031.5	4,894.2	94.0
Total current assets	30,368.7	37,328.9	42,738.2	821.3
Non-current assets				
Financial assets at fair value through profit or loss		—	39.8	0.8
Available-for-sale financial assets	26.2	29.9	—	—
Interests in and advances to joint ventures, co-venturers and associates	9,873.3	7,492.8	3,512.2	67.5
Property, plant and equipment	16,655.6	20,893.8	26,694.0	513.0
Investment properties	983.4	849.0	849.0	16.3
Trademarks, goodwill and other intangible assets	9,086.7	15,730.2	31,830.1	611.6
Operating lease receivables	26.0	28.0	31.6	0.6
Derivative asset	78.3	11.9	82.9	1.6
Deferred tax assets—net	2,585.5	3,908.8	4,323.0	83.1
Other non-current assets	3,044.6	3,510.5	3,751.0	72.1
Total non-current assets	42,359.6	52,455.0	71,113.6	1,366.5
Total assets	72,728.4	89,783.9	113,851.8	2,187.8
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables and other current liabilities and contract liabilities	—	25,254.6	28,716.8	551.8
Trade payables and other current liabilities	21,960.6	—	—	—
Income tax payable	309.3	223.8	263.5	5.1
Current portion of:				
Long-term debt	1,561.5	1,216.2	4,892.1	94.0
Operating lease payables	—	252.2	300.9	5.8
Liability for acquisition of a business	—	—	11.2	0.2
Total current liabilities	23,831.4	26,946.8	34,184.5	656.9
Non-current liabilities				
Non-current portion of:				
Long-term debt	10,593.9	14,901.1	21,372.3	410.7
Liability for acquisition of a business	—	—	2.9	0.1
Pension liability	1,658.2	1,489.5	1,320.6	25.4
Operating lease payables—net of current portion	1,792.9	1,799.3	2,716.0	52.2
Derivative liability	33.5	51.0	—	—
Provisions	30.5	825.1	825.1	15.9
Deferred tax liabilities—net	506.6	1,189.0	3,512.3	67.5
Total non-current liabilities	14,615.5	20,255.1	29,749.1	571.7
Total liabilities	38,446.9	47,201.9	63,933.7	1,228.5
Equity attributable to equity holders of the Parent Company				
Capital stock—net of subscription receivable	1,074.1	1,084.5	1,088.0	20.9
Additional paid-in capital	5,660.1	7,520.4	8,638.4	166.0
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	(20.8)	340.4	589.5	11.3
Remeasurement loss on net defined benefit plan—net of tax	(608.8)	(461.8)	(308.0)	(5.9)
Unrealised gain on change in fair value of available-for-sale financial assets	4.3	6.8	—	—
Comprehensive income on derivative liability	(33.5)	11.9	82.9	1.6
Excess of cost over the carrying value of non-controlling interests acquired	(2,152.2)	(2,152.2)	(1,804.8)	(34.7)
Retained earnings:				
Appropriated for future expansion	18,200.0	18,200.0	20,000.0	384.3
Unappropriated	11,659.5	16,413.1	20,258.0	389.3
	33,782.7	40,963.1	48,544.1	932.8
Less cost of common stock held in treasury	180.5	180.5	180.5	3.5
	33,602.2	40,782.6	48,363.6	929.4
Non-controlling interests	679.2	1,799.3	1,554.6	29.9
Total equity	34,281.4	42,582.0	49,918.2	959.2
Total liabilities and equity	72,728.4	89,783.9	113,851.8	2,187.8

	As of 31 December		As of 30 September	
	2018[2]		2019[2]	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(in ₱) (as restated)	(in millions) (in US$)	(in millions) (in ₱)	(in US$)
ASSETS				
Current assets				
Cash and cash equivalents	23,285.9	447.5	23,570.9	452.9
Short-term investments	883.2	17.0	433.9	8.3
Receivables and contract assets	4,862.7	93.4	4,703.4	90.4
Inventories	8,812.2	169.3	9,569.3	183.9
Other current assets	4,902.6	94.2	6,529.3	125.5
Total current assets	42,746.6	821.4	44,806.8	861.0
Non-current assets				
Financial assets at fair value through profit or loss	39.8	0.8	39.8	0.8
Interests in and advances to joint ventures, co-venturers and associates	3,512.2	67.5	4,647.2	89.3
Property, plant and equipment	26,535.4	509.9	29,933.2	575.2
Right-of-use assets	32,406.7	622.7	28,465.7	547.0
Investment properties	849.0	16.3	849.0	16.3
Trademarks, goodwill and other intangible assets	31,512.6	605.5	50,166.2	964.0
Operating lease receivables	31.6	0.6	32.3	0.6
Derivative asset	82.9	1.6	—	—
Deferred tax assets—net	3,746.1	72.0	4,306.1	82.7
Other non-current assets	3,751.0	72.1	4,008.7	77.0
Total non-current assets	102,467.4	1,969.0	122,448.3	2,353.0
Total assets	145,214.0	2,790.4	167,255.1	3,214.0
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables and other current liabilities and contract liabilities	28,650.1	550.5	30,840.5	592.6
Income tax payable	263.5	5.1	181.6	3.5
Short-term debt	—	—	22,027.8	423.3
Current portion of:				
Lease liabilities	825.6	15.9	1,277.1	24.5
Long-term debt	4,892.1	94.0	2,838.0	54.5
Operating lease payables	—	—	—	—
Liability for acquisition of a business	11.2	0.2	5.7	0.1
Total current liabilities	34,642.4	665.7	57,170.6	1,098.6
Non-current liabilities				
Non-current portion of:				
Long-term debt	21,372.3	410.7	20,368.3	391.4
Liability for acquisition of a business	2.9	0.1	—	
Pension liability	1,320.6	25.4	1,579.9	30.4
Lease liabilities—net of current portion	34,875.0	670.2	31,227.0	600.1
Derivative liability	—	—	63.1	1.2
Provisions	825.1	15.9	825.1	15.9
Deferred tax liabilities—net	3,706.2	71.2	4,452.9	85.6
Total non-current liabilities	62,102.0	1,193.4	58,516.2	1,124.4
Total liabilities	96,744.5	1,859.0	115,686.8	2,223.0
Equity attributable to equity holders of the Guarantor				
Capital stock—net of subscription receivable	1,088.0	20.9	1,092.8	21.0
Additional paid-in capital	8,638.4	166.0	9,415.3	180.9
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	559.2	10.7	368.7	7.1
Remeasurement loss on net defined benefit plan—net of tax	(308.0)	(5.9)	(308.0)	(5.9)
Comprehensive income (loss) on derivative liability	82.9	1.6	(63.1)	(1.2)
Excess of cost over the carrying value of non-controlling interests acquired	(1,804.8)	(34.7)	(1,804.8)	(34.7)
Retained earnings:				
Appropriated for future expansion	20,000.0	384.3	20,000.0	384.3
Unappropriated	18,828.8	361.8	21,596.0	415.0
	47,084.6	904.8	50,296.9	966.5
Less cost of common stock held in treasury	180.5	3.5	180.5	3.5
	46,904.0	901.3	50,116.4	963.0
Non-controlling interests	1,565.5	30.1	1,451.9	27.9
Total equity	48,469.5	931.4	51,568.3	990.9
Total liabilities and equity	145,214.0	2,790.4	167,255.1	3,214.0

1 The Guarantor and its subsidiaries adopted PFRS 9 using modified retrospective approach of adoption with the initial date of application of 1 January 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended 31 December 2017 and 2016 are based on PAS 39, *Financial Instruments: Recognition and Measurement* (superseded by PFRS 9). The comparative financial information for accounts affected by the adoption of PFRS 9 may not be comparable to the information presented for 2018. The Guarantor and its subsidiaries adopted PFRS 15, *Revenue from Contracts with Customers*, using the full retrospective method of adoption with the initial date of application of 1 January 2018. Amounts presented in the audited consolidated financial statements as of 31 December 2017 and for the years ended 31 December 2017 and 2016 were adjusted as if PFRS 15 had always been applied. The consolidated statement of financial position as of 31 December 2016 was not presented as comparative in the 2018 annual consolidated financial statements and was extracted from the audited 2017 annual consolidated financial statements. PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. Please refer to Note 2 of the Group's audited consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 9 and PFRS 15.

2 The Guarantor and its subsidiaries adopted PFRS 16, *Leases* using the full retrospective approach of adoption with the initial date of application of 1 January 2019. Amounts presented in the unaudited interim consolidated statement of financial position and unaudited interim consolidated statement of comprehensive income as of 31 December 2018 and for the nine months ended 30 September 2018 were adjusted as if PFRS 16 had always been applied. Please refer to Note 2 of the Group's unaudited interim condensed consolidated financial statements, which are included in this Offering Circular, for the effect of the adoption of PFRS 16.

ADDITIONAL FINANCIAL DATA

The table below sets forth additional financial information for the periods indicated:

	For the year ended 31 December				For the nine months ended 30 September		
	2016	2017	2018[1]		2018	2019[2]	
			(Unaudited)				
	(in millions, except where otherwise indicated)						
	(in ₱)	(in ₱)	(in ₱)	(in US$)	(in ₱)	(in ₱)	(in US$)
System wide sales(1)	149,142.1	171,761.0	212,185.4	4,077.4	153,179.4	171,068.1	3,287.2
Same store sales growth(2)	7.1 per cent.	6.1 per cent.	6.2 per cent.	—	—	2.2 per cent.	—
EBITDA(3)	11,706.6	13,231.0	16,873.8	324.2	16,859.5	16,275.7	312.8
EBITDA margin(4)	10.1 per cent.	9.9 per cent.	10.5 per cent.	—	14.5 per cent.	12.8 per cent.	—

(1) System wide sales is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. While the Group does not record franchised store sales as revenues, royalty fees of the Group are based on a percentage of franchised store sales.

(2) Same store sales growth refers to food sales (gross of discount and net of returns and taxes) of Group-owned and franchised stores that have been in operation for at least 15 months. It excludes sales from new store openings.

(3) EBITDA is calculated as earnings before interest, taxes, depreciation and amortisation. Earnings is equivalent to "net income" in the audited and unaudited consolidated financial statements included in this Offering Circular.

The table below sets forth the reconciliation of EBITDA to net income for the periods indicated.

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
			(Unaudited) (in millions)		
EBITDA RECONCILIATION					
Net Income	6,053.5	6,672.6	7,771.3	4,757.6	3,992.3
Add (deduct):					
Income tax	1,676.6	1,666.9	2,719.2	1,344.7	1,475.7
Interest—net	(19.3)	146.3	473.5	1,530.1	2,027.0
Depreciation and amortisation	3,995.8	4,745.2	5,909.8	9,227.1	8,780.7
EBITDA	11,706.6	13,231.0	16,873.8	16,859.5	16,275.7

(4) EBITDA margin is calculated as EBITDA divided by total revenues.

The table below sets forth the reconciliation of EBITDA margin for the periods indicated.

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
			(Unaudited)		
			(in millions)		
EBITDA MARGIN RECONCILIATION					
EBITDA	11,706.6	13,231.0	16,873.8	16,859.5	16,275.7
Divide by:					
Total Revenues	115,613.5	133,613.1	161,199.4	116,635.1	127,205.9
EBITDA Margin	10.1 per cent.	9.9 per cent.	10.5 per cent.	14.5 per cent.	12.8 per cent.

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

Prospective investors should read the following discussion and analysis of the Group's results of operations in conjunction with the audited consolidated financial statements and unaudited interim condensed consolidated financial statements of the Group, together with the respective notes thereto, included in this Offering Circular. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ significantly from its past performance or those projected in the forward-looking statements.

Effective 1 January 2018, the Group adopted PFRS 15, using the full retrospective method of adoption. The consolidated statements of comprehensive income of the Group for the years ended 31 December 2016 and 2017 have been restated to include the impact of the adoption of PFRS 15, reclassifying franchisees' contribution to advertising expenses as revenues instead as a deduction from the Group's advertising expenses. Please refer to Note 2 of the Group's audited consolidated financial statements included in this Offering Circular.

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees—leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

PFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group adopted PFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. Thus, the Group adjusted the comparative amounts in the unaudited interim condensed consolidated financial statements of the Group as of and for the nine months ended 30 September 2019. Please refer to Note 2 of the unaudited interim condensed consolidated financial statements of the Group on the application of PFRS 16 which resulted in changes to the Group's accounting policies. The historical information attached to the Offering Circular was not adjusted. Thus, information pertaining to leases as of 31 December 2016, 2017 and 2018 continue to be reported under PAS 17 and is not comparable to similar information as of 30 September 2019.

OVERVIEW

Jollibee Foods Corporation and its subsidiaries (collectively, the **Group**) believe it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. It had 2,429 Group-owned and franchised stores outside the Philippines as of the same date. In addition, the Group believes it is among the largest food service companies in Asia in terms of sales and store network as of 30 September 2019. The Group's principal business comprise the development, operation and franchising of stores under the Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Hong Zhuang Yuan, Mang Inasal, Burger King, Highlands Coffee, PHO24, Hard Rock Cafe, Dunkin' Donuts, Smashburger, Panda Express and CBTL brands. The Group is also engaged in the manufacturing of food products, logistics services and property leasing in support of its operations.

As of 30 September 2019, the Group owned and operated 1,267 stores in the Philippines while 2,167 stores were franchised. As of the same date, the Group had a presence outside the Philippines in 36 countries and territories, with 1,363 Group-owned and operated stores and 1,066 franchised stores, including in Brunei, Canada, Hong Kong SAR, Indonesia, India, Italy, Macau SAR, Malaysia, the Middle East (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (**UAE**)), the PRC, Singapore, South Korea, the United Kingdom, the United States and Vietnam.

The Group's stores offer a quality menu with a wide variety of affordable and locally-relevant food and beverages. Its store formats and sales channels offer convenience, accessibility and availability to its consumers. The Group's store formats include free standing/full store, in store/in line, mall and food court. It also employs comprehensive sales channels including dine-in, take-away, drive-thru, kiddie party, bulk order and delivery. The Group believes that store technology initiatives and delivery arrangements are becoming increasingly important aspects of its sales channel and the consumer experience. The technology that the Group has implemented includes, among others, website ordering, mobile ordering, mobile payment, cashless payment and in-store self-service technologies. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, DoorDash and Uber Eats.

SWS is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's SWS were ₱149,142.1 million, ₱171,761.0 million, ₱212,185.4 million (U.S.$4,077.4 million) and ₱171,068.1 million (U.S.$3,287.2 million), respectively. For the same periods, the SWS of the Group's businesses in the Philippines accounted for 81 per cent., 79 per cent., 74 per cent. and 73 per cent., respectively, of the Group's SWS. The SWS of the Group's businesses outside the Philippines represented 19 per cent., 21 per cent., 26 per cent. and 27 per cent., respectively, of the Group's SWS for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019.

Net sales pertains to gross sales less sales discounts. For the years ended 31 December 2016, 2017 and 2018, the Group's net sales were ₱107,924.5 million, ₱124,663.5 million and ₱150,200.8 million (U.S.$2,886.3 million), respectively. Sales in the Philippines accounted for 78.6 per cent., 77.2 per cent. and 72.9 per cent. of net sales for the years ended 31 December 2016, 2017 and 2018, respectively. For the same periods, foreign sales represented 21.4 per cent., 22.8 per cent. and 27.1 per cent., respectively, of net sales. For the nine months ended 30 September 2019, the Group's total net sales was ₱118,247.5 million (U.S.$2,272.2 million), of which 71.4 per cent. and 28.6 per cent. comprised sales in the Philippines and foreign sales, respectively.

For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's net income were ₱6,053.5 million, ₱6,672.6 million, ₱7,771.3 million (U.S.$149.3 million) and ₱3,992.3 million (U.S.$76.7 million), respectively.

As of 31 December 2017 and 2018 and as of 30 September 2019, the Group's total assets were ₱89,783.9 million, ₱113,851.8 million (U.S.$2,187.8 million) and ₱167,225.1 million (U.S.$3,214.0 million), respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a discussion of the Group's significant accounting policies, please refer to Note 3 of the Group's audited consolidated financial statements and Note 3 of the Group's unaudited interim condensed consolidated financial statements included in this Offering Circular.

DESCRIPTION OF PRINCIPAL INCOME STATEMENT ITEMS

Revenues

Revenues comprise sales by Group-owned stores, fees from stores operated by franchisees and commissary sales to stores operated by franchisees.

Direct Costs

Direct costs primarily comprise cost of inventories, personnel costs (comprised of salaries, wages and other employee benefits as well as pension expense) and rent, and to a lesser extent, various expenses such as contracted services, electricity and other utilities, repairs and maintenance and other expenses. Other expenses comprise delivery costs, insurance and other miscellaneous expenses. Please refer to the discussions below and to Note 21 of the Group's audited consolidated financial statements and Note 17 of the Group's unaudited interim condensed consolidated financial statements included in this Offering Circular.

Gross Profit

Gross profit is the profit that the Group makes after deducting direct costs from revenues.

General and Administrative Expenses

General and administrative expenses generally comprise the same components as direct expenses but are allocated as general and administrative expenses to the extent they relate to operating expenses incurred by the Group's general corporate functions and services such as finance, marketing, human resources, business technology, audit and legal personnel. The principal components of general and administrative expenses include personnel costs (comprised of salaries, wages and other employee benefits, stock options expense and pension expense), taxes and licences, professional fees, transportation and travel and other expenses. Other expenses comprise delivery expenses, transportation and travel and other various expenses. Please refer to the discussions below and to Note 22 of the Group's audited consolidated financial statements and Note 18 of the Group's unaudited interim condensed consolidated financial statements included in this Offering Circular.

Advertising and Promotions

Advertising and promotions include costs incurred for advertising schemes and promotional activities for new products.

Operating Income

Operating income is the income of the Group after deducting direct costs, general and administrative expenses and advertising and promotions from revenues.

Interest Income (Expense)

Interest income is the income earned by the Group's interest-bearing assets such as cash and cash equivalents, short-term investments and loans and advances. Interest expense pertains to the expenses associated with the Group's interest-bearing liabilities such as short- and long-term debt obligations and customers' deposits. Please refer to the discussions below and to Note 23 of the Group's audited consolidated financial statements and Note 19 of the Group's unaudited interim condensed consolidated financial statements included in this Offering Circular.

Equity in Net Losses of Joint Ventures and Associates—Net

Equity in net losses of joint ventures and associates—net is the Group's share in the profit or loss of its joint ventures and associates.

Other Income

Other income primarily comprises write-off of liabilities, gain from re-measurement of previously held interest, bank charges, rebates and suppliers' incentives, and foreign exchange gain (loss). Please refer to the discussions below and to Note 23 of the Group's audited consolidated financial statements and Note 19 of the Group's unaudited interim condensed consolidated financial statements included in this Offering Circular.

Provision for Income Tax

Provision for income tax comprises the Group's provision for current and deferred taxes. Please refer to the discussions below and to Note 24 of the Group's audited consolidated financial statements.

Net Income

Net income is the total revenue of the Group after the deduction of all expenses, interest and income taxes during the same financial period.

Net Income Attributable to Equity Holders of the Parent Company

Net income attributable to equity holders of the Parent Company is the net income after the deduction of the share of non-controlling interests.

RESULTS OF OPERATIONS

Results of Operations for the Nine Months Ended 30 September 2019 Compared to the Nine Months Ended 30 September 2018

On 24 September 2019, the Group included CBTL in its financial consolidation. See *Business—Acquisitions and Disposals—Nine months ended 30 September 2019.*

Revenues

Revenues increased by ₱10,570.8 million or 9.1 per cent. from ₱116,635.1 million for the nine months ended 30 September 2018 to ₱127,205.9 million (U.S.$2,444.4 million) for the nine months ended 30 September 2019, primarily as a result of: (a) the addition of new stores and (b) an increase in same store sales. This increase was partially offset by the negative impact of foreign currency translation.

The addition of franchised stores in the Philippines to sustain growth also had an impact on the Group's revenues as Group-owned stores require more expenses on the part of the Group. For the nine months ended 30 September 2019, franchised stores comprised 79 per cent. of the total number of stores that were opened. This resulted in lower revenue growth for the Group's domestic businesses as well as lower increase in store operating expenses, particularly, rent, depreciation, electricity, supplies and communication expenses.

The table below sets forth a breakdown of the Group's revenues from external customers by business segment for the periods indicated.

Segment	For the nine months ended 30 September		
	2019		2018
	₱ million	U.S.$ million	₱ million
Food service[(1)]	118,464.8	2,276.4	109,079.4
Franchising[(2)]	8,445.2	162.3	7,173.9
Leasing[(3)]	296.0	5.7	381.9

(1) The food service segment conducts the operation of the stores and the manufacture of food products to be sold to Group-owned and franchised stores. See "*Business—Operations—Brands*".

(2) The franchising segment handles the franchising of the Group's brands. See "*Business—The Group's Store Network—Franchised Stores*".

(3) The leasing segment leases sites to the Group's franchisees. See "*Business—Properties—Leases for Franchised Stores*".

SWS is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. SWS increased by ₱17,888.7 million or 11.7 per cent. from ₱153,197.4 million for the nine months ended 30 September 2018 to ₱171,068.1 million (U.S.$3,287.2 million) for the nine months ended 30 September 2019.

The table below sets forth a breakdown of the growth of the Group's SWS for the following categories for the nine months ended 30 September 2019.

	For the nine months ended 30 September
	2019
	(Unaudited)
	per cent.
Same store sales growth[(1)]	2.2
New store contribution[(2)]	10.4
Acquisition-driven growth[(3)]	—
Foreign exchange rate changes[(4)]	(0.9)

(1) Same store sales growth refers to food sales (gross of discount and net of returns and taxes) of Group-owned and franchised stores that have been in operation for at least 15 months. It excludes sales from new store openings.

(2) New store contribution refers to sales of stores opened from 1 January to 30 September 2019 and from 1 January to 30 September 2018.

(3) Acquisition-driven growth refers to the incremental sales contributed by a newly acquired majority-owned business during the period.

(4) Foreign exchange rate changes refer to the impact of currency fluctuations. To eliminate the impact of currency fluctuations, the Group utilises constant currencies by converting current SWS using prior period's average exchange rate.

The table below sets forth a breakdown of the growth of the Group's SWS by region for the nine months ended 30 September 2019.

Region	SWS	Same Store Sales Growth	New Store Contribution	Newly Acquired Business Contribution	Impact of Foreign Exchange on SWS
			(Unaudited)		
			per cent.		
Philippines	10.4	2.8	7.6	—	—
PRC	(5.4)	1.7	(1.3)	—	(5.9)
North America	30.9	(2.3)	34.9	—	(1.7)
EMEA	19.3	4.4	17.3	—	(2.4)
Total worldwide	11.7	2.2	10.4	—	(0.9)

Direct Costs

Direct costs increased by ₱9,974.2 million or 10.3 per cent. from ₱96,924.4 million for the nine months ended 30 September 2018 to ₱106,898.6 million (U.S.$2,054.2 million) for the nine months ended 30 September 2019, primarily as a result of: (a) an increase in: (i) the cost of inventories and (ii) store and manufacturing costs resulting from the acquisition of CBTL and (b) the full nine months impact of the consolidation of Smashburger.

The following discussion sets forth the components of direct costs and a trend analysis for each component, for the nine months ended 30 September 2018 as compared to the nine months ended 30 September 2019:

Cost of inventories increased by ₱6,474.3 million or 12.0 per cent. from ₱54,046.9 million for the nine months ended 30 September 2018 to ₱60,521.2 million (U.S.$1,163.0 million) for the nine months ended 30 September 2019, primarily as a result of an increase in: (a) the prices of raw materials and (b) freight cost.

Personnel costs increased by ₱1,886.6 million or 17.1 per cent. from ₱11,030.0 million for the nine months ended 30 September 2018 to ₱12,916.6 million (U.S.$248.2 million) for the nine months ended 30 September 2019, primarily as a result of an increase in: (a) store and commissary headcount and (b) basic pay of existing employees as a result of employee performance or promotion.

Rent expenses increased by ₱650.8 million or 17.0 per cent. from ₱3,823.8 million for the nine months ended 30 September 2018 to ₱4,474.6 million (U.S.$86.0 million) for the nine months ended 30 September 2019, primarily as a result of: (a) annual rent escalation and (b) an increase in the number of commissary warehouses.

Contracted services expenses increased by ₱536.9 million or 8.4 per cent. from ₱6,394.8 million for the nine months ended 30 September 2018 to ₱6,931.7 million (U.S.$133.2 million) for the nine months ended 30 September 2019, primarily as a result of an increase in store and commissary headcount in the Philippines and overseas.

Depreciation and amortisation decreased by ₱498.9 million or 5.7 per cent. from ₱8,816.8 million for the nine months ended 30 September 2018 to ₱8,317.8 million (U.S.$159.8 million) for the nine months ended 30 September 2019, primarily as a result of the impact of PFRS 16—Leases.

Supplies expenses decreased by ₱166.4 million or 7.3 per cent. from ₱2,286.8 million for the nine months ended 30 September 2018 to ₱2,120.4 million (U.S.$40.7 million) for the nine months ended 30 September 2019, primarily as a result of a decrease in the usage of store and janitorial supplies of the domestic business, particularly the Jollibee business.

Repairs and maintenance expenses increased by ₱165.7 million or 13.7 per cent. from ₱1,206.0 million for the nine months ended 30 September 2018 to ₱1,371.6 million (U.S.$26.4 million) for the nine months ended 30 September 2019, primarily as a result of an increase in: (a) store equipment preventive maintenance expenses of the Group and (b) service fees for the maintenance of the point of sale system and hardware of Smashburger.

Security and janitorial expenses increased by ₱97.9 million or 13.8 per cent. from ₱711.2 million for the nine months ended 30 September 2018 to ₱809.1 million (U.S.$15.5 million) for the nine months ended 30 September 2019, primarily as a result of the expansion of the Group's store network and the establishment of new commissary facilities.

Communication expenses increased by ₱15.4 million or 7.2 per cent. from ₱212.5 million for the nine months ended 30 September 2018 to ₱227.8 million (U.S.$4.4 million) for the nine months ended 30 September 2019, primarily as a result of the expansion of the Group's store network.

Professional fees decreased by ₱33.4 million or 24.0 per cent. from ₱139.5 million for the nine months ended 30 September 2018 to ₱106.0 million (U.S.$2.0 million) for the nine months ended 30 September 2019, primarily as a result of a higher base amount of professional fees in the nine months ended 30 September 2018 arising from the construction of a manufacturing facility of a subsidiary of the Company.

Other expenses increased by ₱299.6 million or 12.2 per cent. from ₱2,456.0 million for the nine months ended 30 September 2018 to ₱2,755.7 million (U.S.$53.0 million) for the nine months ended 30 September 2019, primarily as a result of an increase in delivery expenses as well as transportation and travel expenses.

Gross Profit

As a result of the foregoing, gross profit decreased by ₱596.6 million or 3.0 per cent. from ₱19,710.7 million for the nine months ended 30 September 2018 to ₱20,307.3 million (U.S.$390.2 million) for the nine months ended 30 September 2019.

General and Administrative Expenses

General and administrative expenses increased by ₱2,158.0 million or 19.7 per cent. from ₱10,948.8 million for the nine months ended 30 September 2018 to ₱13,106.8 million (U.S.$251.9 million) for the nine months ended 30 September 2019, primarily as a result of (a) the acquisition and consolidation of CBTL in the Company's financials on 24 September 2019 and (b) the full nine months impact of the consolidation of Smashburger.

The following discussion sets forth the components of general and administrative expenses and a trend analysis for each component, for the nine months ended 30 September 2018 as compared to the nine months ended 30 September 2019:

Personnel costs increased by ₱1,033.2 million or 16.8 per cent. from ₱6,139.9 million for the nine months ended 30 September 2018 to ₱7,173.1 million (U.S.$137.8 million) for the nine months ended 30 September 2019, primarily as a result of an increase in: (a) the corporate headquarters' headcount, (b) basic pay of existing employees as a result of employee performance or promotion and (c) fringe benefits tax resulting from an increase in the number of stock options that were exercised.

Taxes and licences expenses increased by ₱163.6 million or 14.4 per cent. from ₱1,134.1 million for the nine months ended 30 September 2018 to ₱1,297.8 million (U.S.$24.9 million) for the nine months ended 30 September 2019, primarily as a result of an increase in business-related taxes and licence fees resulting from higher revenues arising from the expansion of the Group's store network and an increase in same store sales.

Professional fees increased by ₱41.2 million or 7.2 per cent. from ₱575.7 million for the nine months ended 30 September 2018 to ₱616.9 million (U.S.$11.9 million) for the nine months ended 30 September 2019, primarily as a result of an increase in: (a) accounting, consultancy and legal fees in relation to acquisitions and (b) other professional fees relating to digital marketing.

Transportation and travel expenses increased by ₱87.3 million or 16.3 per cent. from ₱535.3 million for the nine months ended 30 September 2018 to ₱622.6 million (U.S.$12.0 million) for the nine months ended 30 September 2019, primarily as a result of an increase in lodging, mileage and per diem expenses resulting from: (a) the Group's various activities relating to acquisition projects and the expansion of the Group's store network such as site visit/evaluation and sourcing and (b) various projects in the Philippines and overseas.

Contracted services expenses increased by ₱33.6 million or 9.3 per cent. from ₱360.3 million for the nine months ended 30 September 2018 to ₱394.0 million (U.S.$7.6 million) for the nine months ended 30 September 2019, primarily as a result of an increase in outsourced services for the conduct of the various training programmes of the Group.

Depreciation and amortisation increased by ₱52.5 million or 12.8 per cent. from ₱410.3 million for the nine months ended 30 September 2018 to ₱462.9 million (U.S.$8.9 million) for the nine months ended 30 September 2019, primarily as a result of the growth of the Group's fixed asset base resulting from the growth of the Group's businesses.

Repairs and maintenance expenses increased by ₱21.1 million or 11.1 per cent. from ₱190.2 million for the nine months ended 30 September 2018 to ₱211.3 million (U.S.$4.1 million) for the nine months ended 30 September 2019, primarily as a result of an increase in system maintenance expenses of the Issuer.

Corporate events expenses decreased by ₱18.3 million or 10.7 per cent. from ₱171.3 million for the nine months ended 30 September 2018 to ₱153.0 million (U.S.$2.9 million) for the nine months ended 30 September 2019, primarily as a result of postponement of certain corporate events such as JFC University courses.

Membership and subscription expenses increased by ₱28.9 million or 26.4 per cent. from ₱109.5 million for the nine months ended 30 September 2018 to ₱138.4 million (U.S.$2.7 million) for the nine months ended 30 September 2019, primarily as a result of: (a) an increase in cloud subscriptions and (b) new memberships in various organisations.

Communication expenses increased by ₱19.4 million or 18.8 per cent. from ₱103.4 million for the nine months ended 30 September 2018 to ₱122.8 million (U.S.$2.4 million) for the nine months ended 30 September 2019, primarily as a result of an increase in telephone and internet-related expenses.

Training expenses increased by ₱31.8 million or 24.2 per cent. from ₱131.7 million for the nine months ended 30 September 2018 to ₱163.5 million (U.S.$3.1 million) for the nine months ended 30 September 2019, primarily as a result of an increase in the number of leadership programmes such as the Leadership Summit.

Representation and entertainment expenses decreased by ₱22.6 million or 25.3 per cent. from ₱89.3 million for the nine months ended 30 September 2018 to ₱66.8 million (U.S.$1.3 million) for the nine months ended 30 September 2019, primarily as a result of a higher base in 2018 resulting from the higher representation and entertainment expenses of Smashburger.

Donations increased by ₱19.7 million or 19.6 per cent. from ₱100.4 million for the nine months ended 30 September 2018 to ₱120.0 million (U.S.$2.3 million) for the nine months ended 30 September 2019, primarily as a result of an increase in the Group's 2018 net income on which donations are computed as a certain percentage.

Supplies expenses decreased by ₱4.1 million or 5.9 per cent. from ₱69.7 million for the nine months ended 30 September 2018 to ₱65.6 million (U.S.$1.3 million) for the nine months ended 30 September 2019, primarily as a result of a decrease in office and general supplies expenses of the Jollibee and Mang Inasal businesses.

Electricity and other utilities expenses increased by ₱3.0 million or 5.7 per cent. from ₱52.2 million for the nine months ended 30 September 2018 to ₱55.2 million (U.S.$1.1 million) for the nine months ended 30 September 2019, primarily as a result of an increase in the number of office spaces of the Mang Inasal business.

Association dues decreased by ₱23.7 million or 44.0 per cent. from ₱54.0 million for the nine months ended 30 September 2018 to ₱30.2 million (U.S.$0.6 million) for the nine months ended 30 September 2019, primarily as a result of an increase in the number of office spaces of the Mang Inasal business.

Insurance expenses increased by ₱12.8 million or 39.5 per cent. from ₱32.4 million for the nine months ended 30 September 2018 to ₱45.2 million (U.S.$0.9 million) for the nine months ended 30 September 2019, primarily as a result of an increase in the value of the Group's properties resulting from a higher asset appraisal.

Security and janitorial expenses increased/decreased by ₱4.7 million or 26.7 per cent. from ₱17.7 million for the nine months ended 30 September 2018 to ₱22.4 million (U.S.$0.4 million) for the nine months ended 30 September 2019, primarily as a result of an increase in manpower: (a) at JWS and (b) resulting from additional office spaces of the Mang Inasal business.

Other expenses increased by ₱443.1 million or 148.2 per cent. from ₱299.0 million for the nine months ended 30 September 2018 to ₱742.1 million (U.S.$14.3 million) for the nine months ended 30 September 2019, primarily as a result of an increase in various expenses such as: (a) research and development expenses of the Group, (b) penalties due to pre-termination of lease contracts for Group-owned stores that were closed, (c) an increase in the number of transactions exempt from value added tax such as sales to persons with disabilities and to senior citizens, (d) settlement of tax-related cases and (e) miscellaneous expenses.

Advertising and Promotions

Advertising and promotions decreased by ₱100.0 million or 4.0 per cent. from ₱2,522.2 million for the nine months ended 30 September 2018 to ₱2,422.2 million (U.S.$46.5 million) for the nine months ended 30 September 2019, primarily as a result of a delay in certain advertising spending.

Operating Income

As a result of the foregoing, operating income decreased by ₱1,461.4 million or 23.4 per cent. from ₱6,239.7 million for the nine months ended 30 September 2018 to ₱4,778.3 million (U.S.$91.8 million) for the nine months ended 30 September 2019.

Interest Income (Expense)

Interest income increased by ₱30.0 million or 12.2 per cent. from ₱245.7 million for the nine months ended 30 September 2018 to ₱275.7 million (U.S.$5.3 million) for the nine months ended 30 September 2019, primarily as a result of higher interest rates on money market placements.

Interest expense increased by ₱526.9 million or 29.7 per cent. from ₱1,775.8 million for the nine months ended 30 September 2018 to ₱2,302.7 million (U.S.$44.2 million) for the nine months ended 30 September 2019, primarily as a result of increased bank loans for working capital, capital expenditures relating to on-going operations and other general corporate purposes.

As a result of the foregoing, net interest expense increased by ₱497.0 million or 32.5 per cent. from ₱1,530.1 million for the nine months ended 30 September 2018 to ₱2,027.0 million (U.S.$39.0 million) for the nine months ended 30 September 2019.

Equity in Net Earnings (Losses) of Joint Ventures and Associates — Net

Equity in net earnings (losses) of joint ventures and associates—net increased by ₱145.0 million or 133.8 per cent. from (₱108.4 million) for the nine months ended 30 September 2018 to ₱36.6 million (U.S.$0.7 million) for the nine months ended 30 September 2019, primarily as a result of the Group's share in the net losses of C-Joy Poultry Meats Production Inc.

Other Income

Other income increased by ₱1,179.0 million or 78.5 per cent. from ₱1,501.0 million for the nine months ended 30 September 2018 to ₱2,680.1 million (U.S.$51.5 million) for the nine months ended 30 September 2019, primarily as a result of the: (a) gain from the acquisition of CBTL and (b) reversal of long-outstanding accruals and other liabilities resulting from the reassessment of validity of outstanding accruals and other liabilities.

Provision for Income Tax

Provision for income tax increased by ₱131.1 million or 9.7 per cent. from ₱1,344.7 million for the nine months ended 30 September 2018 to ₱1,475.7 million (U.S.$28.4 million) for the nine months ended 30 September 2019, primarily as a result of the imposition of a 20 per cent. final tax on royalty income from franchised stores.

Net Income

As a result of the foregoing, net income decreased by ₱765.3 million or 16.1 per cent. from ₱4,757.6 million for the nine months ended 30 September 2018 to ₱3,992.3 million (U.S.$76.7 million) for the nine months ended 30 September 2019.

Net Income Attributable to Equity Holders of the Parent Company

Net income attributable to the equity holders of the Parent Company decreased by ₱1,048.9 million or 20.3 per cent. from ₱5,157.3 million for the nine months ended 30 September 2018 to ₱4,108.4 million (U.S.$78.9 million) for the nine months ended 30 September 2019.

Results of Operations for the Year Ended 31 December 2018 Compared to the Year Ended 31 December 2017

In 2015, the Company acquired a 40 per cent. equity interest in SJBF LLC, the parent company of the entities comprising the Smashburger business. In April and December 2018, the Company acquired the remaining 45 per cent. and 15 per cent. equity interest, respectively, in SJBF LLC, making Smashburger a wholly-owned subsidiary of the Company. See "*Business—Acquisitions and Disposals—Year ended 31 December 2018*".

Revenues

Revenues increased by ₱27,586.3 million or 20.6 per cent. from ₱133,613.1 million for the year ended 31 December 2017 to ₱161,199.4 million for the year ended 31 December 2018, primarily as a result of: (a) the addition of new stores and (b) an increase in same store sales. This increase was partially offset by the negative impact of foreign currency translation.

The addition of franchised stores in the Philippines to sustain growth also had an impact on the Group's revenues as Group-owned stores require more expenses on the part of the Group. For the year ended 31 December 2018, franchised stores comprised 77.0 per cent. of the total number of stores that were opened in the Philippines. This resulted in lower revenue growth for the Group's domestic businesses as well as lower increase in store operating expenses, particularly, rent, depreciation, electricity, supplies and communication expenses

The table below sets forth a breakdown of the Group's revenues from external customers by business segment for the periods indicated.

Segment	For the year ended 31 December 2018	2017
	₱ million	
Food service(1)	150,498.4	124,972.8
Franchising(2)	10,114.3	8,075.2
Leasing(3)	586.7	565.1

(1) The food service segment conducts the operation of the stores and the manufacture of food products to be sold to Group-owned and franchised stores. See "*Business—Operations—Brands*".

(2) The franchising segment handles the franchising of the Group's brands. See "*Business—The Group's Store Network—Franchised Stores*".

(3) The leasing segment leases sites to the Group's franchisees. See "*Business—Properties—Leases for Franchised Stores*".

SWS increased by ₱40.424.4 million or 23.5 per cent. from ₱171,761.0 million for the year ended 31 December 2017 to ₱212,185.4 million for the year ended 31 December 2018.

The table below sets forth a breakdown of the growth of the Group's SWS for the following categories for the periods indicated.

	For the year ended 31 December 2018	2017
	(Unaudited)	
	per cent.	
Same store sales growth(1)	6.2	6.1
New store contribution(2)	8.3	6.4
Acquisition-driven growth(3)	6.9	1.6
Foreign exchange rate changes(4)	2.1	1.1

(1) Same store sales growth refers to food sales (gross of discount and net of returns and taxes) of Group-owned and franchised stores that have been in operation for at least 15 months. It excludes sales from new store openings.

(2) New store contributions refer to sale of stores opened during the relevant financial years.

(3) Acquisition-driven growth refers to the incremental sales contributed by a newly acquired majority-owned business during the relevant year.

(4) Foreign exchange rate changes refer to the impact of currency fluctuations. To eliminate the impact of currency fluctuations, the Group utilises constant currencies by converting current SWS using prior period's average exchange rate.

The table below sets forth a breakdown of the growth of the Group's SWS by region for the year ended 31 December 2018.

Region	SWS	Same Store Sales Growth	New Store Contribution	Newly Acquired Business Contribution	Impact of Foreign Exchange on SWS
			(Unaudited)		
			per cent.		
Philippines	15.1	6.9	8.2	—	—
PRC	9.1	4.4	(2.2)	—	6.9
North America	161.1	6.2	20.5	129.1	5.3
EMEA	42.7	(0.5)	37.9	—	5.3
Total worldwide	23.5	6.2	6.9	8.3	2.1

Direct Costs

Direct costs increased by ₱24,200.0 million or 22.1 per cent. from ₱109,694.7 million for the year ended 31 December 2017 to ₱133,894.7 million for the year ended 31 December 2018, primarily as a result of an increase in cost of inventories, salaries, wages and other employee benefits and rent.

The following discussion sets forth the components of direct costs and a trend analysis for each component, for the year ended 31 December 2017 as compared to the year ended 31 December 2018:

Cost of inventories increased by ₱12,269.9 million or 19.6 per cent. from ₱62,725.5 million for the year ended 31 December 2017 to ₱74,995.4 million for the year ended 31 December 2018, primarily as a result of: (a) the addition of new stores, (b) an increase in the prices of raw materials and (c) the consolidation of Smashburger into the Group.

Personnel costs increased by ₱3,878.5 million or 34.7 per cent. from ₱11,189.9 million for the year ended 31 December 2017 to ₱15,068.4 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) store and commissary headcount and (b) basic pay of existing employees as a result of employee performance or promotion.

Rent expenses increased by ₱2,431.3 million or 25.0 per cent. from ₱9,719.9 million for the year ended 31 December 2017 to ₱12,151.2 million for the year ended 31 December 2018, primarily as a result of an increase in store, satellite warehouses and logistics centre rent resulting from annual rent escalation.

Contracted services expenses increased by ₱1,542.4 million or 21.1 per cent. from ₱7,305.0 million for the year ended 31 December 2017 to ₱8,847.5 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) store and commissary headcount and (b) hourly rates of all workers, in each case, in the Group's businesses in the Philippines and in the PRC. The reclassification of expenses related to outsourced network development and information management from general and administrative expenses to direct costs in the year ended 31 December 2018 also contributed to the increase.

Depreciation and amortisation increased by ₱1,059.2 million or 24.6 per cent. from ₱4,307.8 million for the year ended 31 December 2017 to ₱5,367.0 million for the year ended 31 December 2018, primarily as a result of an increase in investment in new stores outside the Philippines.

Electricity and other utilities expenses increased by P660.3 million or 14.4 per cent. from P4,587.2 million for the year ended 31 December 2017 to P5,247.5 million for the year ended 31 December 2018, primarily as a result of an increase in (a) usage resulting from the expansion of the Group's store network and (b) power rates.

Repairs and maintenance expenses increased by ₱360.0 million or 29.5 per cent. from ₱1,218.6 million for the year ended 31 December 2017 to ₱1,578.6 million for the year ended 31 December 2018, primarily as a result of the reclassification of expenses related to engineering and information management from general and administrative expenses to direct costs in the year ended 31 December 2018.

Professional fees increased by ₱112.0 million or 194.5 per cent. from ₱57.6 million for the year ended 31 December 2017 to ₱169.5 million for the year ended 31 December 2018, primarily as a result of an increase in professional fees relating to, among others, legal advice, recruitment and store design resulting from the growth of the Group's businesses.

Representation and entertainment expenses increased by ₱92.7 million or 236.4 per cent. from ₱39.2 million for the year ended 31 December 2017 to ₱131.9 million for the year ended 31 December 2018, primarily as a result of the consolidation of Smashburger into the Group.

Security and janitorial expenses increased by ₱187.5 million or 23.6 per cent. from ₱795.8 million for the year ended 31 December 2017 to ₱983.3 million for the year ended 31 December 2018, primarily as a result of the expansion of the Group's store network.

Other expenses increased by ₱476.7 million or 16.4 per cent. from ₱2,914.5 million for the year ended 31 December 2017 to ₱3,391.3 million for the year ended 31 December 2018, primarily as a result of an increase in the number of transactions exempt from value added tax such as sales to persons with disabilities and to senior citizens.

Gross Profit

As a result of the foregoing, gross profit increased by ₱3,386.3 million or 14.2 per cent. from ₱23,918.4 million for the year ended 31 December 2017 to ₱27,304.7 million for the year ended 31 December 2018.

General and Administrative Expenses

General and administrative expenses increased by ₱1,555.6 million or 11.2 per cent. from ₱13,905.8 million for the year ended 31 December 2017 to ₱15,461.5 million for the year ended 31 December 2018, primarily as a result of an increase in personnel costs, taxes and licences and professional fees.

The following discussion sets forth the components of general and administrative expenses and a trend analysis for each component, for the year ended 31 December 2017 as compared to the year ended 31 December 2018:

Personnel costs increased by ₱1,275.0 million or 17.5 per cent. from ₱7,272.7 million for the year ended 31 December 2017 to ₱8,547.7 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) basic pay of existing employees as a result of employee performance or promotion and (b) fringe benefits tax resulting from an increase in the number of stock options that were exercised.

Taxes and licences increased by ₱167.3 million or 12.0 per cent. from ₱1,394.4 million for the year ended 31 December 2017 to ₱1,561.7 million for the year ended 31 December 2018, primarily as a result of an increase in business-related taxes and licence fees resulting from higher revenues arising from the expansion of the Group's store network and an increase in same store sales.

Professional fees increased by ₱193.1 million or 23.4 per cent. from ₱825.3 million for the year ended 31 December 2017 to ₱1,018.3 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) legal fees in relation to acquisitions and (b) other professional fees relating to digital marketing, market research and training.

Transportation and travel expenses increased by ₱171.5 million or 29.7 per cent. from ₱577.4 million for the year ended 31 December 2017 to ₱748.9 million for the year ended 31 December 2018, primarily as a result of an increase in lodging, mileage and per diem expenses resulting from: (a) the Group's various activities relating to the expansion of the Group's store network such as site visit/evaluation and sourcing and (b) various projects in the Philippines and overseas, such as those pertaining to acquisitions and commissary expansion.

Rent expenses increased by ₱70.3 million or 13.6 per cent. from ₱516.7 million for the year ended 31 December 2017 to ₱587.0 million for the year ended 31 December 2018, primarily as a result of: (a) an increase in office rent for existing leases resulting from annual rent escalation, (b) additional rent for new office spaces in the Philippines, the PRC and the United States resulting from the growth of the Group's businesses and (c) the inclusion of SuperFoods Group's (**SuperFoods**) and Smashburger's respective rent expenses resulting from the consolidation of these entities into the Group. SuperFoods was consolidated into the Group on 10 May 2017.

Contracted services expenses increased by ₱90.6 million or 19.1 per cent. from ₱474.6 million for the year ended 31 December 2017 to ₱565.3 million for the year ended 31 December 2018, primarily as a result of an increase in outsourced services for the Group's information management and network development functions resulting from the growth of the Group's businesses.

Depreciation and amortisation increased by ₱105.4 million or 24.1 per cent. from ₱437.3 million for the year ended 31 December 2017 to ₱542.8 million for the year ended 31 December 2018, primarily as a result of the growth of the Group's fixed asset base resulting from the growth of the Group's businesses.

Repairs and maintenance expenses increased by ₱122.4 million or 77.7 per cent. from ₱157.5 million for the year ended 31 December 2017 to ₱279.9 million for the year ended 31 December 2018, primarily as a result of: (a) the inclusion of SuperFoods' and Smashburger's respective repairs and maintenance expenses resulting from the consolidation of these entities into the Group and (b) an increase in licencing fees resulting from the implementation of SAP Business Warehouse.

Corporate events expenses increased by ₱42.7 million or 22.2 per cent. from ₱192.2 million for the year ended 31 December 2017 to ₱234.9 million for the year ended 31 December 2018, primarily as a result of an increase in the number of participants in corporate events, including conventions, corporate awards and corporate programme launches, resulting from an increase in headcount.

Membership and subscription expenses increased by ₱20.9 million or 14.9 per cent. from ₱139.6 million for the year ended 31 December 2017 to ₱160.4 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) headcount and (b) membership and subscription fees in various organisations.

Communications expenses increased by ₱42.3 million or 36.5 per cent. from ₱116.1 million for the year ended 31 December 2017 to ₱158.4 million for the year ended 31 December 2018, primarily as a result of: (a) an increase in telephone and internet-related expenses, (b) the implementation of Office 365 in the Group's Philippine business and (c) the inclusion of SuperFoods' and Smashburger's respective communications expenses resulting from the consolidation of these entities into the Group.

Training expenses increased by ₱17.3 million or 12.9 per cent. from ₱134.4 million for the year ended 31 December 2017 to ₱151.8 million for the year ended 31 December 2018, primarily as a result of an increase in the number of training programmes such as talent development programmes (including Leadership Enhancement and Acceleration Programme), coaching programmes and JFC University training programmes for store management teams.

Representation and entertainment expenses increased by ₱51.0 million or 72.6 per cent. from ₱70.3 million for the year ended 31 December 2017 to ₱121.3 million for the year ended 31 December 2018, primarily as a result of the inclusion of SuperFoods' and Smashburger's respective representation and entertainment expenses resulting from the consolidation of these entities into the Group.

Donations increased by ₱7.8 million or 8.4 per cent. from ₱93.3 million for the year ended 31 December 2017 to ₱101.1 million for the year ended 31 December 2018, as a result of an increase in the Group's net income on which donations are computed as a certain percentage.

Supplies expenses increased by ₱6.6 million or 7.3 per cent. from ₱89.6 million for the year ended 31 December 2017 to ₱96.2 million for the year ended 31 December 2018, primarily as a result of an increase in office and janitorial supplies expenses.

Electricity and other utilities expenses increased by ₱16.3 million or 29.2 per cent. from ₱55.8 million for the year ended 31 December 2017 to ₱72.1 million for the year ended 31 December 2018, primarily as a result of an increase in usage and power rates.

Association dues increased by ₱17.6 million or 33.8 per cent. from ₱52.0 million for the year ended 31 December 2017 to ₱69.6 million for the year ended 31 December 2018, primarily as a result of an increase in the number of office spaces of the Group and the rate per square metre for various buildings.

Insurance expenses increased by ₱20.0 million or 94.4 per cent. from ₱21.2 million for the year ended 31 December 2017 to ₱41.2 million for the year ended 31 December 2018, primarily as a result of an increase in the value of the Group's properties resulting from a higher asset appraisal.

Other expenses increased by ₱62.7 million or 9.1 per cent. from ₱688.3 million for the year ended 31 December 2017 to ₱751.0 million for the year ended 31 December 2018, primarily as a result of an increase in: (a) expenses related to market research and (b) the number of transactions exempt from value added tax such as sales to persons with disabilities and to senior citizens.

For the year ended 31 December 2018, the Group reversed previously recognised provisions for impairment on property, plant and equipment, receivables and inventories amounting to ₱438.0 million. The Group also incurred loss on retirements and disposals of property, plant and equipment amounting to ₱45.5 million as a result of change in store ownership, store closures and fixed asset disposals. In addition, the Group recognised provisions for impairment in the value of receivables and inventories amounting to ₱10.2 million and ₱8.3 million, respectively, following certain assessments performed by the Group.

Advertising and Promotions

Advertising and promotions increased by ₱684.7 million or 20.5 per cent. from ₱3,342.9 million for the year ended 31 December 2017 to ₱4,027.6 million for the year ended 31 December 2018, primarily as a result of: (a) an increase in marketing campaigns for new and flagship products and (b) the inclusion of SuperFoods' and Smashburger's respective advertising and promotions resulting from the consolidation of these entities into the Group.

Operating Income

As a result of the foregoing, operating income increased by ₱1,145.9 million or 17.2 per cent. from ₱6,669.7 million for the year ended 31 December 2017 to ₱7,815.6 million for the year ended 31 December 2018.

Interest Income (Expense)

Interest income increased by ₱155.8 million or 60.0 per cent. from ₱259.6 million for the year ended 31 December 2017 to ₱415.4 million for the year ended 31 December 2018, primarily as a result of higher interest rates on short-term deposits and short-term investments.

Interest expense increased by ₱483.0 million or 119.0 per cent. from ₱405.8 million for the year ended 31 December 2017 to ₱888.8 million for the year ended 31 December 2018, primarily as a result of: (a) increased bank loans to fund the: (i) acquisition of Smashburger and (ii) investments in Titan Dining LP and Tortas Frontera and (b) higher loan interest rates.

As a result of the foregoing, net interest expense increased by ₱327.2 million or 223.7 per cent. from ₱146.3 million for the year ended 31 December 2017 to ₱473.5 million for the year ended 31 December 2018.

Equity in Net Losses of Joint Ventures and Associates—Net

Equity in net losses of joint ventures and associates—net decreased by ₱195.9 million or 69.3 per cent. from ₱282.6 million for the year ended 31 December 2017 to ₱86.8 million for the year ended 31 December 2018, primarily as a result of the Group's share in the net losses of Smashburger arising from the increase in operating expenses of Smashburger and C-Joy Poultry Meats Production Inc. This was offset by the earnings of Entrek (B) SDN BHD and Golden Bee Foods Restaurants LLC, the members of the Group that operate Jollibee stores in Brunei and the UAE, respectively.

Other Income

Other income increased by ₱1,136.4 million or 54.1 per cent. from ₱2,098.8 million for the year ended 31 December 2017 to ₱3,235.2 million for the year ended 31 December 2018, primarily as a result of: (a) the reversal of long outstanding accruals and liabilities resulting from the reassessment of validity of outstanding accruals and other liabilities and (b) no provisions being made in 2018. This was partially offset by decreases in gains from re-measurement of previously held interest and bank charges.

Provision for Income Tax

Provision for income tax increased by ₱1,052.3 million or 63.1 per cent. from ₱1,666.9 million for the year ended 31 December 2017 to ₱2,719.2 million for the year ended 31 December 2018, primarily as a result of: (a) an increase in taxable income and (b) write-off and utilisation of net operating loss carryover and minimum corporate income tax of the Company, the Issuer and Mang Inasal Philippines Inc.

Net Income

As a result of the foregoing, net income increased by ₱1,098.8 million or 16.5 per cent. from ₱6,672.6 million for the year ended 31 December 2017 to ₱7,771.3 million for the year ended 31 December 2018.

Net Income Attributable to Equity Holders of the Parent Company

Consolidated net income attributable to the equity holders of the Parent Company increased by ₱1,220.8 million or 17.2 per cent. from ₱7,109.1 million for the year ended 31 December 2017 to ₱8,329.9 million for the year ended 30 December 2018.

Results of Operations for the Year Ended 31 December 2017 Compared to the Year Ended 31 December 2016

Revenues

Revenues increased by ₱17,999.5 million or 15.6 per cent. from ₱115,613.5 million for the year ended 31 December 2016 to ₱133,613.1 million for the year ended 31 December 2017, primarily as a result of: (a) the addition of new stores and (b) an increase in same store sales.

The table below sets forth a breakdown of the Group's revenues from external customers by business segment for the periods indicated.

Segment	For the year ended 31 December 2017	2016
	₱ million	
Food service(1)	124,972.8	108,263.0
Franchising(2)	8,075.2	7,071.0
Leasing(3)	565.1	279.5

(1) The food service segment conducts the operation of the stores and the manufacture of food products to be sold to Group-owned and franchised stores. See "*Business—Operations—Brands*".

(2) The franchising segment handles the franchising of the Group's brands. See "*Business—The Group's Store Network—Franchised Stores*".

(3) The leasing segment leases sites to the Group's franchisees. See "*Business—Properties—Leases for Franchised Stores*".

SWS increased by ₱22,618.9 million or 15.2 per cent. from ₱149,142.1 million for the year ended 31 December 2016 to ₱171,761.0 million for the year ended 31 December 2017.

The table below sets forth a breakdown of the growth of the Group's SWS for the following categories for the periods indicated.

	For the year ended 31 December 2017	2016
	(Unaudited)	
	per cent.	
Same store sales growth(1)	6.1	7.1
New store contribution(2)	6.4	6.8
Acquisition-driven growth(3)	1.6	—
Foreign exchange rate changes(4)	1.1	0.2

(1) Same store sales growth refers to food sales (gross of discount and net of returns and taxes) of Group-owned and franchised stores that have been in operation for at least 15 months. It excludes sales from new store openings.

(2) New store contribution refers to sale of stores opened during the relevant financial years.

(3) Acquisition-driven growth refers to the incremental sales contributed by a newly acquired majority-owned business during the relevant year.

(4) Foreign exchange rate changes refer to the impact of currency fluctuations. To eliminate the impact of currency fluctuations, the Group utilises constant currencies by converting current SWS using prior period's average exchange rate.

The table below sets forth a breakdown of the growth of the Group's SWS by region for the year ended 31 December 2017.

Region	SWS	Same Store Sales Growth	New Store Contribution	Newly Acquired Business Contribution	Impact of Foreign Exchange on SWS
			(Unaudited)		
			per cent.		
Philippines	13.2	5.7	7.4	—	—
PRC	6.1	12.0	(10.5)	—	4.5
North America	20.5	8.0	5.9	—	6.6
EMEA	70.7	(1.7)	13.6	51.8	7.0
Total worldwide	15.2	6.1	6.4	1.6	1.1

Direct Costs

Direct costs increased by ₱15,077.1 million or 15.9 per cent. from ₱94,617.6 million for the year ended 31 December 2016 to ₱109,694.7 million for the year ended 31 December 2017, primarily as a result of an increase in cost of inventories, rent and contracted services.

The following discussion sets forth the components of direct costs and a trend analysis for each component, for the year ended 31 December 2016 as compared to the year ended 31 December 2017:

Cost of inventories increased by ₱8,250.5 million or 15.1 per cent. from ₱54,475.0 million for the year ended 31 December 2016 to ₱62,725.5 million for the year ended 31 December 2017, primarily as a result of an increase in the prices of raw materials such as beef, dairy products, frozen potatoes and pork.

Rent expenses increased by ₱1,485.4 million or 18.0 per cent. from ₱8,234.5 million for the year ended 31 December 2016 to ₱9,719.9 million for the year ended 31 December 2017, primarily as a result of: (a) an increase in store and commissary rent resulting from annual rent escalation and (b) the inclusion of SuperFoods' rent expenses resulting from its consolidation into the Group.

Contracted services expenses increased by ₱2,430.0 million or 49.8 per cent. from ₱4,875.1 million for the year ended 31 December 2016 to ₱7,305.0 million for the year ended 31 December 2017, primarily as a result of an increase in store and commissary headcount.

Depreciation and amortisation increased by ₱765.2 million or 21.6 per cent. from ₱3,542.6 million for the year ended 31 December 2016 to ₱4,307.8 million for the year ended 31 December 2017, primarily as a result of an increase in investment in new stores.

Electricity and other utilities expenses increased by ₱564.4 million or 14.0 per cent. from ₱4,022.8 million for the year ended 31 December 2016 to ₱4,587.2 million for the year ended 31 December 2017, primarily as a result of an increase in usage resulting from the expansion of the Group's store network.

Supplies expenses increased by ₱415.0 million or 19.3 per cent. from ₱2,155.0 million for the year ended 31 December 2016 to ₱2,570.0 million for the year ended 31 December 2017, primarily as a result of an increase in the cost of liquefied petroleum gas used for cooking at its stores.

Repairs and maintenance expenses decreased by ₱109.4 million or 8.2 per cent. from ₱1,327.9 million for the year ended 31 December 2016 to ₱1,218.6 million for the year ended 31 December 2017, primarily as a result of the higher base from late billings for store repairs and maintenance in 2015 which were recognised only in 2016.

Professional fees increased by ₱22.6 million or 64.6 per cent. from ₱35.0 million for the year ended 31 December 2016 to ₱57.6 million for the year ended 31 December 2017, primarily as a result of an increase in: (a) headhunter fees for recruiting services resulting from the expansion of the Group's store network and (b) legal fees incurred by a subsidiary of the Company.

Representation and entertainment expenses increased by ₱6.0 million or 18.1 per cent. from ₱33.2 million for the year ended 31 December 2016 to ₱39.2 million for the year ended 31 December 2017, primarily as a result of an increase in the representation and entertainment expenses of the Jollibee and Chowking businesses.

Other expenses increased by ₱273.5 million or 10.4 per cent. from ₱2,641.0 million for the year ended 31 December 2016 to ₱2,914.5 million for the year ended 31 December 2017, primarily as a result of an increase in the number of transactions exempt from value added tax such as sales to persons with disabilities and to senior citizens.

Gross Profit

As a result of the foregoing, gross profit increased by ₱2,922.4 million or 13.9 per cent. from ₱20,996.0 million for the year ended 31 December 2016 to ₱23,918.4 million for the year ended 31 December 2017.

General and Administrative Expenses

General and administrative expenses increased by ₱2,044.4 million or 17.2 per cent. from ₱11,861.4 million for the year ended 31 December 2016 to ₱13,905.8 million for the year ended 31 December 2017, primarily as a result of an increase in personnel costs and taxes and licences.

The following discussion sets forth the components of general and administrative expenses and a trend analysis for each component, for the year ended 31 December 2016 as compared to the year ended 31 December 2017:

Personnel costs increased by ₱1,295.9 million or 21.7 per cent. from ₱5,976.7 million for the year ended 31 December 2016 to ₱7,272.7 million for the year ended 31 December 2017, primarily as a result of an increase in: (a) the headcount of the Group's corporate office in the Philippines, (b) basic pay of existing employees as a result of employee performance or promotion, (c) employee benefits and (d) fringe benefits tax on exercised stock options.

Taxes and licences increased by ₱123.3 million or 9.7 per cent. from ₱1,271.1 million for the year ended 31 December 2016 to ₱1,394.4 million for the year ended 31 December 2017, primarily as a result of an increase in business-related taxes and licence fees resulting from higher revenues arising from the expansion of the Group's store network and an increase in same store sales.

Professional fees increased by ₱216.7 million or 35.6 per cent. from ₱608.6 million for the year ended 31 December 2016 to ₱825.3 million for the year ended 31 December 2017, primarily as a result of an increase in: (a) legal fees in relation to acquisitions and (b) other professional fees relating to digital marketing, engineering and design, human resources consultancy, information management, market research and site sourcing.

Transportation and travel expenses increased by ₱72.9 million or 14.5 per cent. from ₱504.5 million for the year ended 31 December 2016 to ₱577.4 million for the year ended 31 December 2017, primarily as a result of an increase in lodging, mileage and per diem expenses resulting from: (a) the Group's various activities relating to the expansion of the Group's store network such as site visit/evaluation and sourcing and (b) various projects in the Philippines and overseas such as those pertaining to mergers and acquisitions.

Rent expenses increased by ₱46.7 million or 9.9 per cent. from ₱470.0 million for the year ended 31 December 2016 to ₱516.7 million for the year ended 31 December 2017, primarily as a result of: (a) an increase in office rent for existing leases resulting from annual rent escalation, (b) additional rent for new office spaces in the Philippines, the PRC and the United States resulting from the growth of the Group's businesses and (c) the inclusion of SuperFoods' rent expenses resulting from its consolidation into the Group.

Contracted services expenses decreased by ₱24.9 million or 5.0 per cent. from ₱499.5 million for the year ended 31 December 2016 to ₱474.6 million for the year ended 31 December 2017, primarily as a result of the change by Burger King in its provider of accounting services from a third-party contractor to JWS.

Repairs and maintenance expenses decreased by ₱33.8 million or 17.7 per cent. from ₱191.3 million for the year ended 31 December 2016 to ₱157.5 million for the year ended 31 December 2017, primarily as a result of the higher base from store repairs and maintenance in 2015.

Corporate events expenses increased by ₱30.6 million or 18.9 per cent. from ₱161.6 million for the year ended 31 December 2016 to ₱192.2 million for the year ended 31 December 2017, primarily as a result of an increase in the number of participants in corporate events, including conventions, corporate awards and corporate programme launches, resulting from an increase in headcount.

Membership and subscription expenses increased by ₱27.4 million or 24.5 per cent. from ₱112.1 million for the year ended 31 December 2016 to ₱139.6 million for the year ended 31 December 2017, primarily as a result of an increase in membership and subscription fees for professional and leisure organisations.

Communications expenses increased by ₱17.3 million or 17.5 per cent. from ₱98.8 million for the year ended 31 December 2016 to ₱116.1 million for the year ended 31 December 2017, primarily as a result of: (a) an increase in telephone and internet-related expenses of the Group's Philippine business, in particular and (b) the inclusion of SuperFoods' communications expenses resulting from its consolidation into the Group.

Training expenses decreased by ₱27.2 million or 16.8 per cent. from ₱161.7 million for the year ended 31 December 2016 to ₱134.4 million for the year ended 31 December 2017, primarily as a result of training programmes for Jollibee that were postponed or cancelled.

Representation and entertainment expenses increased by ₱16.5 million or 30.7 per cent. from ₱53.8 million for the year ended 31 December 2016 to ₱70.3 million for the year ended 31 December 2017, primarily as a result of the inclusion of SuperFoods' representation and entertainment expenses resulting from its consolidation into the Group.

Donations increased by ₱10.7 million or 12.9 per cent. from ₱82.6 million for the year ended 31 December 2016 to ₱93.3 million for the year ended 31 December 2017, as a result of an increase in the Group's net income on which donations are computed as a certain percentage.

Supplies expenses increased by ₱10.9 million or 13.8 per cent. from ₱78.8 million for the year ended 31 December 2016 to ₱89.6 million for the year ended 31 December 2017, primarily as a result of: (a) an increase in office supplies expenses and (b) the inclusion of SuperFoods' supplies expenses resulting from its consolidation into the Group.

Electricity and other utilities expenses increased by ₱3.2 million or 6.1 per cent. from ₱52.6 million for the year ended 31 December 2016 to ₱55.8 million for the year ended 31 December 2017, primarily as a result of an increase in usage and power rates.

Insurance expenses increased by ₱4.4 million or 26.2 per cent. from ₱16.8 million for the year ended 31 December 2016 to ₱21.2 million for the year ended 31 December 2017, primarily as a result of an increase in the number of stores that were constructed and renovated in 2017.

Security and janitorial expenses increased by ₱1.9 million or 8.7 per cent. from ₱22.5 million for the year ended 31 December 2016 to ₱24.4 million for the year ended 31 December 2017, primarily as a result of an increase in: (a) manpower resulting from additional office spaces and (b) hourly rates.

Other expenses increased by ₱119.8 million or 21.1 per cent. from ₱568.5 million for the year ended 31 December 2016 to ₱688.3 million for the year ended 31 December 2017, primarily as a result of an increase in miscellaneous expenses.

For the year ended 31 December 2017, the Group reversed previously recognised provisions for impairment on property, plant and equipment, receivables and inventories amounting to ₱76.6 million. The Group also incurred a net gain on retirements and disposals of property, plant and equipment amounting to ₱56.5 million as a result of change in store ownership, store closures and fixed asset disposals. In addition, the Group recognised provisions for impairment in the value of receivables and inventories amounting to ₱143.8 million and ₱7.4 million, respectively, following certain assessments performed by the Group. The Group also recognised provisions for property, plant and equipment amounting to ₱431.9 million relating to allowance for impairment loss on office, store and food processing equipment.

For the year ended 31 December 2016, the Group reversed previously recognised provisions for impairment on property, plant and equipment, receivables and inventories amounting to ₱23.3 million. The Group also incurred loss on retirements and disposals of property, plant and equipment amounting to ₱236.8 million as a result of change in store ownership, store closures and fixed asset disposals. In addition, the Group recognised provisions for impairment in the value of receivables and inventories amounting to ₱91.4 million and ₱78.6 million, respectively, following certain assessments performed by the Group. The Group also recognised provisions for property, plant and equipment amounting to ₱42.7 million relating to the Burger King business.

Advertising and Promotions

Advertising and promotions increased by ₱673.4 million or 25.2 per cent. from ₱2,669.5 million for the year ended 31 December 2016 to ₱3,342.9 million for the year ended 31 December 2017, primarily as a result of an increase in marketing campaigns for new and flagship products.

Operating Income

As a result of the foregoing, operating income increased by ₱204.6 million or 3.2 per cent. from ₱6,465.0 million for the year ended 31 December 2016 to ₱6,669.7 million for the year ended 31 December 2017.

Interest Income (Expense)

Interest income decreased by ₱27.3 million or 9.5 per cent. from ₱286.9 million for the year ended 31 December 2016 to ₱259.6 million for the year ended 31 December 2017, primarily as a result of: (a) lower interest rates on cash in banks, short-term deposits and short-term investments and (b) the conversion of the loans and advances (including accrued interest income) of SuperFoods as of 31 December 2016 into equity resulting from the acquisition of additional equity interest in SuperFoods.

Interest expense increased by ₱138.2 million or 51.6 per cent. from ₱267.6 million for the year ended 31 December 2016 to ₱405.8 million for the year ended 31 December 2017, primarily as a result of increased bank loans for acquisitions and business expansion and other general corporate purposes.

As a result of the foregoing, the Group had a net interest income of ₱19.3 million for the year ended 31 December 2016 as compared to a net interest expense of to ₱146.3 million for the year ended 31 December 2017.

Equity in Net Losses of Joint Ventures and Associates – Net

Equity in net losses of joint ventures and associates – net decreased by ₱54.5 million or 16.2 per cent. from ₱337.1 million for the year ended 31 December 2016 to ₱282.6 million for the year ended 31 December 2017, primarily as a result of the Group's share in the net losses of Smashburger, WJJ Investments Limited and C-Joy Poultry Meats Production Inc. being offset by the earnings of Entrek (B) SDN BHD and Golden Bee Foods Restaurants LLC, the members of the Group that operate Jollibee stores in Brunei and the UAE, respectively.

Other Income

Other income increased by ₱515.8 million or 32.6 per cent. from ₱1,582.9 million for the year ended 31 December 2016 to ₱2,098.8 million for the year ended 31 December 2017, primarily as a result of the gain from the re-measurement of previously held interest in SuperFoods and reversal of long outstanding accruals and liabilities. This was partially offset by the provisions for contingencies in the total amount of ₱794.6 million and the marked-to-market loss on derivatives in 2017.

Provision for Income Tax

Provision for income tax decreased by ₱9.7 million or 0.6 per cent. from ₱1,676.6 million for the year ended 31 December 2016 to ₱1,666.9 million for the year ended 31 December 2017.

Net Income

As a result of the foregoing, net income increased by ₱619.1 million or 10.2 per cent. from ₱ 6,053.5 million for the year ended 31 December 2016 to ₱6,672.6 million for the year ended 31 December 2017.

Net Income Attributable to Equity Holders of the Parent Company

Consolidated net income attributable to the equity holders of the Parent Company increased by ₱944.4 million or 15.3 per cent. from ₱6,164.7 million for the year ended 31 December 2016 to ₱7,109.1 million for the year ended 30 December 2017.

BUSINESS

OVERVIEW

Jollibee Foods Corporation and its subsidiaries (collectively, the **Group**) believe it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. It had 2,429 Group-owned and franchised stores outside the Philippines as of the same date. In addition, the Group believes it is among the largest food service companies in Asia in terms of sales and store network as of 30 September 2019. The Group's principal business comprise the development, operation and franchising of stores under the Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Hong Zhuang Yuan, Mang Inasal, Burger King, Highlands Coffee, PHO24, Hard Rock Cafe, Dunkin' Donuts, Smashburger, Panda Express and CBTL brands. The Group is also engaged in the manufacturing of food products, logistics services and property leasing in support of its operations.

As of 30 September 2019, the Group owned and operated 1,267 stores in the Philippines while 2,167 stores were franchised. As of the same date, the Group had a presence outside the Philippines in 36 countries and territories, with 1,363 Group-owned and operated stores and 1,066 franchised stores, including in Brunei, Canada, Hong Kong SAR, Indonesia, India, Italy, Macau SAR, Malaysia, the Middle East (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (**UAE**)), the PRC, Singapore, South Korea, the United Kingdom, the United States and Vietnam.

The Group's stores offer a quality menu with a wide variety of affordable and locally-relevant food and beverages. Its store formats and sales channels offer convenience, accessibility and availability to its consumers. The Group's store formats include free standing/full store, in store/in line, mall and food court. It also employs comprehensive sales channels including dine-in, take-away, drive-thru, kiddie party, bulk order and delivery. The Group believes that store technology initiatives and delivery arrangements are becoming increasingly important aspects of its sales channel and the consumer experience. The technology that the Group has implemented includes, among others, website ordering, mobile ordering, mobile payment, cashless payment and in-store self-service technologies. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, DoorDash and Uber Eats.

SWS is the Group's measure for all sales to consumers, both from Group-owned and franchised stores. For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's SWS were ₱149,142.1 million, ₱171,761.0 million, ₱212,185.4 million (U.S.$4,077.4 million) and ₱171,068.1 million (U.S.$3,287.2 million), respectively. For the same periods, the SWS of the Group's businesses in the Philippines accounted for 81 per cent., 79 per cent., 74 per cent. and 73 per cent., respectively, of the Group's SWS. The SWS of the Group's businesses outside the Philippines represented 19 per cent., 21 per cent., 26 per cent. and 27 per cent., respectively, of the Group's SWS for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019.

Net sales pertains to gross sales less sales discounts. For the years ended 31 December 2016, 2017 and 2018, the Group's net sales were ₱107,924.5 million, ₱124,663.5 million and ₱150,200.8 million (U.S.$2,886.3 million), respectively. Sales in the Philippines accounted for 78.6 per cent., 77.2 per cent. and 72.9 per cent. of net sales for the years ended 31 December 2016, 2017 and 2018, respectively. For the same periods, foreign sales represented 21.4 per cent., 22.8 per cent. and 27.1 per cent., respectively, of net sales. For the nine months ended 30 September 2019, the Group's total net sales was ₱118,247.5 million (U.S.$2,272.2 million), of which 71.4 per cent. and 28.6 per cent. comprised sales in the Philippines and foreign sales, respectively.

For the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, the Group's net income were ₱6,053.5 million, ₱6,672.6 million, ₱7,771.3 million (U.S.$149.3 million) and ₱3,992.3 million (U.S.$76.7 million), respectively.

As of 31 December 2017 and 2018 and as of 30 September 2019, the Group's total assets were ₱89,783.9 million, ₱113,851.8 million (U.S.$2,187.8 million) and ₱167,225.1 million (U.S.$3,214.0 million), respectively.

COMPETITIVE STRENGTHS

The Group believes that its principal competitive strengths include the following:

Well-recognised, diverse and distinctive brands with an iconic following driving market leadership

The Group has a portfolio of well-recognised brands comprised of its own, acquired or franchised brands in the quick-service and fast casual dining segments. The Group believes that its flagship brand, the Jollibee brand, for example, is the most recognised brand in the Philippines that continues to outperform and outgrow chained restaurant peers in the Philippines. A Carter Claims study has shown that 8 out of 10 respondents voted Jollibee's "Chickenjoy" as the best-tasting fried chicken in the Philippines. Jollibee's iconic following also extends internationally. Jollibee's store openings overseas have been blockbusters seeing massive customer turnouts demonstrating a loyal customer base especially among migrant Filipinos who serves as natural brand ambassadors, thereby also helping the Jollibee brand to get greater global recognition.

Jollibee was founded by Mr. Tony Tan Caktiong and his family with its humble beginnings as an ice cream parlour in 1975 which later grew into an emerging global brand. Since the start, the Group has differentiated itself from competition through its family-oriented approach to management and a passionate commitment towards delivering superior tasting and great value for money products while adhering to world class operating standards.

The Group's values are echoed in its brand marketing. The Jollibee brand knows its target audience very well, which is the traditional family, and the universal importance of family values, making Jollibee the number one family-oriented fast food chain in the Philippines and a fast-growing international QSR player. The Jollibee brand has won in various categories in marketing, advertising and public relations in the recent Asia Pacific Tambuli Awards, Philippine Anvil and Quill Awards, and the IN2 Sabre Awards 2019 Asia Pacific.

In 2013, USA's Restaurant Business Magazine included Jollibee as among the 50 fastest growing chains in the United States. The following year, 2014, Jollibee was listed as among the top ten international fast foods restaurants in the United States by The Daily Meal and was hailed as the best international restaurant chain by the Thrillist, a US-based food and lifestyle website. Thrillist released a 2018 article that named Jollibee as one of the "Top restaurant chains that could take over America". Technomic has included Jollibee for the past few years now as among the 500 leading chains in the United States.

The Group manages a portfolio of 17 brands, 11 of which are owned by the Group. The others are brands that the Group partnered with as a franchisee, namely Burger King, Panda Express, Dunkin Donuts' and Hard Rock Cafe. The Group also expects to enter into franchise agreements to operate stores under the Tim Ho Wan brand in the PRC and under the PHO24 brand in the Philippines. The Group was cited by Business Insider in 2019 as among the top ten global restaurant companies that control more than 50 of the biggest restaurant chains in the world.

The other brands owned by the Group have also been gaining prominence in their respective segments and markets. In 2017, Technomic mentioned the Group's brands back in its list of 25 fastest growing global chains, naming Jollibee, Highlands Coffee, Chowking and Red Ribbon in their list. The Group believes Highlands Coffee was the most recognised and largest coffee chain in Vietnam beating Starbucks in terms of store network as of 30 September 2019. YongHe King in China was the number one Chinese QSR in the China Brand Power Index from 2011 to 2015 as well as in 2018 and 2019. Smashburger was named "America's Most Promising Company" in 2011 by Forbes. In 2014, it again made this list coming in at number six for "America's Most Promising Companies". In 2017, the chain was named as the 9th burger restaurant brand in America by The Harris Poll's annual EquiTrend Study.

The strong recognition of the Group's brands, together with the diversity of its brand portfolio, provides the Group a unique opportunity to access and compete in new markets and fast-growing segments.

Well-established leading market position in the Philippines' fast-growing food service and restaurant industry

The Group believes it is the largest food service and restaurant company in the Philippines with 3,434 Group-owned and franchised stores as of 30 September 2019. In 2018, the Group was the largest limited-service restaurant and had a leading market share of more than 50 per cent., and the Jollibee brand was the leading quick service restaurant (**QSR**) and had a market share of more than 30 per cent., based on the Group's in-house tracking. As of the same period, the Group also believes that its Group-owned brands Chowking, Greenwich and Mang Inasal were market leaders, in terms of store network and market share in the Philippines, in their respective segments, namely, Chinese QSR, pizza and pasta and grilled chicken segments. The Group believes that, as of 30 September 2019, Chowking, Greenwich and Mang Inasal held a leading market share of 88.0 per cent., 32.0 per cent. and 93.0 per cent., respectively, in the Chinese QSR, pizza and pasta and grilled chicken segments, respectively. As of the same period, the Group believes that Chowking, Greenwich and Mang Inasal had an estimated total store network of 602 stores, 282 stores and 586 stores, respectively, and were leaders in their respective segments in terms of store network. The Group operates stores as a franchisee under the Burger King brand. In 2016, Burger King Philippines received the 2016 Gold Crown Franchisee of the Year at the Asia Pacific Franchisee Convention in Florida.

The Group believes that its strong market and consumer research and operations teams provide an in-depth understanding of the food service and restaurant industry and extensive consumer insights which, in turn, enables the Group to maintain market leadership and achieve sustainable growth. This established market leadership in the Philippines combined with favourable conditions in the overall Philippine economy provide the Group a highly defensible and strong base for growth in the future. According to the World Bank, gross domestic product in the Philippines is expected to grow between five per cent. to seven per cent. annually due to an increase in the young population and domestic household consumption (resulting from, among others, an increase in disposable income), sustained foreign direct investments, growth in remittances and an increase in Government spending on infrastructure and services. The Group expects increasing affluence among select urban customer base to support its introduction of certain brands such as Burger King and Panda Express.

The Group also believes that its focus on the mass market and low- to mid-income income segments further protects it throughout the economic cycle. The Group expects to benefit from stronger household consumption during economic growth and a switch in spending at higher end fine or casual dining establishments to relatively lower-priced QSR (such as those of the Group's) during economic decline. In addition, the Group's presence in various food service and restaurant segments allows the Group to offer consumers with products that cater to different household budgets or that may have an increased demand at certain stages of the economic cycle. For example, in the burger chain segment, the Group offers lower priced burgers such as the Yumburger under its Jollibee brand and mid-tier to premium priced burgers under its Burger King brand.

The Group believes that it will continue to achieve increased demand for its food products and sustained positive growth as a result of an increase in same store sales growth complemented by the expansion of its store network. From 2014 to 2018, the Group recorded a compound annual growth rate (**CAGR**) of 15.3 per cent. in SWS from same store sales and from new store openings. CAGR refers to the compounded annual growth from the initial year to the final year over a certain period of time. For the nine months ended 30 September 2019, the Group attained positive SWS arising from a 2.2 per cent. growth in SWS from same store sales and a 10.4 per cent. growth in SWS from new store openings. The Group remains resilient and intends to deploy a more effective portfolio strategy to maintain its leadership and capture a broader customer base.

Strong and stable operating cash flows

The Group has historically delivered consistent operating cash flow generation and believes that the consolidated operating cash flow of its businesses is sufficient to fund new store openings and renovations in existing stores. For example, in the PRC, the Group opens new stores using internally generated cash without relying on the Company for funding. The Group's strong cash flows has also enabled it to service debt and maintain a consistent annual dividend payout in recent years.

The Group believes it has strong financial discipline by investing in its food service and franchising businesses and exercising strict capital allocation wherein capital is deployed towards projects that yield the best returns, avoiding real estate purchases and prudent debt management which includes a well-managed debt profile, lower cost of debt and leverage and only incurring debt after utilising excess cash reserves even if interest rates are low. Solid unit economics support investments on new stores and renovations on existing stores. This has enabled a healthy expansion of new stores for both Group-owned and franchised stores. The Group also closely tracks payback period, rate of return, same store sales growth and other metrics to track the performance of expansion projects. Furthermore, the Group has additional sources of cash, such as increasing revenue from its franchising and international operations, as well as revenue from its commissaries which supply raw materials to stores including franchisees.

Best-in-class operational expertise across the value chain

The Group maintains an integrated value chain in the Philippines that enables operating efficiencies and cost savings, allowing the Group to have a scalable support infrastructure, which provides significant competitive advantages for the Group in the Philippines and as it expands overseas.

Stores

The Group's store operating model revolves around its strong focus on its food, customers and operational expertise. Through this operating model, the Group has implemented food, service, and cleanliness standards, which has resulted in superior customer satisfaction and consistency in food taste and quality. See "*—Food Safety and Quality Assurance*".

Manufacturing, supply and distribution

The Group believes it has an unparalleled supply chain that operates the one of the largest commissaries in Asia in terms of production capacity as of 30 September 2019. The Group has an extensive network of manufacturing and logistics operations which comprises 15 manufacturing sites and 20 logistics centres in the Philippines. The Group also has manufacturing sites in the PRC, Vietnam and the United States. The Group has established closing working relationships with key suppliers in the Philippines and overseas. For example, the Group has a joint venture partnership with Cargill, which enables the Group to augment its poultry requirements and harness Cargill's expertise, technology and best practices from poultry farming to meat processing. The Group has received world-class and industry leading quality and safety certifications, including on Good Agricultural Practices, Good Animal Husbandry Practices, Hazards Analysis and Critical Control Points, Good Distribution Practices, Good Warehousing Practices as well as awards/certifications from the National Meat Inspection Service of the Philippines (**NMIS**) and the International Organisation for Standardisation. See "*—Supply and Distribution*".

Franchise management

The Group also believes it has an established and well-managed franchise network and support infrastructure for its franchise business model. For example, for the Jollibee brand, the Group has designated training stores where it conducts product, basic operations and management development training programmes for its franchisees. In addition, it assists franchisees in the training of their management teams. The Group has collaborated with a leading university in the Philippines for the establishment of JFC University to train and develop store management personnel. Most of the store managers of the Group-owned brands in the Philippines have undergone training at JFC University. The Group imposes the highest standards on its franchisees which are documented in the franchise agreement such as strict order completion times and strict observance of food, service and cleanliness standards. In addition, the Group has highly robust and well-established standard operating procedures and guidelines that enable more consistent and easier facilitation of franchising. In 2019, the Group received the Inclusive Business Model and Best in Overall Marketing Campaign awards from the Philippine Franchise Association.

Support infrastructure

The Group, through JWS, has a well-established back and middle office support infrastructure that allows it to take advantage of economies of scale and have cost-efficient and scalable operations globally. JWS provides accounting, cash and banking, human resources, training, quality management, process engineering, network development and business technology (information technology and digital) services to certain of the Group's brands. The Group expects it will continue to expand JWS' scope of services to cover more of its business overseas. As of the date of this Offering Circular, the Group is able to support back office operations for its foreign franchised brands, including PHO24, Panda Express and Burger King.

Management systems

Being a pure-play company focused on restaurants and food service, together with its 40-year history, has enabled the Group to establish robust management systems that revolve around market-relevant and data- and fact-based decision-making combined with strong performance benchmarks. These management systems enable the Group to manage its various businesses at various economic cycles, to be able to identify and maximise opportunities and address challenges of restaurants in their respective stages of development and markets. The Group's business systems comprise the entire restaurant value chain. For example, there is a process relating to, among others, determining and driving a clear brand strategy to guide current and future investments and business decisions; establishing in-depth market and consumer research capability that provides among others, in-house tracking of market share data, usage, attitude and image studies, price sensitivity, brand equity and value for money studies; real estate/network development that provide guidance to market development and strategic expansion; financial performance benchmarks that guide financial planning, analysis and decision making; and restaurant operational excellence standards, which includes a "menu architecture" for each brand to drive product launches, innovations and marketing programmes.

Environmental and social responsibility-rooted strategies

The Group has been developing community-based and socially responsible sourcing programmes through a partnership with its corporate social responsibility arm, the Jollibee Group Foundation. Some of these programmes include sourcing up to 20 per cent. of produce requirements of certain of the Group's restaurants from partner farmers. The Group believes that its various brands were the first, among major global restaurant companies, to embark on environment-friendly and sustainability projects such as utilising reusable plates and utensils in restaurants, shifting from plastic to paper packaging and eliminating plastic straws. In December 2019, the Mr. Jose Ma. A. Miñana, Jr. was appointed as Chief Sustainability and Public Affairs Officer of the Group.

Track record of profitable growth and successful integration of acquisitions

Over the past five years, the Group has recorded a CAGR of 15.3 per cent. and 12.3 per cent. in sales and net profit, respectively, primarily due to consistent same store sales growth, opening of new stores, and successful strategic acquisitions and partnerships. For the period 2005 to 2018, the Group has recorded a CAGR of 14.1 per cent. in total revenues and 13.1 per cent. in net income. For the years ended 31 December 2016, 2017 and 2018, the Group's net income increased year-on-year to ₱6,053.5 million, ₱6,672.6 million, ₱7,771.3 million (U.S.$149.3 million).

The scalability of the Group's proprietary systems and the integrated structure of the Group's back office enable it to continue to lower costs and maintain profitability, even as the Group expands rapidly with the addition of new stores, entry into new markets or launch of new products or brands. For example, the utilisation of the Group's back office services provided by JWS enables the expansion of the Jollibee business to Hong Kong SAR, Italy, London and Singapore to be profitable despite having few stores. The Group believes it is in a good position to make its franchise business with Panda Express profitable in view of its systems and structures. In addition, the strong management systems of the Group ensure that it can sustain and improve profitability of its food, restaurants and back office operations.

The Group has had a track record of scaling up and creating significant value from acquisitions. For example, after the Group completed the respective acquisitions, the Yonghe King business grew from 77 stores in 2004 to over 300 stores in the PRC, the Highlands Coffee business grew from 56 stores in 2011 to over 360 stores, the Mang Inasal business grew from 303 stores in 2010 to over 580 stores and the Chowking business grew from 164 stores in 2000 to over 600 stores, in each case as of 30 September 2019. Mang Inasal's average daily sales improved from less than approximately ₱50,000 per day, per store in 2010 to approximately ₱125,000 per day, per store and Yonghe King's average daily sales improved from approximately RMB10,000 per day, per store to RMB18,000 per day, per store, in each case as of 30 September 2019. In addition to the expansion of the store network, the Yonghe King business also support new sales channel growth such as online delivery. As a result, since the Group took over the Yonghe King brand, the Group has recorded a CAGR of 15.5 per cent. in sales.

As of 30 September 2019, the Group's acquired businesses accounted for more than 50 per cent. of the Group's total SWS. The Group believes it has a strong understanding of relevant industry segments and market dynamics, allowing it to implement growth, integration, or turnaround strategies in a timely manner for its various acquired businesses.

Strong corporate culture and experienced, award-winning management team

The Group was founded by Mr. Tony Tan Caktiong and his family with its inception as an ice cream parlour in 1975 in line with the family's humble vision of serving affordable, great-tasting food and being a family-oriented brand. These values continue to be key aspects of the Group's culture and day-to-day operations. For example, the Group believes its success is a result of, among others, its focus on its people and its family-oriented approach to personnel management and as a result, it is a highly sought-after employer. For example, in 2017, the Group was awarded Company of the Year by Southern California Asian Business League, and in 2019, the Group was recognised by Asian Business Association as Corporation of the Year and by the Provincial Government of Ontario, Canada for its positive impact to the community.

The Group has a professional, visionary and strong management team with extensive food service and restaurant industry experience and a track record of operational excellence that the Group believes is necessary to successfully lead the development and expansion of the its businesses. For example, the senior management team of the Company has an average of 17 years of experience with the Group. The Group believes that its management team is stable and has long-term expertise in the food service and restaurant industry in the Philippines and overseas. Certain members of the Group's management team have received awards for their leadership in the Group. For example, Mr. Tony Tan Caktiong, the Company's chairman, was awarded Global Filipino Executive of the Year by CEO Asia Awards in 2013. Mr. Ysmael Baysa, the Company's chief financial officer, was awarded CFO of the Year by ING-FINEX in 2010 and Best CFO by FinanceAsia in 2014, and was ranked in the top three Best CFO Emerging Markets (Philippines) by Institutional Investor All Asia ex-Japan in 2018.

The various awards received by the Group's brands are also a testament of a strong market research and brand marketing team which have also, over the years, received awards for excellence in advertising, public relations and marketing. The Group has also contracted with reputable human resource agencies to track and help improve employee engagement.

The Group believes that its unique company culture as well as the professionalism and dedication of its management team bring about a passionate commitment to deliver superior-tasting, high quality food and great value for money products adhering to world-class operating standards.

STRATEGIES

The Group's principal strategies for achieving its growth objectives are set out below.

Continue the Group's recipe for success anchored on great-tasting food and superior value for money

The Group offers its customers a wide-ranging choice of food and beverage products under its various brands that it believes are consistently differentiated from the products of its competitors in terms of superior taste, craveability and value for money. The Group plans to further expand and develop its market position, improve margins and increase its customer base by: (i) implementing sustained education and marketing campaigns for its products, (ii) leveraging its expertise and experience from operating its own stores as well as its access to market research to better understand consumer preferences and thus continue offering innovative and value for money products and (iii) continuing to develop its processes and tools and to invest in product research and development to further improve existing and introduce new products in order to meet evolving consumer tastes and enhance overall customer experience. To encourage repeat customers and attract new customers, the Group will continue to replicate its recipe for success that it has tried and tested for its best-selling products such as the iconic ChickenJoy by focusing on taste, affordability, innovation and accessibility of its products.

Maintain market leadership in the fast-growing Philippine market

The Group believes it is the largest food service and restaurant company in the Philippines in terms of store network. It believes it is well-positioned to pursue growth opportunities presented by a Philippine market that features favourable demographics and consumption patterns. According to the World Bank, gross domestic product in the Philippines is expected to grow between five per cent. to seven per cent. annually due to an increase in the young population and domestic household consumption (resulting from, among others, an increase in disposable income), sustained foreign direct investments, growth in remittances and an increase in Government spending on infrastructure and services.

The Group intends to continue to grow its business in the Philippines by: (i) leveraging on its multi-brand portfolio to compete in different price points and restaurant segments including fried and grilled chicken, Chinese food, pizza and pasta, bakery and pastry, mid-tier to premium burgers, Asian noodles and coffee. The Group believes that its products complement each other and that the diversity of its product portfolio will enable it to meet various consumer need states. For example, the Group offers fried and grilled chicken products under the Jollibee and Mang Inasal brands, respectively, to suit different consumer tastes; (ii) expanding its store network strategically; and (iii) scaling up its foreign franchised brands including PHO24 and brands where the Group is a franchisee such as Burger King and Panda Express to capture key untapped segments and thus increase its revenues from its Philippine businesses.

Implement a strategic and profitable expansion in international markets and segment diversification

As of 30 September 2019, the Group had a presence outside the Philippines in 36 countries and territories, with 1,363 Group-owned and operated stores and 1,066 franchised stores. The Group targets to increase the contribution of its international business from 27 per cent. as of 30 September 2019 to 50 per cent. of its total SWS. The Group believes that this will be achieved by increasing its presence and driving faster growth in key identified focus markets through existing brands that are already in those markets or through opportunistic value-accretive acquisitions or partnerships, including franchising.

The Group intends to strengthen its existing brands by focusing its expansion plans on key large restaurant markets such as North America and the PRC. In fast-growing consumer countries and territories in Southeast Asia, such as Vietnam, Indonesia, Singapore and Malaysia, the Group plans to replicate its recipe for success that it has tried and tested for its best-selling products by focusing on taste, affordability, innovation and accessibility of its products. For example, in the case of Highlands Coffee, the Company implemented changes in its management systems that saw improvements such as streamlined menu architecture, optimisation of store network and implementation of food, service and cleanliness standards, resulting in an increase in same store sales, reduction of costs and better scores in food quality, service and guest experience as well as value for money. The Company aims to implement similar strategies for its other acquired brands.

The Jollibee brand has seen impressive market reception overseas first with migrant Filipino communities and then with the mainstream market, including in the United States, Canada, Vietnam, Hong Kong and Singapore. Markets with considerable migrant Filipinos will continue to be the Jollibee brand's target market which will be a strong base of support which the Group will then use as springboard to eventually access the broader mainstream/local market.

Furthermore, the Group aims to increase its franchising revenues from CBTL in Southeast Asia, Smashburger in North America and Jollibee in the Philippines and in select markets, including in Indonesia.

By leveraging on the strength of its value chain in the Philippines and its presence in Asia, the Group is continually exploring potential acquisitions of or partnerships with global/western brands that it can bring to and operate in Asia. For instance, in 2018, the Company established a joint venture with Panda Restaurant Group Inc. to bring Panda Express stores to the Philippines and made investments in Tim Ho Wan to open stores in Shanghai. In addition, the Group continually evaluates potential investments in strategic and scalable segments to promote segment diversification in its global businesses.

Enhance operational efficiency and synergies across the Group

The Group seeks to further strengthen its operational excellence culture. The Group also intends to deploy scalable business models pertaining to, among others, its stores, supply chain, franchise management and shared services that will provide a competitive advantage to its brands and business units. The Group believes that it has the organisation, system and tools in place to implement these.

The Group aims to employ best-in-class tools, processes and standards pertaining to food, service and cleanliness (**FSC**), customer satisfaction and quality management at its stores, including focusing on food safety and proactively preparing against any new challengers and disease outbreaks. It also intends to continue to optimise its manufacturing, supply and distribution network by leveraging on its buying synergies, expertise in food manufacturing and continued enhancement of its operations to ensure cost-efficient, reliable and sufficient capacity to support its various businesses. In addition, the Group plans to strengthen its franchise management expertise and continually improve its franchisee support services and systems. The Group will also continue to enhance and expand the scope of the shared services provided by JWS to benefit its brands and franchisee networks in various countries and territories.

The Group has invested and will continue to invest in digital transformation initiatives especially around customer-facing activities. The Group has invested in a dedicated team based in the United States that is focused on digital transformation. The Group plans to partner with third-party digital service providers relating to store technology and delivery arrangements which have become increasingly channels for sales and the consumer experience. The technology that the Group has implemented and will continue to iterate and improve includes, among others, website ordering, mobile ordering, mobile payments, cashless payment, in-store self-service technologies and digital advertising. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, Door Dash and Uber Eats. For example, in the PRC, the partnership by the Group with delivery aggregators enables its businesses to be profitable despite having few stores.

Further strengthen its financial position and exercise prudent financial management supportive of growth

The Group will continue to exercise financial discipline that is supportive of its expansion and growth plans for its businesses. Financial targets for the Group's businesses are set such that revenue growth is broadly achieved through store expansion and healthy, sustainable organic same store sales growth. The Group will continue to drive improvements in its operating profit margins through cost management programmes and innovations in, among others, food and packaging costs as well as store operating expenses and by increasing productivity. It also intends to maintain its capital allocation strategy that deploys capital towards projects or investments that yield the best returns. In particular, the Group intends for its businesses with better returns on new store investments to get a bigger share of capital expenditures. Each of the Group's businesses is required to deliver a composite return on their investments that is higher than the Company's weighted average cost of capital.

The Group believes its debt covenants are set conservatively compared to its global competitors which, as a result, provides the financial flexibility to the Group as needed. The Group will continue to maintain a lower cost of financing which may be achieved from an optimal mix of and flexibility between floating- and fixed-rate debt supported by the Group's strong credit profile. In addition, the Group believes it can maintain a well-managed debt maturity profile and has multicurrency denominated sources of funding through its expanding operations outside of the Philippines.

Build a world-class organisation

The Group believes that building organisation capability will add value to and sustain its business performance and execution of its business plans.

The Group management systems is contained in the JFC Business Systems (**JBS**) programme which the Group developed and which serves as a guide in operations and building capabilities in the businesses and markets where the Group operates. The key systems included in the JBS programme are, among others, the FSC and quality management standards that the Group currently implements across its brands. Marketing capabilities is an area that the Group intends to enhance. As of the date of this Offering Circular, the Group has established a marketing academy and other avenues for its marketing teams to share best practices as well as relevant market and consumer insights. Furthermore, the Group plans to focus on the standardisation and harmonisation of its existing processes, tools and systems, where applicable, to promote and sustain operating efficiencies.

The Group will continue to focus on talent development and retention to realise the full potential of its employees and to promote engagement. The Group will drive synergies, where possible, leveraging on the talent and capabilities established in the Philippines to support its overseas expansion.

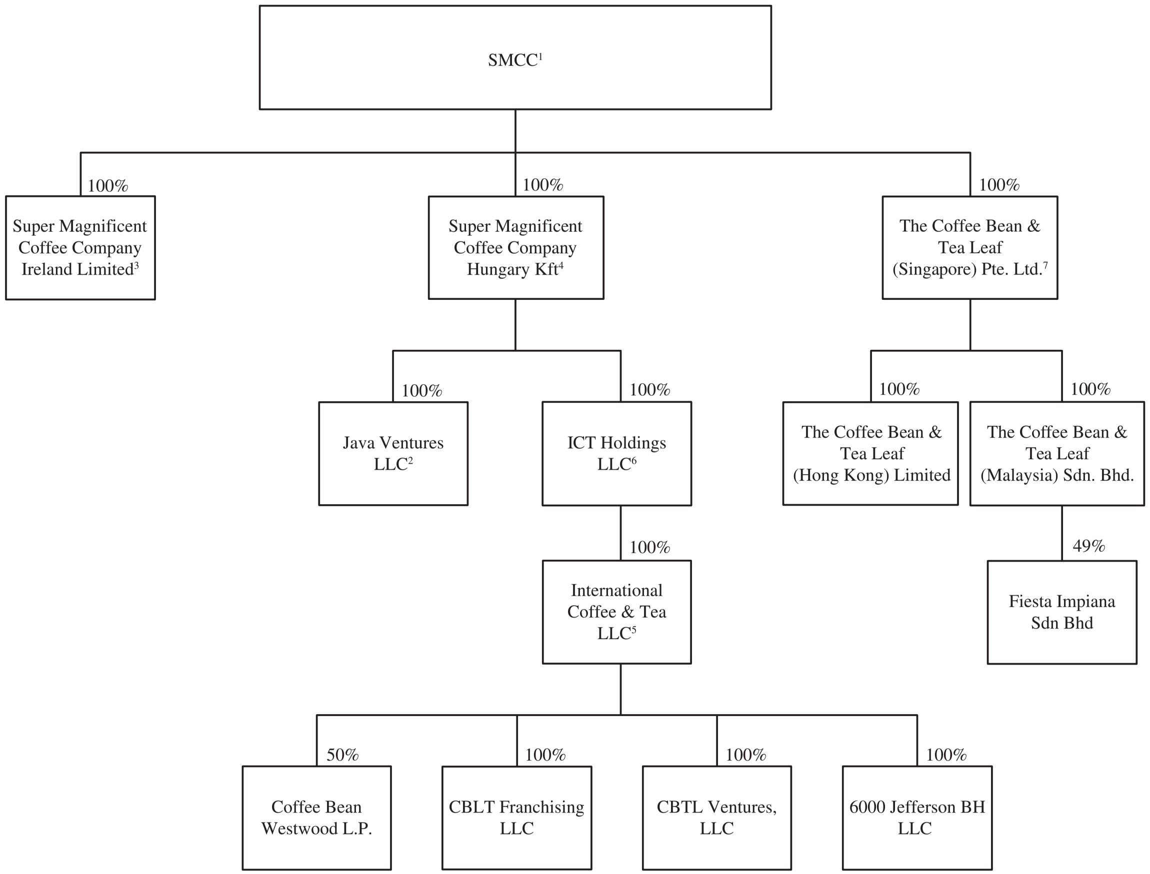
The Group will continue its programmes that promote and ingrain the corporate culture that is set out in the JFC Way. The JFC Way aims to instil the Group’s five core values, namely, Customer Focus, Speed with Excellence, Humility to Listen and Learn, Integrity and Spirit of Family and Fun that drives it vision to become one of the top five food service and restaurant company in the world. The Group has partnered and established in-house training programmes at all levels of the organisation from store crew to supply chain and support functions and will continue to implement programmes that create a sense of identity, pride and ways of working in the Group. The Group believes that its in-house training programmes such as the JFC University, a comprehensive programme for store managers, will enable its graduates to support the Group’s expanding store network.

RECENT DEVELOPMENTS

Corporate Reorganisation

On 1 October 2019, CBTL's trademark was transferred to Super Magnificent Coffee Company Ireland Limited, a wholly-owned subsidiary of Super Magnificent Coffee Company Pte. Ltd. (**SMCC**). On the same day, the Singapore and Malaysia operations were transferred from International Coffee and Tea, LLC to directly under SMCC. These are part of the long-term plan to optimise profits as CBTL expands internationally.

The chart below provides an overview of the ownership structure of SMCC and its major operating subsidiaries after reorganisation as of 1 October 2019 (unless otherwise stated).



Notes:

1. On 28 June 2019, SMCC was incorporated with the Issuer as sole shareholder.

On 23 September 2019, Brewheal Pte. Ltd. became a shareholder of SMCC for 20 per cent. with the Issuer as shareholder for the remaining 80 per cent.

On 24 September 2019, SMCC completed the acquisition of 100 per cent. of The Coffee Bean & Tea Leaf®.

Restructuring involving SMCC and its subsidiaries took effect on 1 October 2019.

2. On 4 June 2019, Java Ventures LLC was incorporated with the Issuer as sole shareholder.

   On 23 September 2019, Java Ventures LLC became a wholly-owned subsidiary of Super Magnificent Coffee Company Hungary Kft.

3. On 22 August 2019, Super Magnificent Coffee Company Ireland Limited was incorporated.

4. On 11 September 2019, Super Magnificent Coffee Company Hungary Kft. was incorporated. On 1 October 2019, Super Magnificent Coffee Company Hungary Kft. transferred The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. to SMCC.

5. On 24 September 2019, International Coffee & Tea, LLC became a wholly owned subsidiary of Super Magnificent Coffee Company Hungary Kft..

   On 1 October 2019, following the restructuring, the following entities became subsidiaries of International Coffee & Tea LLC: Coffee Bean Westwood L.P., CBTL Franchising LLC, CBTL Ventures, LLC and 6000 Jefferson BH LLC.

6. On 24 September 2019, ICT Holdings LLC was formed and International Coffee & Tea LLC became its subsidiary.

7. On 1 October 2019, The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. was transferred from (a) International Coffee & Tea LLC to Super Magnificent Coffee Company Hungary Kft. and then from (b) Super Magnificent Coffee Company Hungary Kft. to SMCC. Subsidiaries of The Coffee Bean & Tea Leaf (Singapore) Pte. Ltd. are: The Coffee Bean & Tea Leaf (Hong Kong) Limited and The Coffee Bean & Tea Leaf (Malaysia) Sdn. Bhd.. The Coffee Bean & Tea Leaf (Malaysia) Sdn. Bhd. owns 49 per cent. of Fiesta Impiana Sdn Bhd.

Additional Investment in Tim Ho Wan

In October 2019, the total maximum fund of Titan Dining LP was increased from SG$100 million to SG$200 million. The Company, through the Issuer, will increase its capital commitment from SG$45 million to SG$120 million which, when completed, will constitute 60 per cent. of the total maximum fund.

Opening of first Panda Express store in the Philippines

On 12 December 2019, the Group opened its first Panda Express store in the Philippines.

CORPORATE HISTORY AND MILESTONES

1978 The Company was incorporated in the Philippines.

1980 The Company launched Chickenjoy, breaded and seasoned crispy fried chicken, which is one of its best-selling menu items at its Jollibee stores.

1984 The Company opened its first Jollibee store overseas in Singapore.

1993 The Company listed its shares on the PSE.

1994 The Company acquired its first brand, Greenwich. Greenwich became a wholly-owned subsidiary of the Company in 2006.

2000 The Company acquired a 100 per cent. equity interest in Chowking.

2004 The Company acquired an 85 per cent. equity interest in Yonghe King. Yonghe King was the first foreign brand acquired by the Company.

The Jollibee Group Foundation (formerly Jollibee Foundation) (**JGF**) was established.

2005 The Company acquired a 100 per cent. equity interest in Red Ribbon.

2007 The Company acquired the remaining 15 per cent. equity interest in Yonghe King, making it a wholly-owned subsidiary of the Company.

2008 The Company acquired a 100 per cent. equity interest in Hong Zhuang Yuan.

2010 The Company acquired a 70 per cent. equity interest in Mang Inasal Philippines Inc. (**Mang Inasal**).

The Company acquired a 70 per cent. equity interest in Happy Bee Processing Pte. Ltd. (**Happy Bee**) in 2010.

2011 The Company acquired a 54 per cent. equity interest in BK Titans Inc., the parent company of the entities that own the franchises for Burger King stores.

2012 The Company acquired a 50 per cent. equity interest in the SuperFoods.

2013 The Company inaugurated the JFC Distribution Center, the Philippines' largest automated food service logistics facility.

2015 The Group obtained exclusive rights to develop and expand Dunkin' Donuts in selected territories in the PRC.

The Company acquired a 40 per cent. equity interest in SJBF LLC, the parent company of the entities comprising the Smashburger business.

2016 The Company launched #8-7000, its one number, nationwide delivery hotline for the Jollibee brand in the Philippines.

The Company acquired the remaining 30 per cent. equity interest in Happy Bee, making it a wholly-owned subsidiary of the Company.

The Company acquired the remaining 30 per cent. equity interest in Mang Inasal, making it a wholly-owned subsidiary of the Company.

The Company established joint ventures with Cargill Philippines Inc. to build and operate a poultry processing plant in the Philippines and to lease the site of such plant.

2017 The Company opened its 1,000th Jollibee store in the Philippines.

The Company acquired an additional effective interest of 10 per cent. in SuperFoods, increasing its total equity interest to 60 per cent.

2018 The Company celebrated its 40th year.

The Group opened 502 stores (328 in the Philippines and 174 overseas), the highest number of new stores opened in a year in its 40-year history.

The Company made investments, as part of its capital commitment of SG$45 million, in Titan Dining LP, the entity that has executed a binding agreement for the acquisition of 100 per cent. of the Asia Pacific master franchise holder of the Tim Ho Wan brand.

The Company made an investment of US$12.6 million in Tortas Frontera LLC.

The Company entered into an agreement to establish a joint venture with Panda Restaurant Group Inc. to bring Panda Express stores to the Philippines.

The Company acquired an additional 45 per cent. and subsequently, remaining 15 per cent. equity interest in SJBF LLC, making Smashburger a wholly-owned subsidiary of the Company.

2019 The Company acquired an 80 per cent. equity interest in CBTL.

The Company made additional investments in Titan Dining LP. See "—*Recent Developments—Additional Investments in Tim Ho Wan*"

Awards and Recognition

In 2019, the Company was one of only eight Philippine companies in Forbes Asia magazine's Best Over a Billion which highlights the 200 top-performing listed companies across the Asia Pacific region with revenues of more than US$1 billion. In the same year, the Company was recognised as the Most Outstanding Company in the Philippines—Consumer Discretionary Sector at the 2019 Asiamoney Asia's Outstanding Companies Poll.

In 2018, the Company was recognised as the Overall Most Outstanding Company in the Philippines and the Most Outstanding Company in the Philippines—Consumer Staples at the 2018 Asiamoney Asia's Outstanding Companies Poll. In addition, the Company received the highest recognition in the International Best Practices category at the Global Organisational Excellence Congress. In the same year, the Company was ranked in the top three in the Best Senior Management Investor Relations Support and Strong Adherence to Corporate Governance categories at the Alpha Southeast Asia's Corporate-Institutional Investor Awards.

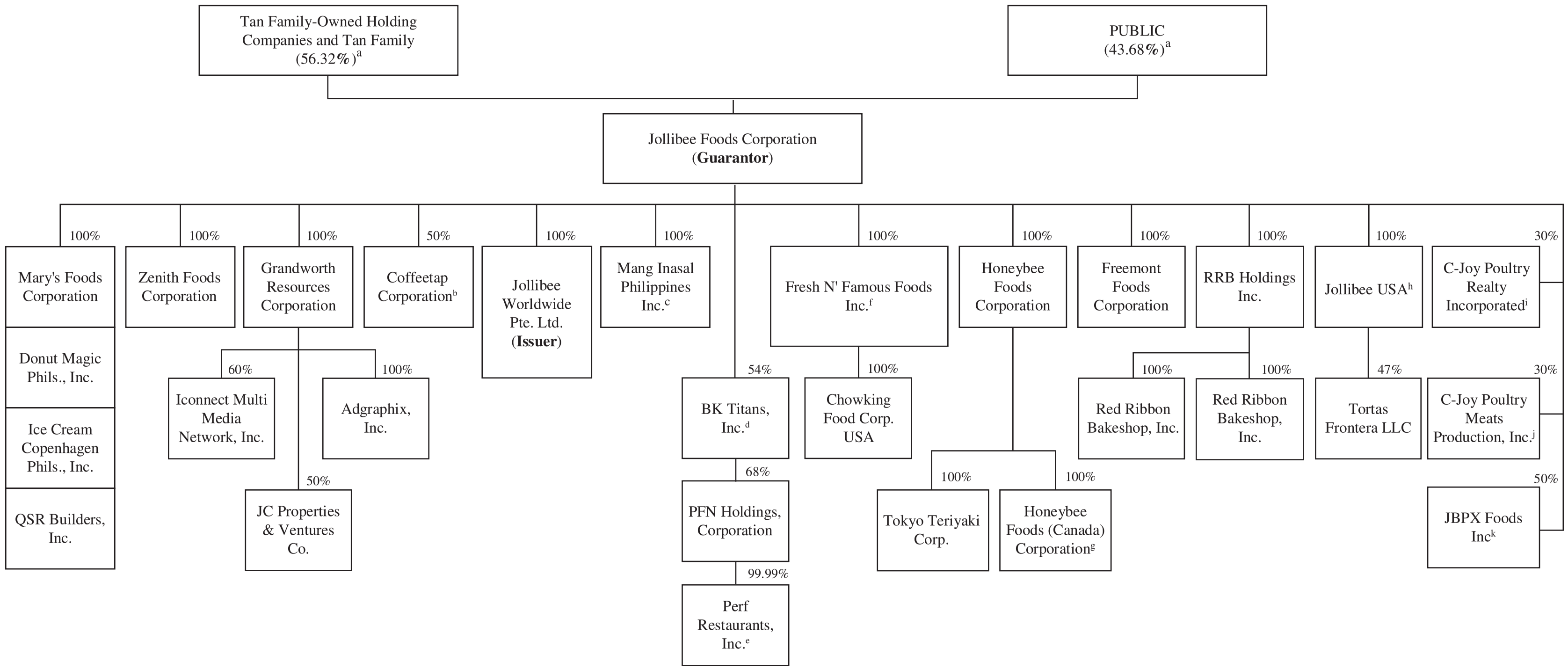
The table below sets forth a selection of awards and recognition that the Group has received during the last three years.

Brand	Year	Issuing Entity	Award/Recognition
Jollibee	2017	Asia Pacific Effie Awards	*Kwentong Jollibee* Valentine's Series Gold—Asia Pacific Brands Gold—Social Media Silver—Restaurants Brand of the Year—1st Runner Up Marketer of the Year—2nd Runner Up
		New York Festivals Advertising Awards	Finalist for Creative Marketing Effectiveness
		The Anvil Awards	Platinum—*Kwentong Jollibee* Gold—*Kwentong Jollibee* Silver—*Laki sa Lolo, Laki sa Lola*
		YouTube Creator Awards	Top 50 Ads—Branding in Asia
		Asia Pacific Tambuli Awards	Gold—*Kwentong Jollibee* Gold—*Laki sa Lolo, Laki sa Lola*
		The Philippine Quill Awards	*Kwentong Jollibee* Series Laki sa Lolo, Laki sa Lola
Jollibee	2018	The Anvil Awards	*Platinum* *Kwentong Jollibee*—Public Relations Programmes Directed at Specific Stakeholder (External Customers)
		Asia Pacific Tambuli Awards	*Gold* *#KwentongJollibee*: Connecting with customers through compelling digital storytelling—Family-Centred Brand Category *#LakisaLolo #LakisaLola*: A Grand Thank You for Lolo's and Lola's Selfless Love—Family-Centered Brand Category

Brand	Year	Issuing Entity	Award/Recognition
		The Philippine Quill Awards	1st Runner-up—Company of the Year
		Campaign Asia-Pacific	50 Most Influential Brand Marketers in Asia Pacific by Campaigns Asia—Francis Flores
		ASEAN Business Awards	Priority Integration Sector Award
		Alpha Southeast Asia	Best Strategic Corporate Social Responsibility
			Best Senior Management Investor Relations Support
			Strong Adherence to Corporate Governance
Greenwich	2018	The Philippine Quill Awards	Excellence for World Pizza Day Overloaded Pizza District
		MSAP Ice Awards	Bronze for Activations for World Pizza Day Overloaded Pizza District
		Kidlat Awards	Best Art Direction for G-Box
		Ads Star Communication Design	Bronze for G-Box
		Boomerang Awards	Silver & Bronze for G-Box
Hong Zhuang Yuan	2018	Beijing Cuisine Association	Top 50 Restaurants in Beijing
Highlands Coffee . .	2018	YouTube Creator Awards	Top 5 Storytelling YouTube Award
Jollibee	2019	The Anvil Awards	Received ten awards
		Asia Pacific Tambuli Awards	Received eight awards
		YouTube Creator Awards	Received four awards
		Franchise Excellence Awards	Received one award
		The People's Choice Awards	Received three awards
		The Philippine Quill Awards	Received 19 awards
		29th Sampung Ulirang Nakatatanda Awards	Received one award
		Asian Business Awards	Company of the Year (Jollibee North America)
Greenwich	2019	GrabFood	Golden Lunchbox Award by GrabFood (Grab 24/7 Award—Dinner)
		8th JFC Marketing Excellence Awards	Finalist, Award for Marketing Excellence

GROUP STRUCTURE, SUBSIDIARIES AND JOINT VENTURES

The chart below provides an overview of the ownership structure of the Guarantor and its major operating subsidiaries after reorganisation as of 30 September 2019 (unless otherwise stated).



Notes:

a. Per Public Ownership Report (quarterly report) as of 30 September 2019.

b. Pending dissolution.

c. In April 2016, the Guarantor acquired the remaining 30 per cent. making Mang Inasal Philippines Inc. a wholly owned subsidiary of the Guarantor.

d. Owned through Chanceux, Inc., which is 100 per cent. owned by the Guarantor.

e. Subsidiaries: PERF Trinoma, Inc. and PERF MOA Pasay, Inc.

f. On 25 April 2018, the Guarantor disclosed that it will bring PHO24 to the Philippines.

On 29 May 2018, the Amended Articles of Incorporation was issued to include in the corporate name PHO24.

g. On 7 May 2015, Honeybee Foods (Canada) Corporation was incorporated.

h. On 7 September 2018, the Guarantor, through its wholly-owned subsidiary Jollibee USA, acquired 47 per cent. of the fully diluted membership interests in Tortas Frontera LLC which owns the Tortas Frontera business founded by Chef Rick Bayless.

i. On 24 May 2016, the Guarantor subscribed to 30 per cent. of the shareholdings in the Cargill entities.

On 17 April 2019, amended corporate name from Cargill Joy Poultry Realty, Inc. to C-Joy Poultry Realty Incorporated.

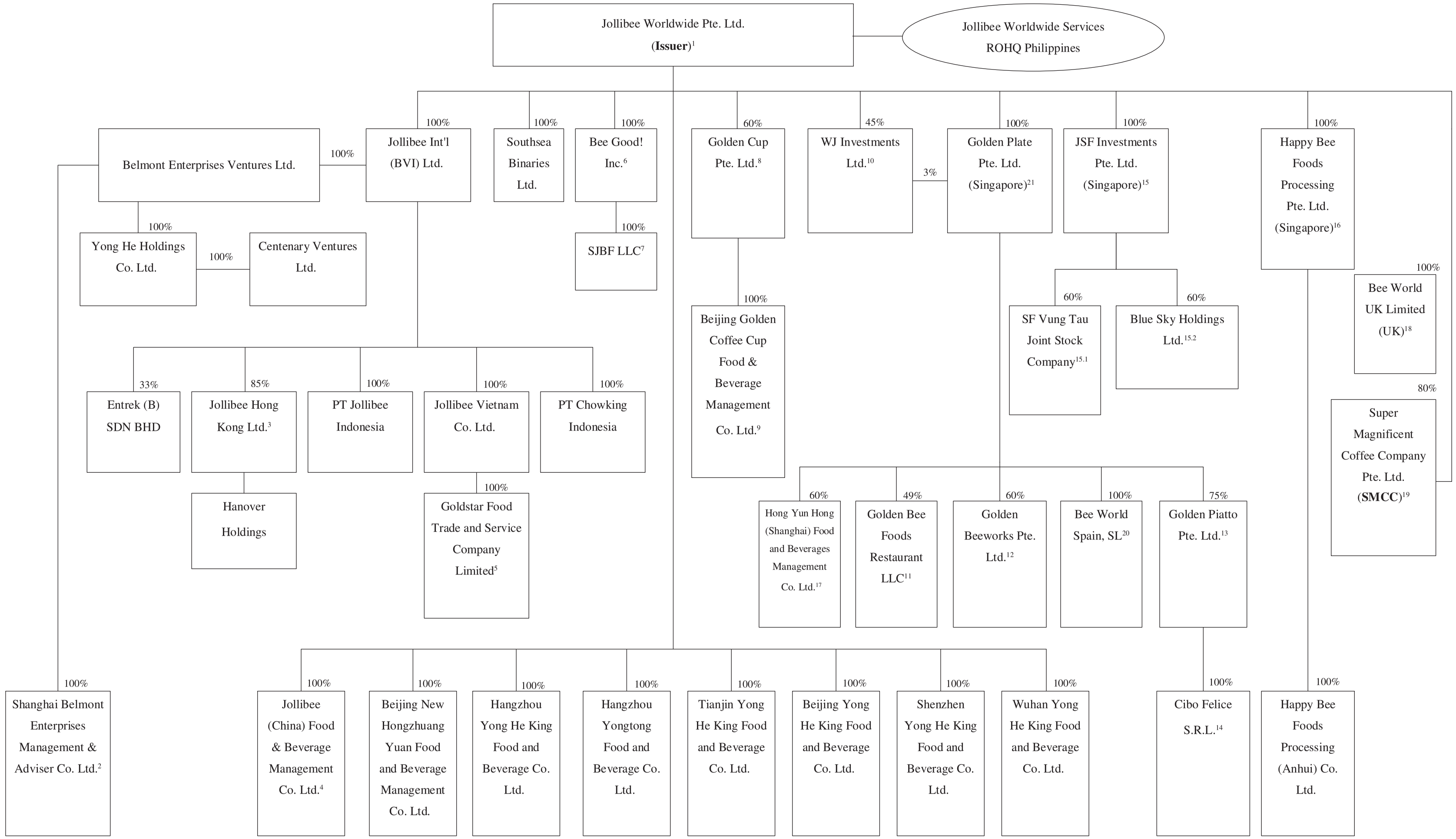
j. On 24 May 2016, the Guarantor subscribed to 30 per cent. of the shareholdings in the Cargill entities.

On 18 December 2018, amended corporate name from Cargill Joy Poultry Meats Production Inc. to C-Joy Poultry Meats Production, Inc.

k. On 27 September 2018, the Guarantor entered into a joint venture agreement to bring Panda Express restaurants to the Philippines.

On 3 July 2019, JBPX Foods Inc. (the joint venture entity) was incorporated.

The chart below provides an overview of the ownership structure of the Issuer and its major operating subsidiaries after reorganisation as of 30 September 2019 (unless otherwise stated).



1. On 23 December 2016, the Issuer completely divested its shareholdings in Chow Fun Holdings LLC.

On 30 December 2016, the Issuer completely divested its shareholdings in Guangxi San Pin Wang Food and Beverage Management Co. Ltd.

On 8 May 2018, the Guarantor, through the Issuer, invested up to S$45 million in Titan Dining LP, a private equity fund that has executed (through a wholly-owned subsidiary) a binding agreement for the acquisition of 100 per cent. of the Asia Pacific master franchise holder of the "Tim Ho Wan" brand, Tim Ho Wan Pte. Ltd. and its affiliate Dim Sum Pte. Ltd., which owns and operates Tim Ho Wan stores in Singapore.

On 28 June 2019, Super Magnificent Coffee Company Pte. Ltd. was incorporated with the Issuer as sole shareholder.

On 24 July 2019, the Issuer entered into an agreement to invest U.S.$100 million for the acquisition of The Coffee Bean & Tea Leaf® brand.

On 23 September 2019, Brewheal Pte. Ltd. became a shareholder of SMCC for 20 per cent. with the Issuer as shareholder for the remaining 80 per cent.

On 2 October 2019, the Guarantor disclosed that, through the Issuer, it will increase its capital commitment to Titan Dining LP from S$45 million to S$120 million. The fund size was increased from S$100 million to S$200 million. As a result, the Guarantor's investment will constitute 60 per cent. of the fund.

2. As of 28 February 2015, Shanghai Belmont Enterprises Management & Adviser Co. Ltd. is pending de-registration

   On 28 August 2019, Shanghai Belmont Enterprises Management and Adviser Co., Ltd. was deregistered.

3. Jollibee International (BVI) Ltd. owns 85 per cent. of Jollibee Hong Kong Limited

4. On 21 January 2015, Shanghai Yong He King Food and Beverage Co. Ltd. merged with Jollibee (China) Food & Beverage Management Co. Ltd.

5. On 10 September 2016, the Enterprise Registration Certificate of Goldstar Food Trade and Service Company Limited was issued.

6. On 8 October 2015, Bee Good! Inc. was incorporated.

7. On 14 December 2018, the Guarantor disclosed that, through its wholly-owned subsidiary Bee Good! Inc., it acquired Smashburger Master LLC's 15 per cent. stake in SJBF LLC making the Guarantor the sole owner of the Smashburger® business.

8. On 22 December 2014, Golden Cup Pte. Ltd. was incorporated.

9. On 3 July 2015, Beijing Golden Coffee Cup Food & Beverage Management Co. Ltd. was incorporated.

10. On 2 November 2017, the Guarantor disclosed that, with the discontinuation of the 12 Hotpot business in China, 12 Hotpot (Shanghai) Food and Beverage Management Co. Ltd. (the **Operating Company**) shall be dissolved and liquidated; thereafter, the joint venture company (WJ Investments Ltd.) will also be dissolved and liquidated.

    On 14 August 2019, the Operating Company was deregistered. Dissolution of the joint venture company is currently in process.

11. On 28 January 2015, Golden Bee Foods Restaurant LLC was incorporated.

12. On 19 July 2012, Golden Beeworks Pte. Ltd. was incorporated.

13. On 12 April 2017, Golden Piatto Pte. Ltd. was incorporated.

14. On 31 July 2017, Cibo Felice S.R.L. was incorporated.

15. On 18 November 2016, JSF Investments Pte. Ltd. entered into an agreement to increase its shareholding in SF Vung Tau Joint Stock Company (**SFVT**) to 60 per cent., subject to completion of documentary requirements.

    On 11 May 2017, the Guarantor disclosed that JSF Investments Pte. Ltd. owns 60 per cent. of SFVT. SFVT's books reflected JSF Investments Pte. Ltd. as 60 per cent. owner as of 28 April 2017.

15.1 Subsidiaries of SF Vung Tau Joint Stock Company are Highlands Coffee Joint Stock Company, Quantum Corporation, Pho Viet Joint Stock Company, and Pho 24 Corporation.

15.2 Subsidiaries of Blue Sky Holdings Ltd. are Blue Sky Holdings (Macau) Ltd. (operating Hard Rock Café in Macau) and Sino Ocean Asia Ltd. (operating Hard Rock Café in Hong Kong).

16. Formerly Jollibee Foods Processing Pte. Ltd., amended name effective 1 October 2014. Effective 23 November 2016, the Issuer owns 100 per cent. of Happy Bee Foods Processing Pte. Ltd.

17. On 18 November 2019, Hong Yun Hong (Shanghai) Food and Beverages Management Co. Ltd. was incorporated.

18. On 16 April 2018, Bee World UK Limited (UK) was incorporated.

19. On 28 June 2019, SMCC was incorporated with the Issuer as sole shareholder.

    On 23 September 2019, Brewheal Pte. Ltd. became a shareholder of SMCC for 20 per cent. with the Issuer as shareholder for the remaining 80 per cent.

    On 24 September 2019, SMCC completed the acquisition of 100 per cent. of The Coffee Bean & Tea Leaf®.

    Restructuring involving SMCC and its subsidiaries took effect on 1 October 2019.

20. On 23 May 2019, Bee World Spain, Sociedad Limitada was incorporated and registered in the Mercantile Registry of Madrid.

21. On 13 November 2019, Golden Plate Pte. Ltd. entered into a joint venture agreement with Dim Sum Pte. Ltd. to form a joint venture company in the People's Republic of China to develop and operate Tim Ho Wan stores in Shanghai and such other cities within the PRC as may be agreed with the franchisor.

List of Deregistered Entities and Dates of Effectivity of Deregistration:

On 22 February 2012 — Beijing Shang Shi Lin Food & Beverage Management Company Ltd.

On 29 March 2013 — Kuai Le Feng Food and Beverage (Shenzhen) Co. Ltd.

On 1 May 2013 — Colossus Global Limited, Granite Management Limited, Cosmic Resources Limited, All Great Resources Limited, Eastpower Resources Limited, Eaglerock Development Limited and All Great Resources Limited

On 1 July 2014 — Shanghai Yong He King Food and Beverage Co. Ltd.

On 14 August 2019 — 12 Hotpot (Shanghai) Food and Beverage Management Co. Ltd.

The table below sets forth the Company's equity interest in each consolidated subsidiary as of 30 September 2019.

	Country of Incorporation	Principal Activities	Direct Ownership	Indirect Ownership
Fresh N' Famous Foods Inc.	Philippines	Food service	100	—
Chowking Food Corporation USA	United States	Holding company	—	100
Zenith Foods Corporation	Philippines	Food service	100	—
Freemont Foods Corporation	Philippines	Food service	100	—
RRB Holdings, Inc.	Philippines	Holding company	100	—
Red Ribbon Bakeshop, Inc.	Philippines	Food service	—	100
Red Ribbon Bakeshop, Inc. USA	United States	Food service	—	100
Mang Inasal Philippines Inc.	Philippines	Food service	100	—
Grandworth Resources Corporation	Philippines	Leasing	100	—
Adgraphix. Inc.	Philippines	Digital printing	—	100
IConnect Multi Media Network. Inc.	Philippines	Advertising	—	60
JC Properties & Ventures Co.	Philippines	Dormant	—	50
Honeybee Foods Corporation	United States	Food service	100	—
Tokyo Teriyaki Corporation	United States	Food service	—	100
Honeybee Foods (Canada) Corporation	Canada	Food service	—	100
Jollibee Worldwide Pte. Ltd.	Singapore	Holding company	100	—
Regional Operating Headquarters of JWPL	Philippines	Financial accounting, human resources and business support services	—	100
Golden Plate Pte., Ltd.	Singapore	Holding company	—	100
Golden Beeworks Pte. Ltd.	Singapore	Food service	—	60
Golden Piatto Pte. Ltd.	Singapore	Holding company	—	75
Cibo Felice S.R.L.	Italy	Food service	—	100
Bee World Spain. Sociedad Limitada	Spain	Food service	—	100
Golden Cup Pte. Ltd.	Singapore	Holding company	—	60
Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	PRC	Food service	—	100
Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd.	PRC	Food service	—	100
Southsea Binaries Ltd.	British Virgin Island (**BVI**)	Holding company	—	100
Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100
Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100
Hangzhou Yongtong Food and Beverage Co., Ltd.	PRC	Food service	—	100
Hangzhou Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100
Wuhan Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100
Happy Bee Foods Processing Pte. Ltd.	Singapore	Holding company	—	100
Happy Bee Foods Processing (Anhui) Co. Ltd.	PRC	Food service	—	100
JSF Investments Pte. Ltd.	Singapore	Holding company	—	100
SF Vung Tau Joint Stock Company	Vietnam	Holding company	—	60
Highland Coffee Service Joint-stock Company	Vietnam	Food service	—	100
Quantum Corporation	Vietnam	Food service	—	100
Pho Viet Joint Stock Company	Vietnam	Food service	—	100

	Country of Incorporation	Principal Activities	Direct Ownership	Indirect Ownership
Pho 24 Service Trade Manufacture Corporation	Vietnam	Food service	—	100
Blue Sky Holdings Limited	Hong Kong	Holding company	—	60
Sino Ocean Limited	Hong Kong	Food service	—	100
Blue Sky Holdings (Macau) Limited	Macau	Food service	—	100
Jollibee (China) Food & Beverage Management Co. Ltd.	PRC	Management company	—	100
Jollibee International (BVI) Ltd.	BVI	Holding company	—	100
Jollibee Vietnam Corporation Ltd.	Vietnam	Food service	—	100
Goldstar Food Trade and Service Company Ltd	Vietnam	Food service	—	100
PT Chowking Indonesia	Indonesia	Dormant		100
PT Jollibee Indonesia	Indonesia	Dormant	—	100
Jollibee (Hong Kong) Limited and Subsidiaries	Hong Kong	Dormant	—	85
Belmont Enterprises Ventures Limited	BVI	Holding company	—	100
Shanghai Belmont Enterprises Management and Adviser Co., Ltd.	PRC	Business management service	—	100
Yong He Holdings Co., Ltd.	BVI	Holding company	—	100
Centenary Ventures Ltd.	BVI	Holding company	—	100

Joint Ventures and Associates

As of 30 September 2019, the Company had the following joint ventures and associates.

Entrek (B) SDN BHD

On 24 January 1987, Entrek (B) SDN BHD, the entity that operates Jollibee stores in Brunei, was incorporated. As of 30 September 2019, the Company, through Jollibee International (BVI) Ltd., has 33.3 per cent. equity interest in Entrek.

Golden Bee Foods Restaurants LLC

On 25 February 2014, the Company, through Golden Plate Pte. Ltd. (**Golden Plate**), entered into an agreement to establish a joint venture with Golden Crown Foods LLC to own and operate the Jollibee brand in the UAE. As of 30 September 2019, the Company holds a 49 per cent. stake in the joint venture.

C-Joy Poultry Meats Production Inc. (formerly Cargill Joy Poultry Meats Production Inc.)

On 24 May 2016, the Company entered into an agreement with Cargill Philippines Inc., a wholly-owned subsidiary of Cargill, Inc. to establish a joint venture entity to build and operate a poultry processing plant in the Philippines. As of 30 September 2019, the Company has a 30 per cent. stake in the joint venture. The poultry processing plant commenced commercial operations on 5 December 2017.

C-Joy Poultry Realty Inc. (formerly Cargill Joy Poultry Realty Inc.)

On 24 May 2016, the Company entered into an agreement with Cargill Philippines Inc. and the Bank of the Philippine Islands as trustee of Cargill Philippines and Affiliated Companies Retirement Plan to establish C-Joy Poultry Realty Inc. which leases the land where the C-Joy poultry processing plant is located. As of 30 September 2019, the Company has a 30 per cent. stake in the joint venture.

Titan Dining LP

In May 2018, August 2018, May 2019 and October 2019, the Company, through the Issuer, made investments in Titan Dining LP, the entity that has executed (through a wholly-owned subsidiary) a binding agreement for the acquisition of 100 per cent. of the Asia Pacific master franchise holder of the Tim Ho Wan brand as well as of Tim Ho Wan Pte. Ltd. and Dim Sum Pte. Ltd. (which owns and operates Tim Ho Wan stores in Singapore).

Tortas Frontera LLC

On 7 September 2018, the Company, through Jollibee Foods Corporation (USA), made an investment of US$12.6 million in Tortas Frontera LLC of in consideration for 47 per cent. of the fully-diluted membership interest therein.

JBPX Foods Inc.

On 27 September 2018, the Company entered into an agreement to establish a 50/50 joint venture with Panda Restaurant Group Inc. to bring Panda Express stores to the Philippines.

ACQUISITIONS AND DISPOSALS DURING THE NINE MONTHS ENDED 30 SEPTEMBER 2019 AND THE YEARS ENDED 31 DECEMBER 2018, 2017 AND 2016

The discussion below sets forth the acquisitions and disposals of the Group for the periods indicated.

Nine months ended 30 September 2019

On 4 June 2019, the Group incorporated Java Ventures LLC in the state of Delaware in the United States.

On 24 July 2019, the Group, through the Issuer, entered into an agreement with Brewheal Pte. Ltd. to invest U.S.$100 million in SMCC, a new Singapore-based holding company, to acquire 100 per cent. of CBTL. As a result of such investment, the Company acquired an 80 per cent. equity interest in SMCC.

On 24 September 2019, SMCC acquired a 100 per cent. equity interest in CBTL. On the same date, the Group included CBTL in its financial consolidation.

Year ended 31 December 2018

In April and December 2018, the Company, through its wholly-owned subsidiary Bee Good! Inc., acquired the remaining 45 per cent. and 15 per cent. equity interest, respectively, in SJBF LLC, the parent company of the entities comprising the Smashburger business. As of the date of this Offering Circular, the Company owns 100 per cent. of the equity interest in SJBF LLC.

Year ended 31 December 2017

In May 2017, the Company, through JSF Investments Pte. Ltd., acquired an additional effective interest of 10 per cent. in SuperFoods. As of the date of this Offering Circular, the Company owns 60 per cent. of the equity interest in SuperFoods.

In October 2017, WJ Investments Limited, a joint venture between the Issuer, Golden Plate Pte. Ltd., Hoppime Ltd. and certain key executive officers of Wowprime Corporation, discontinued the operations of 12 Hotpot brand stores in the PRC to focus on building its larger and fast-growing businesses in the PRC and other parts of the world. As of 30 September 2019, the Company holds a 48 per cent. equity interest in WJ Investments Limited.

Year ended 31 December 2016

In April 2016, the Company acquired the remaining 30 per cent. equity interest in Mang Inasal, the parent company of the Mang Inasal business. As of the date of this Offering Circular, the Company owns 100 per cent. of the equity interest in Mang Inasal Philippines Inc.

In November 2016, the Company, through the Issuer, acquired the remaining 30 per cent. equity interest in Happy Bee. Happy Bee is the parent company of Happy Bee Processing (Anhui) Co. Ltd., the entity that operates a manufacturing facility in the PRC that produces and sells food products to the Yonghe King business. As of the date of this Offering Circular, the Company owns 100 per cent. of the equity interest in Happy Bee.

In December 2016, the Company, through the Issuer, sold its 55 per cent. equity interest in Guangxi San Pin Wang Food and Beverage Management Co. Ltd., an entity which operates a QSR chain mainly offering low-priced beef noodles. The divestment was a part of the Company's intention to focus on its Yonghe King business in the PRC.

In December 2016, the Company, through the Issuer, sold its 80.55 per cent. equity interest in Chow Fun Holdings LLC, the developer and owner of Jinja Bar and Bistro in the United States, to focus on building its larger businesses.

OPERATIONS

The Group primarily operates through its food service and franchising segments.

The food service segment conducts the operation of the stores and the manufacture of food products to be sold to Group-owned and franchised stores. See "*—Operations—Brands*". The franchising segment handles the franchising of the Group's brands. See "*—The Group's Store Network—Franchised Stores*".

The Group also operates through its leasing segment which leases sites to the Group's franchisees.

The food service segment operates through the following brands: "Jollibee", "Chowking", "Greenwich", "Red Ribbon", "Yonghe King", "Hong Zhuang Yuan", "Mang Inasal", "Burger King", "Highlands Coffee", "PHO24", "Hard Rock Cafe", "Dunkin' Donuts", "Smashburger", "The Coffee Bean & Tea Leaf®" and "Panda Express".

Brands

The Group's principal business comprise the development, operation and franchising of stores under the following brands.

Jollibee

The Group believes Jollibee is the largest QSR company in the Philippines with 1,174 Jollibee stores as of 30 September 2019, of which 514 were owned and operated by the Group and 660 were franchised. In addition, there were 248 Jollibee stores in Vietnam, the Middle East (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), the United States, Brunei, Hong Kong SAR, Singapore, Canada, Italy, Macau SAR, Malaysia, the United Kingdom and Guam as of the same date, of which 176 were owned and operated by the Group and 72 were franchised.

Jollibee offers a quality menu of food, beverages and set meals that includes Chickenjoy, Yumburger, Jolly Hotdog, Jolly Spaghetti, rice meals, Jolly Crispy fries, side dishes, pies, sundaes, soft serve cones, coffee, juice and soft drinks. It also serves a full breakfast menu that includes breakfast Yumburger, bacon & egg pancake sandwich, breakfast Burger Steak and breakfast rice meals. In addition, Jollibee introduces special menus and sells other food products during limited-time promotions to ensure that the brand remains exciting and relevant. Certain Jollibee stores are open 24 hours daily. Jollibee also offers themed party packages that include the venue, food, cake, appearance of mascots and party favours.

Chowking

Chowking was acquired by the Company in 2000.

Chowking combines traditional Chinese cuisine with modern fast food service. It offers freshly made and affordably priced Chinese food and beverages including *chao fan* (Chinese fried rice), dim sum, noodles and milk tea. Chowking also offers breakfast rice meals, combination meals and Chinese lauriat-style individual and family meals. In 2013, Chowking launched its first drive-thru store in the Philippines. Certain Chowking stores are open 24 hours daily.

As of 30 September 2019, there were 602 Chowking stores in the Philippines, of which 270 were owned and operated by the Group and 332 were franchised. As of the same date, there were 47 Chowking stores in operation in six countries and territories outside the Philippines, all of which were franchised, including in the United States, UAE, Qatar, Oman, Kuwait and Saudi Arabia.

Greenwich

Greenwich was the first brand acquired by the Company in 1994 and became a wholly-owned subsidiary of the Company in 2006.

Greenwich offers a menu with a variety of pizzas and pastas that caters to the local taste. It also offers individual and group combination meals, side dishes and desserts. Over the years, the Group transformed the brand in terms of food offerings, look and heightened social media presence from Greenwich Pizza & Pasta to Greenwich Pizzeria, reflecting dynamism and promoting a stronger culture of *barkadahan* (a group of friends). The Group believes that Greenwich is the first pizza chain in the Philippines to use heated thermal bags to ensure that food stays hot even after transit.

As of 30 September 2019, there were 282 Greenwich stores in the Philippines, of which 161 were owned and operated by the Group and 121 were franchised.

Red Ribbon

Red Ribbon was acquired by the Company in 2005.

Red Ribbon offers an extensive variety of high quality cakes, pastries and bread and provides cake customisation services for special occasions. The Group believes that Red Ribbon is a leading bakeshop for round cakes and that it has an increasing market share in dedication and roll cakes. Red Ribbon's best-selling products include its chocolate cakes, namely, Black Forest cake, Chocolate Dedication cake, Chocolate Mousse and Triple Chocolate roll. Red Ribbon also offers traditional Filipino bakeshop products such as *empanada* (baked turnover with filling), *ensaymada* (soft, sweet dough pastry) as well as *mamon and taisan* (chiffon or sponge cakes). In the United States, Red Ribbon serves hot meals and cold desserts in-store.

As of 30 September 2019, there were 489 Red Ribbon stores in the Philippines, of which 195 were owned and operated by the Group and 294 were franchised. As of the same date, there were 31 Red Ribbon stores in operation in the United States, all of which were owned and operated by the Group, including in the states of California, Nevada, Washington, Hawaii, New York, New Jersey, Virginia, Texas and Illinois.

Yonghe King

In 2004, the Company acquired an 85 per cent. equity interest in Yonghe King. In 2007, Yonghe King became a wholly-owned subsidiary of the Company.

Yonghe King is the largest QSR brand of the Group in the PRC in terms of sales and store network. Its top three flagship products are premium tomato beef noodle soup, crispy tender chicken thigh with minced pork rice and soya milk. The Group believes that Yonghe King's competitive position is differentiated by, among others, its soya milk being made fresh in-store daily. The expansion of delivery channels including partnerships with food delivery aggregators and the implementation of mobile payment through Alipay and WeChat are key aspects of Yonghe King's sales growth.

As of 30 September 2019, there were 330 Yonghe King stores in the PRC, of which 264 were owned and operated by the Group and 66 were franchised.

Hong Zhuang Yuan

Hong Zhuang Yuan was acquired by the Company in 2008.

Hong Zhuang Yuan specialises in congee. Its bestselling products include eight treasures congee, century egg congee, spring onion pancake and beef pies. In addition, it regularly offers, for a limited time, certain seasonal food products to provide additional variety to its menu. In 2018, Hong Zhuang Yuan launched a self-service digital ordering system in all of its stores that enabled customers to place their orders by simply scanning the QR code on the table. Certain Hong Zhuang Yuan stores also have open kitchens to attract diners and enable them to experience the food "show".

Mang Inasal

In 2010, the Company acquired a 70 per cent. equity interest in Mang Inasal. In 2016, Mang Inasal became a wholly-owned subsidiary of the Company.

Mang Inasal offers grilled food products such as chicken *inasal* (chicken marinated in local spices before being skewered and grilled) and traditional Filipino dishes and desserts such as pork *sisig* (chopped pork seasoned with chilli pepper, local citrus fruit and onion) and *halo-halo* (a layered dessert made of sweetened beans and fruits, shaved ice and milk), respectively. In addition, Mang Inasal offers value meals, combination meals and party pans. The Company believes that Mang Inasal is the top grilled chicken restaurant in the Philippines.

As of 30 September 2019, there were 586 Mang Inasal stores in the Philippines, of which 22 were owned and operated by the Group and 564 were franchised.

Burger King

In 2011, the Company acquired a 54 per cent. equity interest in BK Titans Inc., the parent company of the entities that own the franchises for Burger King stores.

Burger King is a hamburger QSR chain that offers the Whopper or flame-grilled hamburgers, speciality hamburgers, chicken and other speciality sandwiches, rice meals, side dishes, beverages and desserts. The launch of its delivery website in 2018 is a key aspect of Burger King's sales growth.

As of 30 September 2019, there were 104 Burger King stores in the Philippines, all of which were owned and operated by the Group.

Highlands Coffee

Highlands Coffee is a brand under the Company's majority-owned subsidiary SuperFoods.

Highlands Coffee serves coffee prepared in the traditional Vietnamese way using the *phin* filter, espresso-based beverages, ice blended coffee- and non-coffee based beverages, modern tea beverages that include fresh fruits and toppings, *banh mi* and Vietnamese flavour-inspired pastries in trendy coffee shops. It also sells packaged coffee and other merchandise through its cafés and wholesale to an exclusive distributor.

As of 30 September 2019, there were 363 Highlands Coffee cafés in Vietnam, of which 306 were owned and operated by the Group and 57 were franchised. As of the same date, there were 44 Highlands Coffee cafés in the Philippines, all of which were franchised. The Philippines is the first international market of Highlands Coffee.

PHO24

PHO24 is a brand under the Company's majority-owned subsidiary SuperFoods.

PHO24 serves traditional Vietnamese dishes with rice noodles as its core product. It specialises in *pho* (Vietnamese soup with noodles and thinly sliced beef or chicken) comprising 24 ingredients based on a family recipe. In addition to several types of *pho*, it offers rice meals, other traditional Vietnamese dishes such as cold vermicelli and spring rolls, beverages and desserts. PHO24 also sells preservative-free instant pho through its stores and retail outlets to enable its customers to enjoy *pho* at home.

As of 30 September 2019, there were 18 PHO24 stores in Vietnam, all of which were owned and operated by the Group. As of the same date, there was one PHO24 store in the Philippines and 16 PHO24 stores in Indonesia, all of which were franchised.

Hard Rock Cafe

The Hard Rock Cafe franchised stores in Macau SAR, Hong Kong SAR and Vietnam are under the Company's majority-owned subsidiary SuperFoods.

Hard Rock Cafe is a music-themed restaurant chain with live performance venues. It offers a menu with a variety of burgers, starters, salads, sandwiches, entrées, beverages and desserts as well as a kids' menu. Hard Rock Cafe also sells collectible fashion and music-related merchandise at its Hard Rock Shops in-store and on its website. It introduces diverse product promotions regularly and provides customised packages for private events.

As of 30 September 2019, the Group owned and operated two Hard Rock Cafes in Vietnam and one Hard Rock Cafe in Hong Kong SAR. It also owned and operated two Hard Rock Shops in Hong Kong SAR and one in Macau SAR.

Dunkin' Donuts

The Group has exclusive rights to develop and expand Dunkin' Donuts in certain territories in the PRC pursuant to a master franchise agreement with Dunkin Donuts Franchising LLC.

Dunkin' Donuts is a baked goods and coffee chain. It offers a wide variety of doughnuts, bagels, breakfast sandwiches, other baked goods and beverages including coffee, espresso-based drinks, teas and frozen drinks. Dunkin' Donuts also offers regional items to cater to local tastes. In 2017, it launched CoffeeForward+ aimed at adapting the café culture and transforming the brand from being doughnut-centric to a doughnut and coffee business.

As of 30 September 2019, there were seven Dunkin' Donuts stores in the PRC, in particular, Beijing, all of which were owned and operated by the Group.

Smashburger

In 2015, the Company acquired a 40 per cent. equity interest in SJBF LLC, the parent company of the entities comprising the Smashburger business. In 2018, Smashburger became a wholly-owned subsidiary of the Company after acquiring an additional 45 per cent. and subsequently, remaining 15 per cent. equity interest in SJBF LLC.

Smashburger is a hamburger fast casual chain that offers a variety of burgers, salads, side dishes and beverages. The Group believes that its competitive position is differentiated by, among others, its use of never frozen 100 per cent. Certified Angus Beef. In addition, Smashburger offers new products, limited time offers and holiday specials to enable its customers to experience new burgers. In 2019, Smashburger partnered with key delivery aggregators to expand its sales channels and provide greater availability of its products to customers.

As of 30 September 2019, there were 341 Smashburger stores in operation in nine countries and territories, all of which were franchised including in the United States, Canada, Costa Rica, Egypt, El Salvador, Panama, Saudi Arabia & Scotland and the United Kingdom. As of the same date, there were 317 Smashburger stores in the United States, of which 161 were owned and operated by the Group and 156 were franchised.

Tim Ho Wan

In May 2018, August 2018, May 2019 and October 2019, the Company, through the Issuer, made investments in the amounts of SG$18 million, SG$0.9 million, SG$2.7 million and SG$53.4 million, respectively, in Titan Dining LP, the entity that has executed (through a wholly-owned subsidiary) a binding agreement for the acquisition of 100 per cent. of the Asia Pacific master franchise holder of the Tim Ho Wan brand as well as of Tim Ho Wan Pte. Ltd. and Dim Sum Pte. Ltd. (which owns and operates Tim Ho Wan stores in Singapore). Pursuant to these investments, the Company obtained rights to operate and expand Tim Ho Wan in certain areas in the PRC. In October 2019, the total maximum fund of Titan Dining LP was increased from SG$100 million to SG$200 million. The Company, through the Issuer, will increase its capital commitment from SG$45 million to SG$120 million which, when completed, will constitute 60 per cent. of the total maximum fund.

Tim Ho Wan serves fresh and made-to-order Cantonese-style dim sum. It offers an assortment of steamed, fried and baked dim sum, steamed rice dishes, congee, rice rolls and desserts.

As of the date of this Offering Circular, the Group has not yet opened a Tim Ho Wan store in the PRC.

Tortas Frontera

On 7 September 2018, the Company, through Jollibee Foods Corporation (USA), made an investment of US$12.6 million in Tortas Frontera LLC in consideration for 47 per cent. of the fully-diluted membership interest therein.

Tortas Frontera is a Mexican fast casual chain in the United States created by Chef Rick Bayless. The Group believes that its competitive position is differentiated by, among others, its use of high quality ingredients from top local providers that are named on its menu. Tortas Frontera offers a quality menu which features *tortas* (griddle-baked sandwiches), *molletes* (warm, open-faced sandwiches), soups, salads, side dishes, a guacamole bar and beverages. It also serves a full breakfast menu that includes breakfast *tortas*, *cazuelas* (stew-like dishes cooked in a traditional pot of the same name) and a yoghurt bar. Tortas Frontera has an online ordering platform that enables customers to order food for pick up.

As of 30 September 2019, there were three Tortas Frontera stores in operation in the United States, all of which were franchised.

The Coffee Bean & Tea Leaf®

On 24 September 2019, the Company acquired an 80 per cent. equity interest in CBTL.

CBTL is a speciality coffee and tea chain that uses only hand-roasted coffee beans and hand-blended teas from farms in various countries such as Costa Rica, Colombia, Kenya, Indonesia, Jamaica, Thailand and Sri Lanka. It offers original Ice Blended® coffee and tea drinks, hot coffee drinks and hot and iced tea drinks. CBTL also sells a variety of whole bean coffees, whole leaf teas, flavoured powders, baked goods as well as coffee and tea accessories including coffee grinders, French presses, tea pots and tea infusers through its stores and retail outlets.

As of 30 September 2019, there were 1,174 CBTL stores worldwide. Of these stores, 152 were located in the Philippines, all of which were franchised. As of the same date, there were 1,022 CBTL stores in operation in 26 countries and territories outside the Philippines, of which 335 were owned and operated by the Group and 687 were franchised, including in India, Indonesia, Kuwait, Qatar, Saudi Arabia and South Korea.

Panda Express

On 27 September 2018, the Company entered into an agreement to establish a 50/50 joint venture with Panda Restaurant Group Inc. to bring Panda Express stores to the Philippines.

Panda Express offers a menu inspired by the flavours of Chinese cuisine. Its offers a wide variety of entrees, sides, appetisers and desserts. Panda Express also offers Wok Smart™ selections, menu items that are 300 calories or less and have at least eight grammes of protein, and Family Feast boxes for groups dining together. Panda Express' bestselling products include The Original Orange Chicken®, Beijing Beef® and Honey Walnut Shrimp.

On 12 December 2019, the Group opened its first Panda Express store in the Philippines.

THE GROUP'S STORE NETWORK

As of 30 September 2019, the Group's store network comprised 5,863 stores. Of these stores, 3,434 were located in the Philippines, of which 1,267 were owned and operated by the Group and 2,167 were franchised. There were 2,429 stores in operation in 36 countries and territories outside the Philippines, of which 1,363 were owned and operated by the Group and 1,066 were franchised, including in Brunei, Canada, Hong Kong SAR, Indonesia, India, Italy, Macau SAR, Malaysia, the Middle East (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), the PRC, Singapore, South Korea, the United Kingdom, the United States and Vietnam. The Group continually reviews its mix of Group-owned and franchised stores to help optimise the Group's overall performance.

Group-Owned Stores

The expertise and experience of the Group from operating its own stores allows it to enhance the operations of all stores in its network and to be a credible franchisor and franchisee. In addition, the Group continually develops and improves policies, standards and specifications for food products and services as well as store operating procedures which the Group believes will ultimately benefit all stores in its network.

The table below sets forth the total number of Group-owned stores as of the dates indicated.

	As of 31 December			As of 30 September
	2016	2017	2018	2019
	Number of stores			
Group-owned	1,714	2,009	2,254	2,630

The table below sets forth a breakdown of Group-owned stores by region in the Philippines as of the dates indicated.

	As of 31 December			As of 30 September
Region	2016	2017	2018	2019
	Number of stores			
Metro Manila	446	454	440	427
Luzon(1)	434	472	473	474
Visayas	193	203	209	207
Mindanao	145	160	162	159

(1) Excluding Metro Manila

The table below sets forth a breakdown of Group-owned stores by country/territory (outside the Philippines) as of the periods indicated

	As of 31 December			As of 30 September
Country/Territory	2016	2017	2018	2019
	Number of stores			
Canada	1	2	4	7
Hong Kong SAR	—	3	3	3
Italy	—	—	1	1
Macau SAR	—	3	3	1
Malaysia	—	—	—	95
PR C	324	310	316	315
Singapore	4	5	6	73
United Kingdom	—	—	1	1
United States of America	83	83	238	420
Vietnam	84	314	398	447

(1) Others includes Bangladesh, Georgia, Israel, Jordan, Kurdistan—Iraqi and Pakistan.

Franchised Stores

The Group's franchised stores are located on property: (i) owned by the franchisee, (ii) covered by a long-term lease secured by the Group and, in turn, subleased or assigned to the franchisee, or (iii) subject of a tripartite agreement among the lessor, the franchisee and the relevant member of the Group where the franchisee is the lessee but the Group has takeover rights. The amount of a franchisee's investment depends on the size of and facilities at the store. Such investment will cover the construction of the store, store layout and design, kitchen equipment and facilities, furniture and fixtures, air-conditioning system, signage and pre-operating expenses.

The Group has existing franchise agreements with franchisees, for the latter to operate stores under the Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Hong Zhuang Yuan, Mang Inasal, Highlands Coffee, PHO24, Smashburger and CBTL brands. The Group enters into a franchise agreement with a standard set of terms and conditions for each brand. The term of franchise agreements range between five to ten years. The franchise agreement provides the franchisee the right to own and operate a store on a site approved by the Group and to utilise the Group's system in connection with the operation of the store. Franchisees are required to purchase supplies and equipment for store operations from the Group's commissaries, comply with the Group's computer system requirements, procure insurance for the store and participate in system-wide projects, tie-ups and promotional activities. Franchisees pay set-up fees, monthly royalty fees equivalent to a certain percentage of the franchisees' net sales and service fees for various services including repairs and maintenance services, rendered by the Group's personnel. In the Philippines, franchisees also pay for their share in the Group's nationwide advertising and marketing efforts as well as fees for the Group's administration of various advertisements, network and media placements. Franchisees are required to comply with the Group's policies, standards and specifications for food products and services as well as stores operating procedures. In addition, franchisees are prohibited from selling, assigning, transferring, conveying, pledging, mortgaging or encumbering their shares, ownership or assets without the prior written consent of the Group. The Group monitors and inspects stores periodically through, among others, onsite assessment by franchise business managers, site visits by the Group's franchise operations team or appointment of a third-party testing company, to ensure compliance with required practices and procedures. Certain franchisees are evaluated on the basis of a specific criteria pertaining to product quality, quality of service, quality of environment, training and development as well as equipment and maintenance. In the event a franchisee fails to comply with its obligations under the franchise agreement, the Group may avail of various remedies including imposition of interest and penalty, termination of the franchise agreement and takeover of the franchised store.

As of 30 September 2019, no single franchisee accounts for more than 5 per cent. of the total SWS of the Group.

The table below sets forth the total number of franchised stores as of the dates indicated.

	As of 31 December			As of 30 September
	2016	2017	2018	2019
	Number of stores			
Franchised	1,539	1,788	2,267	3,233

The table below sets forth a breakdown of franchised stores by region in the Philippines as of the dates indicated.

	As of 31 December			As of 30 September
Region	2016	2017	2018	2019
	Number of stores			
Metro Manila	543	580	649	793
Luzon(1)	546	628	733	804
Visayas	175	216	267	304
Mindanao	161	194	235	266

(1) Excluding Metro Manila

The table below sets forth a breakdown of franchised stores by country/territory (outside the Philippines) as of the dates indicated.

Country/Territory	As of 31 December 2016	As of 31 December 2017	As of 31 December 2018	As of 30 September 2019
	Number of stores			
Bahrain	1	1	1	2
Brunei	14	15	16	32
Canada	—	—	7	7
Hong Kong SAR	3	8	8	8
Indonesia	—	15	16	103
Kuwait	6	7	10	40
Macau SAR	—	—	1	1
Malaysia	—	—	1	5
Oman	2	4	3	5
PRC	44	57	61	66
Qatar	8	9	11	40
Saudi Arabia	12	13	17	33
South Korea	—	1	—	292
United Arab Emirates	24	29	35	35
United Kingdom	—	—	8	8
United States of America	—	—	167	268
Vietnam	—	10	13	22
Cambodia	—	—	—	6
Costa Rica	—	—	3	3
Egypt	—	—	1	14
El Salvador	—	—	2	1
Japan	—	—	—	4
Mongolia	—	—	—	7
Myanmar	—	—	—	5
Panama	—	—	2	2
Sri Lanka	—	—	—	7
Thailand	—	—	—	6
Others(1)	—	—	—	19

(1) Others includes Bangladesh, Georgia, Israel, Jordan, Kurdistan—Iraqi and Pakistan.

The Company as a Franchisee

The Group entered into franchise agreements with franchisors to operate stores under the Burger King, Hard Rock Cafe, Dunkin' Donuts and Panda Express brands. The Group also expects to enter into franchise agreements to operate stores under the Tim Ho Wan brand in the PRC and under the PHO24 brand in the Philippines. The term of the franchise agreements vary and some of the franchise agreements have an option to renew or extend. Certain of the franchise agreements: (i) provide the Group the right to construct a store and to utilise the franchisor's system in connection with the operation of the store; (ii) require the Group to purchase supplies from accredited suppliers only; and (iii) require the Group to pay certain fees such as royalty and franchise fees, among others. In general, the Group is required to comply and ensure compliance with the franchisor's policies, standards, specifications and procedures to ensure consistency and quality in food products and service across the stores under the franchise agreements for a particular brand.

Network and Business Expansion

The Group continually evaluates store network expansion opportunities in its existing and in new markets including the plans for Group-owned and franchised restaurants. In addition to expanding its network, the Group's expansion plans are also focused on expanding guest frequency and new user base.

In selecting the location of a new store, the Group utilises various criteria including, among others, consumer preferences, demographic trends, customer foot traffic volume and patterns, accessibility and visibility, the type, number and location of competing food retailers and economic conditions.

The Group continually reviews business expansion opportunities in its existing and in new markets.

Sales Channels

The Group employs comprehensive sales channels including dine-in, take-away, drive-thru, kiddie party, bulk order and delivery. It believes that store technology initiatives and delivery arrangements are becoming increasingly important aspects of its sales channel and the consumer experience. The store technology that the Group has implemented includes, among others, website ordering, mobile ordering, mobile payment, cashless payment and in-store self-service technologies. The Group has also established delivery arrangements with third-party delivery platforms such as Deliveroo, Foodpanda, GrabFood, DoorDash and Uber Eats.

Store Format

The Group employs the following store formats to cater to a wide target market.

- Free standing—Stores in this format are situated in a single detached building with covered or street parking.
- In-line—Stores in this format are situated in a building, adjacent to other tenants.
- In-mall—Stores in this format are situated in a shopping centre.
- Food court—Stores in this format are situated in a facility with adjacent counters of food vendors and with a common area for self-serve dining.

The Group selects each store format and their location based on a set of criteria (including traffic generator data) to ensure that each store is located in an optimal area. Certain store formats have facilities such as delivery and take-out options for customers as well as drive-thru.

SUPPLY AND DISTRIBUTION

The Group and its franchisees purchase food and packaging products, equipment, fixtures and other supplies from numerous independent suppliers in accordance with its sourcing procedures and safety and quality standards. These products and supplies are distributed to individual stores by third-party distributors. Outside the Philippines, the Group and its franchisees utilise a decentralised sourcing and distribution system involving various third-party suppliers and distributors. To ensure continuity of supply, purchasing efficiencies and quality control, the supply chain unit of the Group works closely with each business unit and implements a demand planning system.

Zenith Foods Corporation (**ZFC**), a wholly-owned subsidiary of the Company, is the manufacturing arm of the Group in the Philippines. ZFC's main facility in Carmelray Industrial Park 1 in Canlubang, Laguna has a combined capacity of approximately 700 metric tonnes of various food products. The second facility of ZFC in Mandaue City, Cebu, has a combined capacity of approximately 45 metric tonnes of various food products.

As of 30 September 2019, the Group had 15 commissaries in the Philippines. As of the same period, the Group had two commissaries in China, four in the United States and two in Vietnam.

JWS performs supply planning, warehousing, distribution, customer support and order management functions for the Group in the Philippines. It operates distribution centres in strategic locations to service the growing network of the Group's stores and ensures the timely delivery of goods. JWS's biggest distribution centre is located in Paranaque City with over 20,000 combined pallet locations for both dry and cold storages.

To keep up with demand, the Group leases and operates various warehousing and distribution centres nationwide.

FOOD SAFETY AND QUALITY ASSURANCE

Food safety, quality management and cleanliness at stores and various supply chain facilities are top priorities of the Group. Quality control and assurance policies and standards are implemented across the Group's supply chain. Such policies and standards are based on global standards on food safety and quality management systems. The Group believes that the implementation of such systems build capacities and capabilities, improve supplier partnerships, protect the Group's brands and promote sustainability.

The Group has a large in-house quality assurance team comprised of licenced professionals and individuals with the relevant industry certifications. To ensure the quality and safety of food products, the Group's quality assurance and internal audit teams as well as third-party auditing bodies conduct meticulous and regular audits (announced or unannounced) at Group-owned and franchised stores, covering process and quality systems, good manufacturing practices and standard sanitation operating procedures, hazard analysis critical control points as well as food safety and quality management system requirements. Furthermore, the Group implements the Gold Standard Consistency programme developed by its research and development team across all it brands by focusing on supply quality at source, training of its personnel and regular assessments.

External vendors supplying to the Group are required to be certified under the applicable food safety and quality management system standards. Compliance by external vendors with the relevant certification requirements is monitored and assessed by accredited third-party certifying bodies. Process monitoring and verification at onsite and offsite manufacturing facilities are also performed. In addition, operations personnel of the Group visit and oversee distribution centres regularly. Product sampling and inspection is conducted on raw and packaging materials, in-process materials and finished goods after production and during dispatch. The commissary quality assurance, global quality management as well as research and development teams of the Group supervise periodic product testing. The Group has systems and procedures in place in the event of non-compliance with its standards.

As of the date of this Offering Circular, 10 out of 15 commissaries of the Group in the Philippines have the Food Safety Systems Certification 22000 version 4.1 while two out of its five commissaries overseas have the ISO 22000 Food Safety Management System certification. The Group's logistics site and its third-party logistics providers have the ISO 9001 Quality Management System certification and meet the Transported Asset Protection Association facility security requirements aimed at, among others, preventing pilferages and theft.

The Group conducts trainings on proper food preparation, handling, packaging and storage as well as food safety and quality for all of its employees. In the Philippines, the Group has an occupational health and safety programme and certified safety officers at its stores who conduct the mandatory occupational health and safety training.

EMPLOYEES

As of 30 September 2019, the Group had 254 employees at its corporate office in the Philippines and 905 employees at JWS.

The table below sets forth the number of the Group's employees for its various brands by region as of 30 September 2019.

Region	As of 30 September 2019 Number of employees
Philippines	16,621
PRC	5,436
North America	9,982
EMEA	3,155
Total	35,194

The Group believes that it has a well-trained and experienced pool of employees. It aims to support its various operating functions and grow the capability of its employees by implementing a variety of internal and external development and training programmes such as JFC University, a collaboration between the Company and Ateneo Graduate School of Business—Center for Continuing Education, which offers, among others, quick service restaurant management programmes.

The Group has collective bargaining agreements (**CBAs**) with the employees of Jollibee Foods Corporation and Red Ribbon Bakeshop Inc. expiring on February 2022 and May 2021, respectively. The term of the CBAs is five years.

The Group's PRC businesses has 13 trade unions. The existing contracts with the trade unions in the PRC include collective contracts, special collective contracts for female employees' special interests and special collective contracts for wages. The term of these contracts is one year. In addition, the Group has a CBA with certain employees of its Vietnam businesses.

Outsourcing operational processes to legitimate third-party service providers enables the Group to focus on its core mandate. The Group engages third-party service providers that possess values similar to the Group's in conducting business, treat its workers properly and comply with regulatory requirements.

The franchisees of the Group maintain control over all employment-related matters at their respective franchised stores.

MARKETING AND ADVERTISING PROGRAMMES

The Group advertises on network, cable television and radio programmes, on social media and other digital channels as well as through print advertisements, billboards, direct mail/leaflet marketing and the sale of merchandise in-store. The Group's marketing initiatives focuses on pertinent holidays such as Valentine's Day, Mother's Day, Father's Day, Christmas and New Year.

In the Philippines, franchisees pay for their share in the Group's nationwide advertising and marketing efforts as well as fees for the Group's administration of various advertisements, network and media placements. Outside the Philippines, advertising and marketing fee arrangements vary across brands and countries and territories.

The Group believes that it is a leader in digital engagement in the Philippines with the continued success of "*Kwentong* (story) Jollibee", a series of short heart-warming videos that tell real-life stories that reflect the Jollibee brand's values. See "—*Corporate History and Milestones—Awards and Recognitions*". In 2018, the Group launched its official YouTube channel, Jollibee Studios.

RESEARCH AND DEVELOPMENT

The Group believes that the continued success of its business will be affected in part by its ability to be innovative and attentive to consumer preferences and market conditions. The Group's in-house research and development team is committed to focusing on technical inputs to capture opportunities in food product diversification and optimisation and to enhance the production unit capabilities of its manufacturing business. In particular, the Group continually focuses on launching new or an improved variety of its existing food products and implementing new food product formats. For example, during the current year, the Group launched new breakfast sandwiches (bacon, egg and cheese, egg and cheese) and meal (*tocino* (sweet cured meat) mixed rice), new Yumburgers (Bacon Cheesy and Bacon Cheesy Deluxe), crispy spice fries, *buko* (coconut) pie, *halo-halo* sundae, cookies and cream sundae twirl and an improved vanilla soft serve, all under its Jollibee brand.

Technical support is also provided by the Group's in-house research and development team to the Group's commissaries and supply chain to ensure cost efficiency and maintenance of quality. The Group believes that technological improvements in manufacturing equipment and capabilities are crucial to new product development and improvement of production efficiencies. For example, the Group invested in the Batter Breader Line, a new equipment technology for spaghetti sauce processing and cake production. The Group intends to invest in the latest technology to improve efficiency and customer experience.

INTELLECTUAL PROPERTY

The Group's intellectual property is material to its operations and the growth of its businesses. In particular, trademarks are important because brand name recognition is a key factor in the success of the businesses of the Group. The Group owns valuable intellectual property. As of 30 September 2019, it has over 2000 trademarks registered in over 70 countries and territories, mostly for the Jollibee brand. The Company's subsidiaries procure and renew the relevant trademark registrations for their respective brands. Depending on the jurisdiction, trademarks generally are valid as long as they are used and/or registered. The Group has pending trademark registrations but generally expects that these will be granted. The Group is also a party to certain trademark disputes arising out of the ordinary course of its business. The Group believes that a negative outcome on any one of these disputes will not have a material adverse effect on its business, financial condition or results of operations.

The Group has established policies, standards and specifications for food products and services used in the development, improvement and operation of its stores. These proprietary policies, standards, specifications and store operating procedures are the Group's trade secrets and are crucial to the Group's overall performance.

The Group licences the use of its registered trademarks to franchisees through franchise agreements. These agreements set out the parameters for the use of the Group's trademarks and require franchisees to comply with proprietary standards and specifications and strictly follow store operating procedures.

PROPERTIES

The Group's head office is located at 10th floor, Jollibee Plaza Building, 10 F. Ortigas Jr. Avenue, Ortigas Center, Pasig City. Each floor occupied by the Group has different lease terms and the average lease term is seven years. It also leases additional office spaces in certain buildings, including the Jollibee Center.

As of 30 September 2019, the Group either owned or leased the land and the building for Group-owned stores, the term of which typically ranges between 2 to 35 years. The rates and terms of the lease vary for each Group-owned store. Franchisees may own the land on which a store is located or enter into independent leasing arrangements. The Group enters into independent leasing arrangements for brands where the Group is a franchisee. The Group intends to lease additional lots and/or buildings from third parties for the expansion of its network.

Leases for Group-Owned Stores

Under the Group's lease agreements for its stores, the Group is obligated to pay all costs and expenses with respect to the property leased by the Group from a third party including all taxes and assessments, repairs and maintenance as well as insurance. As of 30 September 2019, there were 2,615 properties leased for Group-owned stores.

Leases for Franchised Stores

Under the Group's franchise agreement with a franchisee, the latter is obligated to pay all costs and expenses with respect to the leased property including all taxes and assessments, repairs and maintenance as well as insurance.

INSURANCE

The Group obtains and maintains adequate and comprehensive insurance coverage on its properties, assets and liability exposures pertaining to its business operations including coverage for the Group's directors and officers from reputable insurance companies. It employs risk management for purposes of analysing the risks faced by its businesses in determining the appropriate cover, policies and amount of insurance for the Group as it deems appropriate and as may be usually carried by other companies engaged in the same or similar activities and owning similar properties in the various geographical areas where the Group operates. The Group's insurance coverage includes property all-risk with business interruption cover, comprehensive general liability with products liability and contamination cover, construction all-risk cover, marine (import/export) cover and coverage for directors' and officers' liability. The Group believes that its insurance coverage is in accordance with its business exposure and in compliance with the regulatory requirements of each country or territory where the Group operates.

CORPORATE SOCIAL RESPONSIBILITY

Through the JGF, the Group is committed to creating positive social impact through programmes in agriculture, education and disaster response.

In 2008, JGF established the Farmer Entrepreneurship Programme (**FEP**) to help smallholder farmers improve their income by linking them with and enabling them to supply vegetables to corporate buyers such as the Company. As of 31 December 2018, 15 farmer groups were direct suppliers of the Group and contributed 20 per cent. to the Group's annual vegetable requirements. Since 2009, more than 5,700 metric tonnes of vegetables have been delivered, with farmer groups earning over ₱200 million in sales.

The Agro-enterprise Training (AgenT) for Change is scheme under the FEP that provides year-long training to agro-enterprise facilitators who will provide technical support to FEP farmer groups. The agro-enterprise facilitators are comprised of staff of partners from local government units (**LGUs**), microfinance institutions and non-governmental organisations. JGF also implements initiatives to promote the engagement of the youth in agriculture. The FEP Youth Challenge enables university students to help smallholder farmers make their farming activities more profitable through innovations in agro-entrepreneurship. In addition, JGF also conducts nationwide runs of Agri Yo: Youth Farmers Training which aims to improve the knowledge of the youth in agro-entrepreneurship and inspire them to become successor leaders of FEP farmer groups.

The Busog, Lusog, Talino School Feeding Programme (**BLT**) was established by JGF in 2007 to provide daily lunch to undernourished children in order to help them remain in school. In collaboration with the Philippine Department of Education, LGUs and other organisations, BLT School Feeding Kitchens were built to facilitate food preparation for a cluster of schools. In addition to providing facilities and equipment, BLT provides training on food preparation and safety to parent volunteers. In 2018, 33 BLT Kitchens were in operation in the Philippines, serving more than 24,600 students in 235 schools. The use of certain BLT Kitchens have been maximised for its beneficiaries, including as a production area to augment school canteen operations and as a venue for women's livelihood training activities.

In 2005, JGF established the Access, Curriculum and Employability Scholarship Programme (**ACE**) to provide financial support and skills training to underprivileged Filipino youth. In 2018, ACE strengthened its focus on agricultural-related technical-vocational courses to help increase the number of skilled agro-entrepreneurs. JGF also partnered with Greenwich and Anihan Technical School in the province of Laguna in the Philippines to implement a one-year technical-vocational track for QSR operations that includes a six-month on-the-job training. In June 2019, the first batch of 27 female scholars completed the programme. In addition to technical skills training, JGF scholars also receive a two-day life skills training through *Matalas na Alas* (Sharp ACE), which employs creative and interactive sessions to help participants develop self-management skills and prepare them for employment.

JGF's FoodAID complements local initiatives in the Philippines in providing timely and appropriate food assistance during calamities. In 2018, more than 95,200 individuals were provided with food assistance. In addition to food assistance, JGF also implements the Farmer Livelihood Recovery Programme which provides grants to farmers so they can rebuild their farms and provide for the immediate needs of their families after a calamity. JGF provided support to conflict-affected communities in Marawi City by providing agro-enterprise training to more than 100 farmers and donating school kits for more than 1,300 school children.

In 2016, the Group received Gold Anvil Awards on Public Relations Programmes for its FEP and BLT programmes. In 2018, the Group received the first AGROW Award for Inclusive Business from the ASEAN Business Advisory Council of the Philippines in recognition of the inclusion of farmers in the Group's supply chain through FEP. In the same year, the Group ranked first in the Best Strategic Corporate Social Responsibility at Alpha Southeast Asia's Corporate-Institutional Investor Awards. During the current year, the FEP was recognised at the Franchise Excellence Awards under the inclusive business model category.

COMPETITION

The Group's stores compete within the QSRs and fast casual segments and other food service and restaurant companies. The Group competes on the basis of food quality and variety, price, value perception, customer service reputation, location as well as cleanliness and maintenance of stores. New product development, digital engagement as well as advertising levels and promotional initiatives are also key factors.

The Group's primary competition includes McDonald's, KFC, Burger King (outside the Philippines), other chicken, burger, pizza and pasta chains, Chinese fast food restaurants, grilled chicken and Filipino restaurants as well as bakeshops. Competition from independent restaurants, grocers, food packs and convenience stores offering take-away options has also increased.

The Group also competes not only for customers but also for personnel, suitable land or buildings and franchisees who have the commitment, capability and capitalisation.

The Group believes that its competitive position is differentiated by, among others, the taste of its food products and value for money product offerings.

The Group plans to continue to increase market share through, among others, store network expansion supported by new product launches, tie-ups and increasing visit frequency and targeting certain consumer groups that are not yet part of the customer base through, among others, promotions and target advertising.

INFORMATION TECHNOLOGY

The Group views information technology (**IT**) as an integral part of its operations. It believes that its current IT systems streamline its operations and enhance its overall organisational efficiency. IT services are provided by third-party service providers under contracts entered into by the Group. The IT products and services provided by these third-party service providers include professional services for management of IT resources.

The Group utilises enterprise resource planning softwares such as Microsoft Dynamics, NetSuite, SAGE and SAP as well as cloud-hosting services.

To minimise system downtime and to safeguard information in the event of a technical or operational failure, the Group maintains an off-site IT back-up recovery centre, which is updated in real time. The Group also conducts IT disaster recovery drills to enhance the effectiveness of its backup systems.

LEGAL AND OTHER PROCEEDINGS

The Group is a party to certain legal and other proceedings or disputes arising out of the ordinary course of its business. While the results of these proceedings or disputes cannot be predicted with certainty, the Group believes that a negative outcome on any one of these other proceedings or disputes will not have a material adverse effect on its business, financial condition or results of operations.

MANAGEMENT

DIRECTORS

The following table sets forth the persons who serve as Directors of the Board of the Guarantor as of the date of this Offering Circular:

Tony Tan Caktiong	Chairman
Ernesto Tanmantiong	President and chief executive officer
William Tan Untiong	Corporate secretary
Joseph C. Tanbuntiong	Director
Ret. Chief Justice Artemio V. Panganiban	Director
Ang Cho Sit	Director
Antonio Chua Poe Eng	Director
Monico V. Jacob	Independent Director
Cezar P. Consing	Independent Director

The Directors are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

The following describes the background of the Directors:

Tony Tan Caktiong, Filipino, 67, Chairman of the Board. He has been a member of the Board of Jollibee Foods Corporation since 1978 and was president and chief executive officer of Jollibee Foods Corporation until 1 July 2014. He holds the following positions in a publicly listed company: non-executive director and co-chairman of DoubleDragon Properties Corp. He is director of Fresh N' Famous Foods, Inc.; Mang Inasal Phils. Inc.; BK Titans, Inc.; PFN Holdings Corporation; Perf Restaurants, Inc.; Perf Trinoma, Inc.; Perf MOA Pasay, Inc.; RRB Holdings, Inc.; Red Ribbon Bakeshop, Inc.; Honeystar Holdings Corporation; Chanceux, Inc.; Bee Good! Inc.; SJBF LLC; Honeybee Foods (Canada) Corporation; Honeybee Foods Corp.; Red Ribbon Bakeshop Inc. (USA); Chowking Food Corporation (USA); Yong He Holdings Co. Ltd.; Centenary Ventures Limited; Southsea Binaries Limited; Belmont Enterprises Ventures Ltd.; Jollibee International (BVI) Ltd.; WJ Investments Limited; Jollibee Worldwide Pte. Ltd.; JSF Investments Pte. Ltd.; Golden Cup Pte. Ltd.; Golden Plate Pte. Ltd.; Golden Beeworks Pte. Ltd.; Golden Piatto Pte. Ltd.; Happy Bee Foods Processing Pte. Ltd.; SF Vung Tau Joint Stock Company; Blue Sky Holdings Limited; Jollibee (China) Food & Beverage Management Co. Ltd.; Beijing Golden Coffee Cup Food & Beverage Management Co. Ltd.; Beijing New Hongzhuangyuan Food & Beverage Management Co. Ltd.; Hangzhou Yonghe Food and Beverage Co. Ltd.; Hangzhou Yongtong Food and Beverage Co. Ltd.; Tianjin Yong He King Food & Beverage Co. Ltd.; Beijing Yong He King Food and Beverage Co. Ltd.; Shenzhen Yong He King Food and Beverage Co. Ltd.; Wuhan Yong He King Food and Beverage Co. Ltd.; Happy Bee Foods Processing (Anhui) Co. Ltd.; 12 Sabu (Shanghai) Food & Beverage Management Co. Ltd.; Shanghai Belmont Enterprises Management & Adviser Co. Ltd.; Honeysea Corporation; Hyper Dynamic Corporation; Mainspring Resources Corporation; Winall Holding Corporation; Imperial Premium Treasures, Inc.; Queenbee Resources Corporation; and Centregold Corporation; trustee of Jollibee Group Foundation, Inc.; chairman and director of STI College Tanauan Inc.; and board director of Temasek Foundation International CLG Limited. He is a member of International Advisory Board, The Philharmonic-Symphony Society of New York, Inc. He graduated with a Bachelor of Science degree in chemical engineering from University of Santo Tomas in 1975.

Ernesto Tanmantiong, Filipino, 61, president and chief executive officer of Jollibee Foods Corporation since 2014. He has been a member of the Board of Directors of Jollibee Foods Corporation since 1987. He is director of Fresh N' Famous Foods, Inc.; BK Titans, Inc.; Chanceux, Inc.; Red Ribbon Bakeshop, Inc.; RRB Holdings, Inc.; Grandworth Resources Corp.; C-Joy Poultry Meats Production Inc.; Cargill Joy Poultry Realty Inc.; Bee World UK Limited; Cibo Felice S.R.L.; Honeybee Foods (Canada) Corporation; Honeybee Foods Corporation; Red Ribbon Bakeshop Inc. (USA); Chowking Food Corporation (USA); SJBF LLC; Jollibee Worldwide Pte. Ltd.; Golden Plate Pte. Ltd.; Golden Beeworks Pte. Ltd.; Happy Bee Foods Processing Pte. Ltd.; Yong He Holdings Co. Ltd.; Centenary Ventures Limited; Belmont Enterprises Ventures Ltd.; Jollibee International (BVI) Ltd.; Jollibee Hong Kong Ltd.; Hanover Holdings Ltd.; Jollibee Vietnam Co. Ltd.; Golden Bee Foods Restaurant LLC; Happy Bee Foods Processing (Anhui) Co. Ltd.; Jollibee (China) Food & Beverage Management Co. Ltd.; Hangzhou Yonghe Food and Beverage Co. Ltd.; Tianjin Yong He King Food & Beverage Co. Ltd.; Beijing Yong He King Food and Beverage Co. Ltd.; Wuhan Yonghe King Food and Beverage Co. Ltd.; Adgraphix, Inc.; EST58 Corporation; Kingsworth Corporation; Imperial Premium Treasures, Inc.; Honeystar Holdings Corporation; Hyper Dynamic Corporation; Centregold Corporation; Honeysea Corporation; Queenbee Resources Corporation; Winall Holding Corporation; and Mainspring Resources Corporation; commissioner of P.T. Jollibee Indonesia and P.T. Chowking Indonesia; and trustee of Jollibee Group Foundation, Inc. He is not a director of any publicly listed company in the Philippines other than Jollibee Foods Corporation. He graduated with a Bachelor of Science degree in business management from Ateneo de Manila University in 1979.

William Tan Untiong, Filipino, 66, corporate secretary of Jollibee Foods Corporation since 1994, Director of Jollibee Foods Corporation since 1993 and chief real estate officer of Jollibee Foods Corporation since 2014. He holds the following position in a publicly listed company: non-executive director of DoubleDragon Properties Corp. He is director of Fresh N' Famous Foods, Inc.; Mang Inasal Phils. Inc.; BK Titans, Inc.; Chanceux, Inc.; RRB Holdings, Inc.; Red Ribbon Bakeshop, Inc.; Grandworth Resources Corporation; Zenith Foods Corporation; Belmont Enterprises Ventures Ltd. (BVI); Yong He Holdings Co. Ltd.; Centenary Ventures Limited; Honeybee Foods (Canada) Corporation; Honeybee Foods Corporation; Red Ribbon Bakeshop Inc. (USA); Chowking Food Corporation (USA); WJ Investments Limited; Golden Plate Pte. Ltd.; Golden Cup Pte. Ltd.; Entrek (B) SDN BHD; Blue Sky Holdings Limited; Jollibee (China) Food & Beverage Management Co. Ltd.; Hangzhou Yong He Food and Beverage Co. Ltd.; Tianjin Yong He King Food & Beverage Co. Ltd.; Beijing Yong He King Food and Beverage Co. Ltd.; Shenzhen Yong He King Food and Beverage Co. Ltd.; Wuhan Yong He King Food and Beverage Co. Ltd.; Beijing Golden Coffee Cup Food & Beverage Management Co. Ltd.; 12 Sabu (Shanghai) Food & Beverage Management Co. Ltd.; Adgraphix, Inc.; JC Properties & Ventures Corporation; Honeystar Holdings Corporation; Centregold Corporation; Winall Holding Corporation; Iconnect Multimedia Network, Inc.; Honeyworth Corporation; Mainspring Resources Corporation; Queenbee Resources Corporation; Hyper Dynamic Corporation; Kingsworth Corporation; and Honeysea Corporation; and trustee of Jollibee Group Foundation, Inc. He graduated with a Bachelor of Science degree in civil engineering from Adamson University in 1975.

Joseph C. Tanbuntiong, Filipino, 56, Director of Jollibee Foods Corporation since 2013. He joined Jollibee Foods Corporation in 1993 and is the head, country business group—Philippines for the Group. He holds the following position in a publicly listed company: non-executive director of DoubleDragon Properties Corp. He is director of Red Ribbon Bakeshop, Inc.; RRB Holdings, Inc.; BK Titans, Inc.; Perf Restaurants, Inc.; Perf MOA Pasay, Inc.; Perf Trinoma, Inc.; PFN Holdings Corporation; JSF Investments Pte. Ltd.; Golden Bee Foods Restaurant LLC; Honeystar Holdings Corporation; Jaysforjay, Inc.; and 4Jays San Juan Holdings, Inc.; and trustee of Jollibee Group Foundation, Inc. He graduated with a Bachelor of Science degree in management engineering from Ateneo de Manila University in 1984.

Ret. Chief Justice Artemio V. Panganiban, Filipino, 83, Director of Jollibee Foods Corporation since 2012. He holds the following positions in publicly listed companies: independent director of Asian Terminals, Inc.; First Philippine Holdings Corp.; GMA Network, Inc.; GMA Holdings, Inc.; MERALCO; Metro Pacific Investment Corp.; Petron Corporation; Philippine Long Distance Telephone Company; and Robinsons Land Corp.; senior adviser of Metropolitan Bank and Trust Company; member of the Advisory Council of Bank of the Philippine Islands; and Adviser of DoubleDragon Properties Corp. He is independent director of Asian Hospital Inc.; Liberty Telecoms Holdings Inc.; Metro Pacific Tollways Corp.; and Tollways Management Corporation; director of TeaM Energy Corporation; chairman of the board of advisers of Metrobank Foundation; and chairman of the board of directors of Pan Philippine Resources Corp.; and Peecee Holdings Corporation. He is chairman of the board of trustees of Foundation for Liberty and Prosperity; and Philippine Judges Foundation; chairman of the Philippine Chapter of ASEAN Law Association; Chairman Emeritus of Philippine Dispute Resolution Center, Inc.; president of Manila Metropolitan Cathedral—Basilica Foundation; Trustee of Foundation, Speaker Laurel Foundation and ASEAN Law Foundation; adviser of Asian Institute of Management Corporate Governance Center, World Bank (Philippines) and Johann Strauss Society; consultant of Judicial and Bar Council; and member of Permanent Court of Arbitration, The Hague, Netherlands. He was the chief justice of the Philippine Supreme Court from 2005 to 2006. Concurrent with his position as chief justice, he was also the chairperson of the Presidential Electoral Tribunal, the Judicial and Bar Council and the Philippine Judicial Academy. Prior to his elevation as chief justice in 2005, he was a justice of the Supreme Court in 1995 to 2005. He graduated with an Associate in Arts degree from Far Eastern University in 1956. He obtained his Bachelor of Laws degree from Far Eastern University in 1960.

Ang Cho Sit, Filipino, 69, Director of Jollibee Foods Corporation since 1978. He is director of Freemont Foods Corporation; Grandworth Resources Corporation; A-Star Holding Company; Longshore Corporation; Hyper Dynamic Corporation; and Venice Corporation. He is not a director of any publicly listed company in the Philippines other than Jollibee Foods Corporation. He graduated from Grace Christian Academy High School in 1968.

Antonio Chua Poe Eng, Filipino, 72, Director of Jollibee Foods Corporation since 1978. He is chairman and president of Honeyworth Corporation; and director of Albany Resources Corporation; and Hyper Dynamic Corporation. He is not a director of any publicly listed company in the Philippines other than Jollibee Foods Corporation. He graduated from St. Stephen High School in 1965.

Monico V. Jacob, Filipino, 74, Director of Jollibee Foods Corporation since 2000. He is an independent Director of the Board. He holds the following positions in publicly listed companies: independent director of Lopez Holdings Corp.; Phoenix Petroleum Philippines, Inc.; and Rockwell Land Corporation; and director of Asian Terminals, Inc.; and STI Education Systems Holdings, Inc. He is director of De Los Santos—STI College; Eximious Holdings, Inc.; GROW Vite, Inc.; Global Resource for Outsourced Workers, Inc.; Information and Communications Technology (i-Academy), Inc.; Maestro Holdings, Inc.; Philippines First Insurance Co., Inc.; Philippine Life Financial Assurance Corp.; Philhealthcare, Inc.; PhilPlans First, Inc.; Rosehills Memorial Management, Inc.; STI Education Services Group, Inc.; STI West Negros University; Tantivy Holdings, Inc.; TechZone Philippines, Inc.; and Total Consolidated Asset Management, Inc. He graduated with a Bachelor of Arts degree in liberal arts from Ateneo de Naga University in 1966. He obtained his Bachelor of Laws degree from Ateneo de Manila University in 1971.

Cezar P. Consing, Filipino, 60, independent Director of Jollibee Foods Corporation since 2010. He holds the following positions in publicly listed companies: director of Bank of the Philippine Islands; and National Reinsurance Corp. of the Philippines. He is chairman of BPI Family Savings Bank, Inc.; BPI/MS Insurance Corp.; BPI Capital Corp.; BPI Europe PLC; BPI Century Tokyo Lease & Finance Corp.; BPI Century Tokyo Rental Corp.; and BPI Computer Systems Corp.; director of BPI Direct BanKO, Inc.; BPI-Philam Life Assurance Corp.; BPI Asset Management and Trust Corporation; BancNet, Inc.; LGU Guarantee Corp.; Sqreem Technologies Private Ltd.; and Endeavor Philippines; vice-chairman of the board of trustees of BPI Foundation, Inc.; board director and non-executive chairman of Filgifts.com; and board partner of TRG Management Principals LP. He graduated with a Bachelor of Arts degree in economics from De La Salle University in 1979. He obtained his Master of Arts degree in applied economics from University of Michigan, Ann Arbor in 1980.

BOARD COMMITTEES

The Board has the following Committees to aid and support it in the effective performance of its functions.

Executive Committee

The Executive Committee acts on specific matters within the competence of the Board as may be delegated to it by the Board from time to time, subject to the limitations under applicable laws. The Executive Committee reports directly to the Board.

The Executive Committee is composed of at least three members of the Board.

Nomination Committee

The Nomination Committee (i) pre-screens and shortlists all candidates nominated to the Board, (ii) evaluates the qualifications of all candidates nominated to the Board and other appointments that require the Board's approval, (iii) assists in the development and assessment of the Board nomination and election process (iv) recommends to the Board any changes to the duties and responsibilities of the Chief Executive Officer, among others.

The Nomination Committee is composed of at least three members of the Board, one of whom is an independent director. The Board may appoint other additional members to the Nomination Committee who may or may not be members of the Board.

Compensation Committee

The Compensation Committee (i) establishes a formal and transparent procedure for developing a policy on executive remuneration, (ii) provides oversight over remuneration of senior management and key personnel and (iii) designates amount of remuneration, in a sufficient level to attract and retain directors and officers, among others.

The Compensation Committee is composed of at least three members of the Board, one of whom is an independent director. The Board may appoint other additional members to the Compensation Committee who may or may not be members of the Board.

Audit Committee

The Audit Committee (i) recommends the approval of the internal audit charter which sets out the role of internal audit and the Group's audit plan, (ii) monitors and evaluates the adequacy and effectiveness of the Group's internal control system, integrity of financial reporting and information technology security and security of physical and information assets, (iii) oversees the Internal Audit Department and internal audit matters, (iv) oversees external audit matters, (v) reviews and approves financial statements prior to submission to the Board and (vi) ensures that an effective and integrated risk management process is in place, among others.

The Audit Committee is composed of at least four members of the Board, two of whom are independent directors.

Corporate Governance Committee

The Corporate Governance Committee (i) reviews and oversees the implementation of the Group's corporate governance framework, (ii) oversees the performance evaluation of the Board and its committees as well as executive management, (iii) recommends continuing education programmes and succession plan for members of the Board and senior officers, (iv) adopts corporate governance policies, (v) determines the nomination and election process for the directors and (vi) assists the Board in reviewing all material related party transactions, among others.

The Corporate Governance Committee is composed of at least three members of the Board. The chairman of the Corporate Governance Committee is an independent director.

CORPORATE OFFICERS

The following table sets forth the members of the Guarantor's senior leadership team as of the date of this Offering Circular:

Jollibee Foods Corporation Senior Leadership Team

Tony Tan Caktiong*	Chairman
Ernesto Tanmantiong*	President and Chief Executive Officer
Joseph C. Tanbuntiong*	Treasurer
William Tan Untiong*	Corporate Secretary and Chief Real Estate Officer
Valerie Feria Amante	Assistant Corporate Secretary and Head of Corporate Legal and Corporate Ethics
Ysmael V. Baysa	Chief Financial Officer and Compliance Officer
Daniel Rafael Ramon Z. Gomez III	Chief Marketing Officer
Arsenio M. Sabado	Chief Human Resources Officer

* Members of the Board

Valerie Feria Amante, Filipino, 45, is the assistant corporate secretary and Head of Corporate Legal and Corporate Ethics of Jollibee Foods Corporation. She graduated with a Bachelor of Arts degree in psychology from University of the Philippines in 1995. She obtained her Bachelor of Laws degree from the same university in 2000.

Ysmael V. Baysa, Filipino, 63, is Chief Financial Officer and Compliance Officer of Jollibee Foods Corporation. He joined Jollibee Foods Corporation in 2003. He graduated with a Bachelor of Science degree in business administration (accountancy) from Manuel S. Enverga University Foundation (formerly Luzonian University Foundation) in 1976.

Daniel Rafael Ramon Z. Gomez III, Filipino, 47, is Chief Marketing Officer of Jollibee Foods Corporation. He joined Jollibee Foods Corporation in 2008. He graduated with a Bachelor of Science degree in management from Ateneo de Manila University in 1995.

Arsenio M. Sabado, Filipino, 53, is Chief Human Resources Officer of Jollibee Foods Corporation. He joined Jollibee Foods Corporation in 2018. He graduated with a Bachelor of Science degree in industrial engineering from University of the Philippines in 1989.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Guarantor transacts with its related parties, such as its Subsidiaries and certain of its Affiliates, and members of the Group enter into transactions with each other. These transactions have principally consisted of sale and purchase of food items to/from related parties at market prices, purchased items warehoused with related parties which are charged for logistics and warehousing costs, short-term advances made to related parties, advances made by a related party for another (including payments for various expenditures incurred on behalf of another party) and entering into commercial property leases with related party lessees.

For further information on the Group's related party transactions, see Note 27 to the Group's audited consolidated financial statements included in this Offering Circular.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

As of 30 September 2019, the Guarantor had 1,097,084,763 outstanding common shares (net of 16,447,340 treasury common shares). The shareholdings of the Guarantor's directors and certain substantial shareholders as of 30 September 2019 are set out in the table below. The table below includes the shareholdings of certain substantial shareholders as filed publicly with the PSE and to the best of the Guarantor's knowledge.

Security ownership of certain record and beneficial owners (of more than 5 per cent.) as of 30 September 2019

Title of class of voting shares	Name of beneficial owner	Citizenship	No. of shares held and nature of beneficial ownership	Per cent of outstanding shares
Common	Hyper Dynamic Corporation	Filipino	273,218,750 (direct)	24.9
Common	Honeysea Corporation	Filipino	127,743,747 (direct)	11.64

Security ownership of directors as of 30 September 2019

Title of class of outstanding shares	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	Per cent of total direct and indirect outstanding shares
Common	Tony Tan Caktiong	8,254,565 (direct) 240,000 (indirect)	Filipino	0.77
Common	Ernesto Tanmantiong	7,398,951 (direct) 457,019 (indirect)	Filipino	0.72
Common	William Tan Untiong	8,323,388 (direct) 279,667 (indirect)	Filipino	0.78
Common	Joseph Tanbuntiong	64,630 (direct)	Filipino	0.01
Common	Ang Cho Sit	11 (direct)	Filipino	0
Common	Antonio Chua Poe Eng	1 (direct)		
Common	Monico Jacob	100 (direct)		
Common	Cezar Consing	1 (direct)		
Common	Ret. Chief Justice Artemio Panganiban	1 (direct)		
All Directors as a group		**24,041,648** (direct) **999,486** (indirect)		**2.28**

REGULATIONS

FOREIGN EXCHANGE AND FOREIGN INVESTMENT REGULATIONS

Foreign Exchange Regulations

Philippine foreign exchange rules and regulations of the BSP have been liberalised since 1992. Under present regulations, as a general rule, foreign exchange may be freely sold and purchased outside the Philippine banking system. If foreign currency obligations of Philippine borrowers (or guarantors) are to be serviced with foreign exchange purchased from the Philippine banking system, the loan must have been approved by and registered with the BSP. Generally, the proceeds of such loans intended to fund local costs should be inwardly remitted and sold converted into Pesos within the Philippine banking system. However, loan proceeds intended to finance foreign exchange currency obligations of the borrower may be paid directly to the supplier/beneficiary concerned. BSP's rules generally limit access to the purchase of foreign currency to fund payment obligations offshore to only those private sector foreign currency loans that had been previously approved by and registered with the BSP.

Outside of Philippine banks, there are other sources of foreign currency. These include entities that are licenced to engage in the business of buying and selling foreign currency. These other sources of foreign currency outside the Philippine banking system may be subject to greater exchange rate volatility and liquidity constraints. Foreign currency received as revenue or held by any person (that is not a bank) in the Philippines can be freely traded within and freely remitted outside the Philippines, without being subject to these foreign exchange restrictions imposed by the BSP.

Registration of Foreign Loans and Foreign Investments

Approval from the BSP for the issuance and guarantee of offshore borrowings is not required for the legal validity and enforceability of such obligations. The process of seeking such approval takes time and involves costs for the applicant. The benefit of obtaining BSP approval and registration is that it would, assuming the BSP determines the applicant to be eligible for such approval under certain criteria, allow a borrower or guarantor to access the Philippine banking system to obtain foreign currency, such as U.S. dollars to service such debt or guarantee obligations. Otherwise, the payment currency must be obtained from other sources as described above.

Retail Trade Liberalisation Act

Republic Act No. 8762, or the Retail Trade Liberalisation Act of 2000 (**R.A. 8762**) liberalised the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. It allowed non-Filipino citizens to participate in retail on a limited basis. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100 per cent. Filipino-owned.

Retail trade is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, foreign-owned partnerships, associations and corporations formed and organised under the laws of the Philippines may, upon registration with the Philippine SEC and the Department of Trade and Industry (**DTI**) or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- *Category A*—Enterprises with paid-up capital of the equivalent in Pesos of less than U.S.$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens.
- *Category B*—Enterprises with a minimum paid-up capital of the equivalent in Pesos of U.S.$2.5 million but less than U.S.$7.5 million may be wholly owned by foreigners except for the first two years after the effectivity of R.A. 8762 wherein foreign participation shall be limited to not more than 60 per cent. of total equity.
- *Category C*—Enterprises with a paid-up capital of the equivalent in Pesos of U.S.$7.5 million or more may be wholly owned by foreigners: provided, however, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Pesos of U.S.$830,000.
- *Category D*—Enterprises specialising in high-end or luxury products with a paid-up capital of the equivalent in Pesos of U.S.$250,000 per store may be wholly owned by foreigners.

The implementing rules and regulations of R.A. 8762 provide that foreign investors or foreign retailers may acquire shares in existing and operating retail stores, whether publicly listed or not. A foreign retailer is defined as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly owned by Filipinos, engaged in retail trade.

Whenever a foreign investor is also engaged in retail trade and such foreign investor acquires 51 per cent. or more of the outstanding capital stock of an existing retail store, the following prequalification requirements must be met:

- a minimum of U.S.$200 million net worth in its parent corporation for categories B and C, and U.S.$50 million net worth in its parent corporation for category D;
- five retail branches or franchises in operation anywhere around the world unless such retailer has at least one store capitalised at a minimum of U.S.$25 million;
- five-year track record in retail; and
- only nationals from, or juridical entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The DTI, through the Board of Investments, is authorised to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines. No transfer of shares to a foreign investor in a retail store shall be recorded in the corporate books unless a Certificate of Compliance with Pre-qualification is presented.

Foreign Investments Act of 1991

Republic Act No. 7042, otherwise known as the Foreign Investments Act of 1991 (the **Foreign Investments Act**), liberalised the entry of foreign investment into the Philippines. As a general rule, there are no restrictions on extent of foreign ownership of export enterprises. In domestic market enterprises, foreigners can invest as much as 100 per cent. equity except in areas included in the Foreign Investment Negative List. The latest Foreign Investment Negative List (Eleventh) maintains the prohibition of foreign equity for retail trade enterprises with paid-up capital of less than U.S.$2.5 million under R.A. 8762.

For the purpose of complying with nationality laws, the term **Philippine national** is defined under the Foreign Investments Act as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly owned by citizens of the Philippines;
- a corporation organised under the laws of the Philippines of which at least 60 per cent. of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organised abroad and registered to do business in the Philippines under the Revised Corporation Code of the Philippines, of which 100 per cent. of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60 per cent. of the fund will accrue to the benefit of Philippine nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60 per cent. of the total shares outstanding and voting, the corporation shall be considered as a 100 per cent. Filipino-owned corporation.

CONSUMER PROTECTION LAWS

The Consumer Act

Republic Act No. 7394, or Consumer Act of the Philippines (the **Consumer Act**), seeks to: (a) protect consumers against hazards to health and safety, (b) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (c) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provide adequate rights and means of redress; and (e) involve consumer representatives in the formulation of social and economic policies. Consumer products and services, as defined by the Consumer Act, means goods, services and credits, debts or obligations which are primarily for personal, family, household or agricultural purposes, which includes, but is not limited to, food, drugs, cosmetics, and devices. The DTI is the implementing agency tasked to promulgate the policies under the Consumer Act.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labelling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

The minimum labelling requirements for consumer products sold in the Philippines are: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under licence from a principal, the label shall so state the fact.

The Price Act

Republic Act No. 7581, as amended by Republic Act No. 10623, or the Price Act (the **Price Act**), provides that the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. "Basic necessities" are goods vital to the needs of consumers for their sustenance and existence, while "prime commodities" are goods not considered as basic necessities but are essential to consumers in times of any of the following cases: (1) the impendency, existence, or effects of a calamity; (2) the threat, existence, or effect of an emergency; (3) the prevalence or widespread acts of illegal price manipulation; (4) the impendency, existence, or effect of any event that causes artificial and unreasonable increase in the price of the basic necessity or prime commodity; and (5) whenever the prevailing price of any basic necessity or prime commodity has risen to unreasonable levels.

The Price Act imposes an automatic price control on the prices of basic commodities in areas declared as disaster areas, under emergency or martial law or in a state of rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum period of 60 days, except for price control on basic necessities that are wholly imported and deregulated.

The implementing Government agencies of the Price Act are also given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors.

REAL PROPERTY REGULATION

Land Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organised under the laws of the Philippines at least 60 per cent. of whose capital is owned by such citizens.

Investors' Lease Act

Republic Act No. 7652, or the Investors' Lease Act allows any foreign investor investing in the Philippines through actual remittance of foreign exchange, transfer of assets, or other technological rights or processes, upon registration with the Philippine SEC, to lease private lands, subject to the following conditions:

(a) No lease contract shall be for a period exceeding 50 years, renewable once for a period of not more than 25 years;

(b) The leased area shall be used solely for the purpose of the investment upon the mutual agreement of the parties; and

(c) The leased premises shall comprise such area as may reasonably be required for the purpose of the investment, subject however, to the Comprehensive Agrarian Reform Law and the Local Government Code.

The leasehold right acquired under long-term lease contracts entered into pursuant to the Investors' Lease Act may be sold, transferred, or assigned; Provided, that when the buyer, transferee, or assignee is a foreigner or a foreign-owned enterprise, the conditions and limitations in respect to the use of the leased property as provided for under this law shall continue to apply.

However, foreign individuals, corporations, associations, or partnerships not otherwise investing in the Philippines, as described above, may only be allowed to lease private lands at a maximum period of 25 years, renewable for another period of 25 years upon mutual agreement of the parties.

A withdrawal of the approved investments (which means failure to operate the investment project for any three consecutive years, outright abandonment of the investment project at any time during the approved lease period, or failure to pay lease rental for three consecutive months coupled with the failure to operate the investment project within the same period) within the period of the lease agreement or use of the leased area for purpose other than that authorised, shall warrant an automatic termination of the lease agreement, without prejudice to the right of the lessor to be compensated for the damages he may have suffered thereby.

The Secretary of Trade and Industry shall terminate any lease contract if the investment project is not initiated within three years from signing of the lease contract. Any contract made or executed in violation of any of the following prohibited acts shall be deemed void and both contracting parties shall be punished by a fine of not less than ₱100,000.00 nor more than ₱1,000,000.00, or imprisonment of six months to six years, or both:

(a) Any provision in the lease agreement stipulating a lease period in excess of 50 years, renewable for a period not more than 25 years;

(b) Use of the leased premises for the purpose contrary to existing laws of the land, public order, public policy, morals or good customs; and

(c) Any agreement or agreements resulting in the lease of land in excess of the area approved by the DTI: Provided, That, where the excess of the totality of the area leased is due to the acts of the lessee, the lessee shall be held solely liable therefor: Provided, further, That, in the case of corporations, associations, or partnerships, the president, manager, director, trustee, or officers responsible for the violation hereof shall bear the criminal liability.

LABOUR AND EMPLOYMENT

Labour Code of the Philippines

The Department of Labour and Employment (**DOLE**) is the Government agency mandated to formulate policies, implement programmes and services, and serves as the policy-coordinating arm of the executive branch of the Government in the field of labour and employment. The DOLE has exclusive authority in the administration and enforcement of labour and employment laws such as the Labour Code of the Philippines (the **Labour Code**) and the Occupational Safety and Health Standards, as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

On 15 March 2017, Department Order No. 174 (2017) (**D.O. 174**) was issued by the DOLE providing for the guidelines on contracting and subcontracting, as provided for under the Labour Code. It has reiterated the policy that labour-only contracting is absolutely prohibited where: (1) (a) the contractor or subcontractor does not have substantial capital, or does not have investments in the form of tools, equipment, machineries, supervision, work premises, among others; and (b) the contractor's or subcontractor's employees recruited and placed are performing activities which are directly related to the main business operation of the principal; or (2) the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. Subsequently, DOLE issued Department Circular No. 1 (2017) clarifying that the prohibition under D.O. 174 does not apply to business process outsourcing, knowledge process outsourcing, legal process outsourcing, information technology infrastructure outsourcing, application development, hardware and/or software support, medical transcription, animation services and back office operations or support.

Occupational Safety and Health Standards Law

On 17 August 2018, Republic Act No. 11058 or the Occupational Safety and Health Standards Law was signed into law. It mandates employers, contractors or subcontractors and any person who manages, controls or supervises the work, to furnish the workers a place of employment free from hazardous conditions that are causing or are likely to cause death, illness or physical harm to the workers. It also requires employers, contractors or subcontractors to give complete job safety instructions or orientation and to inform the workers of all hazards associated with their work, health risks involved or to which they are exposed, preventive measures to eliminate or minimise the risks and steps to be taken in cases of emergency.

An employer, contractor or subcontractor who willfully fails or refuses to comply with the Occupational Safety and Health Standards Law shall be administratively liable for a fine. Further, the liability of the employer, project owner, general contractor, contractor or subcontractor, if any, and any person who manages, controls or supervises the work, shall be solidary.

Social Security System, PhilHealth and the Pag-IBIG Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 8282 to ensure coverage of employees following procedures set out by the law and the Social Security System (**SSS**). Under the said law, social security coverage is compulsory for all employees under 60 years of age. An employer must deduct and withhold from its compulsorily covered employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations.

Employers are likewise required to ensure enrolment of its employees in a National Health Programme administered by the Philippine Health Insurance Corporation, a Government corporation attached to the Department of Health (**DOH**) tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995, as amended by the Republic Act No. 11223, otherwise known as the Universal Health Care Act. The registration, accurate and timely deductions and remittance of contributions to the Philippine Health Insurance Corporation is mandatory as long as there is employer-employee relationship.

Under the Home Development Mutual Fund Law of 2009, all employees who are covered by the Social Security Act of 1997 must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings programme as well as a fund to provide affordable shelter financing to Filipino employees. The employer is likewise mandated to deduct and withhold, pay and remit to the Pag-IBIG Fund the respective contributions of the employees under the prescribed schedule.

Labour Code Provision on Retirement Pay

The Philippine Labour Code provides that, in the absence of a retirement plan provided by their employers, private sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six months being considered as one whole year.

For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: 15 days salary based on the latest salary rate; in addition, 1/12 of the thirteenth month pay and the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

DOLE Mandated Work-Related Programmes

Under the Comprehensive Dangerous Drugs Act, a national drug abuse prevention programme implemented by the DOLE must be adopted by private companies with ten or more employees. For this purpose, employers must adopt and establish company policies and programmes against drug use in the workplace in close consultation and coordination with the DOLE, labour and employer organisations, human resource development managers and other such private sector organisations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programmes for the private sector.

The employer or the head of the work-related, educational or training environment or institution also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding this, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalised by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, the Philippines AIDS Prevention and Control Act and its implementing rules and regulations require all private workplaces to have a policy on HIV and AIDS and to implement a workplace programmes in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it is strictly limited to medical personnel.

All private workplaces are also required to establish policies and programmes on solo parenting, Hepatitis B, and tuberculosis prevention and control.

DATA PRIVACY LAWS

Data Privacy Act of 2012

Republic Act No. 10173, or the Data Privacy Act, protects all forms of information, be it private, personal, or sensitive. It applies to any natural or juridical persons involved in processing of information (which refers to any operation or any set of operations performed upon personal data including, but not limited to, the collection, recording, organisation, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of data), whether in the government or private sector, and whether in or outside the Philippines.

The law defines **personal information** as any information whether recorded in a material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual. On the other hand, sensitive personal information refers to personal information:

(a) About an individual's race, ethnic origin, marital status, age, colour, and religious, philosophical or political affiliations;

(b) About an individual's health, education, genetic or sexual life or a person, or to any proceeding for any offence committed or alleged to have been committed by such person, the disposal of such proceedings, or the sentence of any court in such proceedings;

(c) Issued by government agencies peculiar to an individual which includes, but not limited to, social security numbers, previous or current health records, licences or its denials, suspension or revocation, and tax returns; and

(d) Specifically established by an executive order or an act of the Philippine Congress to be kept classified.

In general, the processing of sensitive personal information and privileged information is prohibited except where: (1) the data subject has given his or her consent, specific to the purpose prior to the processing, or in the case of privileged information, all parties to the exchange have given their consent prior to processing; (2) the processing is provided for by existing laws and regulations; (3) the processing is necessary to protect the life and health of the data subject or another person, and the data subject is not able to give consent; (4) the processing is carried out for limited non-commercial purposes by public organisations and their associations; (5) the processing is necessary for purposes of medical treatment, is carried out by a medical practitioner or a medical treatment institution, and an adequate level of protection of personal information is ensured; or (6) the processing is necessary for court proceedings or legal claims, or is provided to the government or a public authority.

Under the Data Privacy Act, the appointment of a Data Protection Officer (**DPO**) is a legal requirement for all personal information controllers (**PICs**) and personal information processors (**PIPs**). The DPO is accountable for ensuring the company's compliance with all data privacy and security laws and regulations.

A PIC may be a natural or juridical person who exercises control over the processing of personal data and furnishes instructions to another person or entity to process personal data on its behalf. A PIP on the other hand, refers to a person or body instructed or outsourced by a PIC to engage in the processing of the personal data of a data subject.

The PIC or PIP that employs fewer than 250 persons shall not be required to register unless the processing it carries out is likely to pose a risk to the rights and freedoms of data subjects, the processing is not occasional, or the processing includes sensitive personal information of at least 1,000 individuals.

ANTI-TRUST LAWS

Philippine Competition Act

Republic Act. No. 10667, or the PCA, is the primary competition policy of the Philippines. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of the PCC, an independent quasi-judicial agency with powers to conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities.

The PCA prohibits and imposes sanctions on:

(a) anti-competitive agreements between or among competitors, which restrict competition as to price, or other terms of trade and those fixing price at an auction or in any form of bidding including cover bidding, bid suppression, bid rotation and market allocation and other analogous practices of bid manipulation; and those which have the object or effect of substantially preventing, restricting or lessening competition;

(b) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition; and

(c) merger or acquisitions which substantially prevent, restrict or lessen competition in the relevant market or in the market for goods or services, or breach the thresholds provided in the PCA IRR without notice to the PCC.

On 21 February 2019, the PCC issued PCC Advisory No. 2019-001, effective 1 March 2019, amending the PCA IRR. It increased the thresholds to ₱5.6 billion for the Size of Person and ₱2.2 billion for the Size of Transaction, as defined in the PCA IRR. Under the Advisory, as to joint venture transactions, notification is mandatory if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. The revised thresholds under PCC Advisory No. 2019-001 shall not apply to mergers or acquisitions pending review by the PCC, notifiable transactions consummated before the effectivity of PCC Advisory 2019-001 (i.e. 1 March 2019), and transactions which are already subject of a decision by the PCC.

On 22 November 2017, the PCC published the Merger Rules which provides the procedure for the review or investigation of mergers and acquisition pursuant to the Philippine Competition Act. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the PCA IRR are required to notify the PCC within 30 days from the signing of definitive agreements relating to the notifiable merger.

Under the PCA and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one per cent. to five per cent. of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50 million but not more than ₱250 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offences. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

CORPORATION LAW

Revised Corporation Code

Republic Act No. 11232 or the Revised Corporation Code (the **Revised Corporation Code**) was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current articles of incorporation;
- the Code allows the creation of a One Person Corporation (**OPC**), which is a corporation composed of a single stockholder, provided that, only natural person, trust or an estate may form such. No minimum authorised capital stock is also required for an OPC, unless provided for under special laws;
- material contracts between the corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds of the entire membership of the board, with at least a majority of the independent directors voting to approve the same;
- the right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or *in absentia* if authorised by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or *in absentia* are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or *in absentia,* the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option; and

- in case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the PCA in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the PCA thresholds.

ENVIRONMENTAL LAWS

Environmental Impact Statement System

Undertakings or operations on any declared environmentally critical project or area are required to obtain an Environmental Compliance Certificate (**ECC**) prior to commencement. The Department of Environment and Natural Resources (**DENR**), through its regional offices or through the Environmental Management Bureau (the **EMB**), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement (**EIS**) to the EMB, which is a result of a positive determination by the EMB on the preventive, mitigating and enhancement measures adopted to address possible adverse consequences of the project to the environment. The EIS refers to the document, prepared and submitted by the project proponent and/or the Environmental Impact Assessment Consultant which provides for a comprehensive study of the significant impacts of a project to the environment. On the other hand, a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the **IEE**) to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required in addition to the IEE.

The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas. While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organisation, administration and assessment of the effects of any project on the quality of the physical, biological and socioeconomic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC.

The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project. Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures.

Philippine Clean Air Act of 1999

Republic Act No. 8749, otherwise known as the Philippine Clean Air Act, provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulphur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulphur content of automotive diesel oils to 0.05 per cent. by weight by 1 January 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the Department of Energy. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the Department of Energy initiative on alternative fuels.

Philippine Clean Water Act of 2004

In 2004, Republic Act No. 9275 or the Philippine Clean Water Act was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management programme focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based sources. The EMB, in partnership with other Government agencies and the respective LGUs, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorises the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

Ecological Solid Waste Management Act

Republic Act No. 9003, otherwise known as the Ecological Solid Waste Management Act of 2000, provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centres and facilities. The same law mandates all, especially, the LGUs, to adopt a systematic, comprehensive and ecological solid waste management programme which shall ensure protection of public health and environment, utilise environmentally sound methods, set targets and guidelines for solid waste avoidance and reduction and ensure proper segregation, collection, transport and storage of solid waste.

The National Solid Waste Management Commission, together with other Government agencies and the different LGUs, are responsible for the implementation and enforcement of the said law.

Toxic Substances and Hazardous and Nuclear Wastes Control Act

Republic Act No. 6969, otherwise known as The Hazardous Wastes Act, governs the programme for the control and management of the importation, manufacture, processing and all other actions involving toxic substances and hazardous and nuclear tastes.

New chemicals are listed in the Philippine Inventory of Chemicals and Chemical Substances (**PICCS**). The PICCS is a list of existing industrial chemicals and chemical substances used, sold, distributed, imported, processed, manufactured, stored, exported, treated, or transported in the Philippines.

Once a chemical is listed in the PICCS, it may be manufactured or imported with no control, provided it is not included in the Priority Chemicals List or subject to a Chemical Control Order (**CCO**).

A CCO prohibits, limits or regulates the use, manufacture, import, export, transport, processing, storage, possession and wholesale of priority chemicals that are determined to be regulated, phased-out, or banned because of the serious risks they pose to public health, the work place, and the environment. The objective of a CCO is to ensure the proper management of the chemicals so that danger to human health and the environment is reduced.

Violations of are punishable by fine and/or imprisonment and possible administrative fines.

INTELLECTUAL PROPERTY LAW

Intellectual Property Code

Under the Intellectual Property Code of the Philippines, the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal Government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office shall issue a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the mark is registered. The said certificate of registration shall also serve as prima facie evidence of the validity of registration and the registrant's ownership of the mark. A certificate of registration shall remain in force for an initial period of 10 years and may be renewed for periods of 10 years at its expiration.

LOCAL GOVERNMENT CODE

Republic Act No. 7160, otherwise known as the Local Government Code (the **LGC**) establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every LGU shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

An LGU, through its respective legislative bodies, may enact ordinances and approve resolutions, as shall be necessary and proper to provide for health and safety, comfort and convenience, maintain peace and order, improve the morals, and promote the prosperity and general welfare of the community and the inhabitants thereof, and the protection of property therein. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licences from businesses operating within the territorial jurisdiction of the LGU.

Businesses are required to obtain a local business permit from the LGU having jurisdiction over the territory where the entity seeks to operate before commencement of actual operations. In order to obtain a local business permit for any business or activity, a clearance must first be obtained from the barangay where such business or activity is located or conducted.

Subject to certain limitations, the power to tax is also exercised by the LGU through their respective legislative bodies, upon enactment of an appropriate ordinance.

Advertising Regulations

The Ad Standards Council, a non-stock, non-profit organisation, established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers, and Association of Accredited Advertising Agencies, issues circulars in the Advertising Industry and handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

FOOD BUSINESS

Health Regulations

The Food and Drug Administration (the **FDA**) administers and enforces the law, and issues any circular, on safety and good quality supply of food, drug and cosmetic to consumers. It also regulates the production, sale, and traffic of the same to protect the health of the people.

Consistent with the mandate to adopt and establish mechanisms and initiatives that are aimed to protect and promote the right to health of every Filipino, the FDA issued the Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, which require all food establishments obtain a licence to operate (**LTO**) from the FDA before they can validly engage in the manufacture, importation, exportation, sale, offer for sale, distribution, and transfer of food products in the Philippine market. Such rules cover processed food and food products and exclude fresh or raw food derived from plant, animal, fisheries and aquaculture products or foods in the primary production and post-harvest stages of the supply chain. An initial LTO is valid for a period of two years, while a renewed licence is valid for five years.

In addition to an LTO, the FDA also requires a Certificate of Product Registration (**CPR**) for processed food products, including food additives, food supplements and bottled water, before said products are distributed, supplied, sold or offered for sale or use in the market. A CPR covering a particular health product constitutes *prima facie* evidence of the registrant's marketing authority for said health product in connection with the activities permitted pursuant to the registrant's LTO. In case of initial registration, a CPR is valid for a minimum period of two years to a maximum period of five years. Any renewal thereafter is valid for five years.

The operation of a food business without the proper authorisation from the FDA is prohibited and punishable with a fine. The closure of the establishment may also be imposed as a penalty upon a finding of a commission of a prohibited act.

The DOH is the Government agency tasked to implement the Consumer Act with respect to food products. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packaging, Repacking, or Holding Food or food manufacturers. Under the Consumer Act, the DOH also has the authority to order the recall, ban or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Food Safety Act

In 2013, Republic Act No. 10611, or the Food Safety Act of 2013 (the **Food Safety Act**) was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the Department of Agriculture of the Philippines (**DA**) and the DOH, their pertinent bureaus, and the

LGUs. The National Dairy Authority, NMIS, and Bureau of Fisheries and Aquatic Resources under the DA are the government agencies responsible for the development and enforcement of food safety standards and regulations in the primary production and post-harvest stages for milk, meat, and fish, respectively, while the FDA under the DOH is responsible for the safety of processed and pre-packaged foods.

The purpose of the law is to:

- protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods;
- enhance industry and consumer confidence in the food regulatory system; and
- achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The DA and the DOH are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is sufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements:

- food to be imported into the country must come from countries with an equivalent food safety regulatory system; and
- imported foods shall undergo inspection and clearance procedures by the DA and the DOH at the first port of entry to determine compliance with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on food business operators:

- food business operators shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant Government agencies, and adopt, apply and be well informed of codes and principles for good practices;
- in the event a food business operator considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator;
- food business operators shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and
- where the unsafe or non-compliant food product may have reached the consumer, the food business operators shall have effectively and accurately informed the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

To enforce the Food Safety Act, food safety regulatory agencies are authorised to perform regular inspection of food business operators taking into consideration the compliance with mandatory safety standards, implementation of the Hazard Analysis at Critical Control Points or the science-based system that identifies, evaluates, and controls hazards for food safety at critical points, good manufacturing practices and other requirements of regulations. It is prohibited to refuse access to pertinent records or entry of inspection officers of the food safety regulatory agencies. It is likewise prohibited, among others, to produce, handle, or manufacture for sale, offer for sale, distribute in commerce, or import any food or food product, which is banned or is not in conformity with applicable quality or safety standard. The commission of any of the prohibited acts under the Food Safety Act may result in imprisonment and/or a fine.

The Livestock and Poultry Feeds Act

The Philippine Livestock and Poultry Feeds Act and its implementing rules and regulations (the **Livestock and Poultry Feeds Act**), regulates and controls the manufacture, importation, labelling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (**BAI**) is the governmental office under the DA tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported or exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must be also a separate registration for each type, kind and form feed of feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis.

The Livestock and Poultry Feeds Act also provides branding, labelling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

The Meat Inspection Code

Republic Act No. 9296 or The Meat Inspection Code of the Philippines (the **Meat Inspection Code**) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labelling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The NMIS, a specialised regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different LGUs, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments, including, but not limited to, poultry dressing plants and meat processing plants where food are prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licenced private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code provides for labelling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. The Meat Inspection Code also requires all meat establishments to:

(a) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and

(b) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programmes for the production, storage and distribution of its meat products.

Further, the DA requires all operators and/or owners of post-harvest meat establishments to subject their facilities for evaluation for the issuance of an LTO by the NMIS.

Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The Philippine Food Fortification Act

Republic Act No. 8976 or The Philippine Food Fortification Act of 2000 (the **PFF Act**) provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products or food products for sale or distribution in the Philippines. The fortification of food products is required to be undertaken by manufacturers and processors thereof. The FDA is the Government agency responsible for the implementation the PFF Act with the assistance of the different LGUs which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and food service establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

The Food, Drug and Cosmetics Act

Republic Act No. 3720 or The Food, Drug and Cosmetics Act, as amended by E.O. 175 and Republic Act No. 9711, or the Food and Drug Administration Act of 2009, seeks to ensure that safe and quality food is available in the Philippines, and regulates the production, sale, and trade of food to protect the health of the citizens. The FDA is the Governmental agency tasked to implement the Food, Drug and Cosmetics Act.

Under the Food, Drug and Cosmetic Act, the following acts, among others, are prohibited:

- the manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any "health product" that is adulterated, unregistered or misbranded (Health product means food, drugs, cosmetics, devices, biologicals, vaccines, in-vitro diagnostic reagents, and household/urban hazardous substances. On the other hand, food means any processed substance which is intended for human consumption and includes drink for man, beverages, chewing gum and any substances which have been used as an ingredient in the manufacture, preparation or treatment of food.);
- the adulteration or misbranding of any health product;
- the refusal to permit entry to or inspection of premises or vehicles or to allow samples to be collected for the purposes authorised under the Food, Drug and Cosmetics Act;
- the giving of a guaranty or undertaking referred to in section 12(b) of R.A. No. 3720, as amended, which guaranty or undertaking is false, except by a person who relied upon a guaranty or undertaking to the same effect, signed by, and containing the name and address of the person or entity from whom he received in good faith the health products or the giving of a guaranty or undertaking referred to in section 12(b) of R.A. No. 3720, as amended which guaranty or undertaking is false;
- forging, counterfeiting, simulating, or falsely representing or without proper authority using any mark, stamp, tag label, or other identification device authorised or required by regulations promulgated under the provisions of the Food, Drug and Cosmetics Act;
- the using by any person to his own advantage, or revealing, other than to the Secretary or officers and employees of the FDA or to the courts when relevant in any judicial proceeding, any information concerning any method or process which as a trade secret is entitled to protection;
- the alteration, mutilation, destruction, obliteration or removal of the whole or any part of the labelling of, or the doing of any other act with respect to health products if such act is done while the article is held for sale, whether or not the first sale, and results in the article being adulterated or misbranded; provided that a retailer may sell in smaller quantities, subject to guidelines issued by the FDA;
- the use, in labelling, advertising or other sales promotion of any reference to any report or analysis furnished in compliance with section 26 of R.A. No. 3720, as amended;
- the manufacturer, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertisement, or sponsorship of any health product which, although requiring registration, is not registered with the FDA;
- the manufacturer, importation, exportation, transfer or distribution of any food, cosmetic or household/urban hazardous substance by any natural or juridical person without the licence to operate from the FDA; and
- the sale, offering for sale, importation, exportation, distribution, or transfer of any health product beyond its expiration or expiry date, if applicable.

Any person who commits any of the prohibited acts stated above shall, upon conviction, suffer the penalty of imprisonment ranging from one year but not more than ten years or a fine of not less than ₱50,000.00 but not more than ₱500,000.00, or both, at the discretion of the court. If the offender is a manufacturer, importer or distributor of any health product, the penalty of at least five years imprisonment but not more than ten years and a fine of at least ₱500,000.00 but not more than ₱5,000,000.00 shall be imposed. Further, an additional fine of one per cent. of the economic value/cost of the violative product or violation, or ₱1,000.00, whichever is higher, shall be imposed for each day of continuing violation.

Furthermore, health products found in violation of the provisions of the Food, Drug and Cosmetics Act and other relevant laws, rules and regulations may be seized and held in custody pending proceedings, without a hearing or court order, when the director general of the FDA has reasonable cause to believe from facts found by him or an authorised officer or employee of the FDA that such health products may cause injury or prejudice to the consuming public.

Designated officers or employees of the DOH, for purposes of enforcing of the Food, Drug and Cosmetics Act, are authorised to enter, at reasonable hours, any factory, warehouse, or establishment in which food, drugs, devices, or cosmetics are manufactured, processed, packed, or held for introduction into domestic commerce and to inspect, in a reasonable manner, such factory, warehouse, establishment, or vehicle and all pertinent equipment, finished or unfinished materials, containers, and labelling therein.

When there is a finding of prohibited actions and determination of the persons liable thereto, after notice and hearing, the director-general may impose one or more of the following administrative penalties: (1) the cancellation of any authorisation which may have been granted by the FDA, or suspension of the validity thereof which shall not exceed one year, (2) a fine of not less than ₱50,000.00 but not more than ₱500,000.00, and (3) the destruction and/or appropriate disposition of the subject health product and/or closure of the establishment for any violation of the Food, Drug and Cosmetics Act.

TAXATION

*The statements herein regarding taxation are based on the laws in force as of the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The Philippine Bureau of Internal Revenue (**BIR**) has not issued regulations specific to perpetual financial instruments such as the Securities and Distributions. Consequently, the tax characterisation of the Securities and Distributions for tax purposes is not settled under Philippine tax laws and regulations. Philippine Congress may subsequently pass a definitive law governing instruments that would include the Securities and/or the BIR may adopt specific a regulation or issue a specific ruling in respect of instruments that include the Securities. Such law, regulation or ruling may classify the Securities and treat them as shares of stock, deposit substitutes or a separate form of instrument entirely and such classification or treatment may subject the Securities and/or the Distributions to a different tax treatment, such as considering the Distributions as equivalent to dividends for tax purposes.*

The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in bonds or commodities) may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Securities or any persons acquiring, selling or otherwise dealing in the Securities or on any tax implications arising from the acquisition, sale or other dealings in respect of the Securities.

Prospective investors considering the purchase of the Securities should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Securities under the laws of their country of citizenship, residence or domicile.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Securities. It is based on the present provisions of the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963 (**Philippine Tax Code**), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.

As used in this section, the term **resident alien** refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines while the term **non-resident alien** means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who stays in the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien is considered a "non-resident alien not engaged in trade or business within the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business in the Philippines and a "non-resident foreign corporation" is a foreign corporation that is not engaged in trade or business within the Philippines. The term non-Philippine holders refers to beneficial owners of the Securities who are (1) non-resident aliens not engaged in trade or business within the Philippines or (2) non-resident foreign corporations.

Documentary Stamp Tax

Under the Philippine Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments, such as notes and Securities, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the debt instrument's term in number of days to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed upon the issuance of the Securities, as the Issuer is a non-resident foreign corporation and the issuance of the Securities takes place outside the Philippines. No documentary stamp tax is imposed upon the issuance of the Securities Guarantee to secure payment of the Securities.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Securities, trading of the Securities in a secondary market or through an exchange as long as such subsequent sale, disposition or trading is not made in the Philippines or there is no change in the maturity date or the material terms and conditions of the Securities.

Repayment of the Principal on the Securities

The Issuer's payment of the principal on the Securities to a non-Philippine holder will not subject such non-Philippine holder to taxation in the Philippines by reason solely of the holding of the Securities or the receipt of principal.

Under the current laws and regulations of the Philippines, all payments of principal on the Securities may be paid by the Guarantor pursuant to the terms of the Agreements to the Securityholders who are non-residents of the Philippines without being subject to Philippine income, withholding or other taxes and are otherwise free and clear of any other tax, duty, withholding or deduction in the Philippines. Gains realised from the sale, exchange or retirement of the Securities shall be exempt from Philippine income tax, if the Securities are considered **Long Term Securities**, if sold by non-residents outside the Philippines, or if the holder is qualified for such exemption under an applicable tax treaty. Securities held by persons at the time of death will not be subject to estate tax in the Republic of the Philippines if the deceased at the time of death was a citizen and resident of a foreign country which did not impose a transfer or estate tax of any character in respect of intangible personal property of citizens of the Republic of the Philippines not residing in that foreign country, or if the laws of the foreign country of which the deceased was a citizen and resident at the time of his or her death allow a similar exemption from transfer or estate taxes of every character and description in respect of intangible personal property owned by citizens of the Republic of the Philippines not residing in that foreign country.

Interest on the Securities

Under the Philippine Tax Code, alien individuals and foreign corporations are subject to Philippine income tax on Philippine-sourced income only. It further provides that interest income derived from bonds, Securities or other interest-bearing obligations of Philippine residents is Philippine-source income subject to Philippine income tax. As the Securities will be issued by the Issuer which is a non-resident foreign corporation, interest on the Securities received by non-resident holders from the Issuer should not be subject to Philippine income tax on interest. However, resident Philippine citizen and domestic corporations are subject to tax on their global income. As such, interest income on the Securities paid by the Issuer will form part of a resident Philippine citizen or a domestic corporation's gross income, which, after being reduced by the applicable deductions, will be subject to the applicable Philippine income tax rates. The net taxable income of resident Philippine citizens is subject to graduated tax rates ranging from zero to 35 per cent. while the net taxable income of domestic corporations is subject to a flat 30 per cent. tax rate.

Any payment made by the Guarantor to a Securityholder under the Securities Guarantee which is attributable to interest on the Securities could be considered as Philippine-source income and accordingly subject to final withholding taxes in the Philippines at the following rates:

Philippine citizens and resident alien individuals	20 per cent.
Non-Resident aliens doing business in the Philippines	20 per cent.
Non-resident aliens not doing business in the Philippines	25 per cent.
Domestic corporations	20 per cent.
Resident foreign corporations	20 per cent.
Non-resident foreign corporation	30 per cent.

If the payment made by the Guarantor to a non-resident foreign corporation is in foreign currency and qualifies as interest on foreign loans, the applicable final withholding tax rate is 20 per cent.

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Securityholder. Most tax treaties to which the Philippines is a party provide for a preferential reduced tax rate of 15 per cent. where Philippine-source interest income is paid to a resident of the other contracting state. However, tax treaties would also normally qualify that the preferential reduced tax rates will not apply if the recipient of the interest income, even if considered a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

Tax Exempt Status

Securityholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income paid by the Guarantor may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. The BIR has prescribed certain procedures for availment of such exemption or preferential withholding tax rate. Assuming the payments to be made by the

Guarantor are subject to withholding tax, subject to the filing of the Guarantor's application and its approval by the BIR, the Guarantor will not withhold or will withhold at a reduced rate provided that such holder furnishes the Guarantor with the following documents, in form and substance prescribed by the Guarantor: (i) Proof of Tax Exemption or Entitlement to Preferential Tax Rates: (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan—certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than three years since the date of issuance thereof; (b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008—certified true copy of the Securityholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator; (c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) Government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments)—certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; (d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (**CORTT**) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and (e) Any other document that the Guarantor may require from time to time; (ii) a duly notarised declaration and undertaking in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorised representative, who has personal knowledge of the exemption based on his official functions, if the Securityholder purchases Securities for its account, or (ii.b) the Trust Officer, if the Securityholder is a universal bank authorised under Philippine law to perform trust and fiduciary functions and purchase the Securities pursuant to its management of tax-exempt entities (i.e., Employee Retirement Fund, etc.), declaring and warranting that the same Securityholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Guarantor of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Guarantor free and harmless against any claims, actions, suits, and liabilities, or any tax or charge resulting from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Guarantor, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Guarantor to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or Government charges, subject to the submission by the Securityholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Guarantor.

If the regular rate mentioned above is withheld by the Guarantor, instead of the reduced rate, the Securityholder may file a claim for a refund from the BIR. However, because the refund process in the Philippines could be cumbersome, requiring the filing of an administrative claim and the possible filing of a judicial appeal, it may be impractical to pursue such a refund.

Value-Added Tax

Gross receipts derived by dealers in securities from the sale of the Securities in the Philippines, equivalent to the gross selling price less the acquisition cost of the Securities sold, shall be subject to value-added tax of 12 per cent.

Dealer in securities means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5 per cent.
Maturity period is more than five years	1 per cent.

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5 per cent.
Maturity period is more than five years	1 per cent.

If the net trading gains realised within the taxable year on the sale or disposition of the Securities by banks and non-bank financial intermediaries performing quasi-banking functions are considered as gross receipts derived from sources within the Philippines, such gains shall be subject to gross receipts tax at the rate of 7 per cent.

Sale or Other Disposition of the Securities

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with a maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) (**Long Term Securities**) are exempt from income tax. The BIR, however, has not had occasion to confirm whether bonds issued by foreign entities, such as the Securities, may constitute Long Term Securities for purposes of such exemption. In any case, any gain from the sale or exchange of the Securities is not subject to Philippine income tax if the sale or exchange of the Securities by a non-resident holder takes place outside the Philippines.

If the Securities are considered ordinary assets, gains from the sale or disposition of such Securities within the Philippines that are subject to Philippine income tax will be included in the computation of taxable income, which, after being reduced by the applicable deductions, is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2018 until 31 December 2022:

Not over ₱250,000	0 per cent.
Over ₱250,000 but not over ₱400,000	20 per cent. of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱30,000 + 25 per cent. of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱130,000 + 30 per cent. of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱490,000 + 32 per cent. of the excess over ₱2,000,000
Over ₱8,000,000	₱2,410,000 + 35 per cent. of the excess over ₱8,000,000

and effective 2 January 2023 and onwards:

Not over ₱250,000	0 per cent.
Over ₱250,000 but not over ₱400,000	15 per cent. of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20 per cent. of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25 per cent. of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30 per cent. of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35 per cent. of the excess over ₱8,000,000

For non-resident aliens not engaged in trade or business, the gain from the sale of Securities within the Philippines shall be subject to the 25 per cent. final withholding tax.

If the Securities are considered as capital assets of individual Securityholders, gains from the sale or disposition of such Securities shall be subject to the same income tax rates as if the Securities were held as ordinary assets, except that if the gain is realised by an individual who held the Securities for a period of more than twelve (12) months prior to the sale, only 50 per cent. of the gain will be recognised and included in the computation of taxable income, subject to the applicable deductions. On the other hand, if the Securities were held by an individual for a period of 12 months or less, 100 per cent. of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Securities within the Philippines are included in the computation of taxable income which, after being reduced by the applicable deductions, is subject to a 30 per cent. regular corporate income tax. Furthermore, gains derived by a domestic corporation from a sale or disposition of Securities outside the Philippines, will likewise form part of its taxable income. Gains derived by non-resident foreign corporations on the sale or other disposition of the Securities shall form part of their gross income which is subject to a 30 per cent. final withholding tax unless such foreign corporation is entitled to preferential tax treatment pursuant to a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Estate and Donor's Tax

As the Securities are issued by a corporation organised outside the Philippines, they generally do not have a Philippine situs. Having no Philippine situs, the transfer of the Securities (1) to the estate or heirs of a deceased non-resident alien holder should not be subject to Philippine estate taxes and (2) by way of donation should not be subject to Philippine donor's taxes.

However, the following obligations of a foreign corporation are deemed to have a Philippine situs and are subject to Philippine estate or donor's gift taxes upon their transfer: (1) obligations of a foreign corporation, 85 per cent. of the business of which is located in the Philippines, and (2) obligations issued by a foreign corporation, if such obligation has acquired a business situs in the Philippines. The Securities may acquire a Philippine situs if the foregoing circumstances become applicable to the Issuer or the Securities.

The transfer of the Securities by a deceased Securityholder to his heirs shall be subject to Philippine estate tax at a fixed rate of 6 per cent. of the net estate.

A Securityholder who transfers the Securities by way of gift or donation shall be subject to Philippine donor's tax at the fixed rate of 6 per cent. based on the total gifts or donations in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Securities, shall not be collected in respect of intangible property, such as the Securities, (1) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (2) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

Subject to the qualifications discussed above, in case the Securities are transferred for less than adequate and full consideration in money or money's worth, the amount by which the fair market value of the Securities exceeded the value of the consideration may be deemed a gift and donor's taxes may be imposed on the transferor of the Securities. Transfer of the Securities made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent) is considered as made for an adequate and full consideration in money or money's worth.

SINGAPORE TAXATION

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by IRAS and the Monetary Authority of Singapore (the **MAS***) in force as of the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and no assurance can be given that the relevant tax authorities or the courts will agree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Securities or of any person acquiring, selling or otherwise dealing with the Securities or on any tax implications arising from the acquisition, sale or other dealings in respect of the Securities. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Securities and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. The statements should not be regarded as advice on the tax position of any person and should be treated with appropriate caution. Holders and prospective holders of the Securities are advised to consult their own tax advisors as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Securities, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that none of the Issuer, the Guarantor, the Joint Lead Managers and any other persons involved in the issue of the Securities accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Securities.*

In addition, the disclosure below is on the assumption that the IRAS regards the Securities as "debt securities" for the purposes of the ITA and that distribution payments made under the Securities will be regarded as interest payable on indebtedness and holders thereof may therefore enjoy the tax concessions and exemptions available for qualifying debt securities, provided that the other conditions for the qualifying debt securities scheme are satisfied. If the Securities are not regarded as "debt securities" for the purposes of the ITA and holders thereof are not eligible for the tax concessions under the qualifying debt securities scheme, the tax treatment to holders may differ. Investors and holders of the Securities should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Securities.

Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the ITA, the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 22 per cent. However, if the payment is derived by a person not resident in Singapore otherwise than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15 per cent. The rate of 15 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after 1 January 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and

(c) prepayment fee, redemption premium or break cost from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

Qualifying Debt Securities Scheme

Citigroup Global Markets Singapore Pte. Ltd., J.P. Morgan (S.E.A.) Limited, Credit Suisse (Singapore) Limited and Mizuho Securities (Singapore) Pte. Ltd. are Financial Sector Incentive (Standard Tier) (**FSI-ST**) Companies for the purposes of the ITA. As the Securities are issued on or before 31 December 2023 and more than half of the Joint Lead Managers are either a Financial Sector Incentive (Capital Market) Company, a FSI-ST Company or a Financial Sector Incentive (Bond Market) Company, the Securities, if they are treated as debt instruments, should be regarded as debt securities (as defined in the ITA) and hence "qualifying debt securities" for the purposes of the ITA, to which the following treatments shall apply:

(a) subject to certain prescribed conditions having been fulfilled (including the furnishing of a return on debt securities to the MAS for the Securities within such period as the relevant authorities may specify and such other particulars in connection with the Securities as the MAS may require, and the inclusion by the Issuer in all offering documents relating to the Securities of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Securities is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Securities using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the **Qualifying Income**) from the Securities derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Securities are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax;

(b) subject to certain conditions having been fulfilled (including the furnishing of a return on debt securities to the MAS in respect of the Securities within such period as the MAS may specify and such other particulars in connection with the Securities as the MAS may require), Qualifying Income from the Securities derived by any company or body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates); and

(c) subject to:

(aa) the Issuer including in all offering documents relating to the Securities a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Securities is not exempt from tax shall include such income in a return of income made under the ITA; and

(bb) the furnishing to the MAS of a return on debt securities for the Securities within such period as the MAS may specify and such other particulars in connection with the Securities as the MAS may require,

payments of Qualifying Income derived from the Securities are not subject to withholding of tax by the Issuer.

Where interest, discount income, prepayment fee, redemption premium or break cost is derived from any of the Securities by any person who (i) is not resident in Singapore and (ii) carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities (subject to certain conditions) under the ITA shall not apply if such person acquires such Securities using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Securities is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the ITA.

However, notwithstanding the foregoing:

(A) if during the primary launch of the Securities, the Securities are issued to fewer than four persons and 50 per cent. or more of the issue of such Securities is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Securities would not qualify as "qualifying debt securities"; and

(B) even though the Securities are "qualifying debt securities", if at any time during the tenure of such Securities, 50 per cent. or more of the issue of such Securities is held beneficially or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Securities held by:

(i) any related party of the Issuer; or

(ii) any other person where the funds used by such person to acquire such are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term **related party**, in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

For the purposes of the ITA and this Singapore tax disclosure:

(a) **break cost** means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) **prepayment fee** means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) **redemption premium** means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

Notwithstanding that the Issuer is permitted to make payments of interest, discount income, prepayment fee, redemption premium and break cost (i.e. the Qualifying Income) in respect of the Securities without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) derived from the Securities is not exempt from tax shall include such income in a return of income made under the ITA.

Gains on Disposal of Securities

Any gains considered to be in the nature of capital made from the sale of the Securities will not be taxable in Singapore. However, any gains derived by any person from the sale of the Securities which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Securities who apply or are required to apply Singapore Financial Reporting Standard 39 (**FRS 39**), Financial Reporting Standard 109—Financial Instruments (**FRS 109**) or Singapore Financial Reporting Standard (International) 9 (Financial Instruments) (**SFRS(I) 9**) (as the case may be) may for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Securities, irrespective of disposal, in accordance with FRS 39, FRS 109 or SFRS(I) 9 (as the case may be). Please see the section below on "*Adoption of FRS 39, FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes*".

Adoption of FRS 39, FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes

Subject to certain "opt-out" provisions, Section 34A of the ITA requires taxpayers who adopt or are required to adopt FRS 39 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 39, subject to certain exceptions provided in that section. The IRAS has also issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39—Financial Instruments: Recognition and Measurement" to provide guidance on the Singapore income tax treatment of financial instruments.

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after 1 January 2018, replacing FRS 39. Section 34AA of the ITA requires taxpayers who adopt or who are required to adopt FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions provided in that section. The IRAS has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109—Financial Instruments".

Holders of the Securities who may be subject to the tax treatment under the FRS 39 tax regime, FRS 109 tax regime or the SFRS(I) 9 tax regime should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Securities.

Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

CLEARANCE AND SETTLEMENT OF THE SECURITIES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the ***Clearing Systems****) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Guarantor, nor any Joint Lead Manager, the Trustee or any Agents takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Securities and transfers of the Securities associated with secondary market trading.*

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Securities held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in Securities will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Securities in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holders in the chain to the beneficial owner of book-entry interests in the Securities, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of Securities registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or if individual Certificates are issued in the limited circumstances described under "*The Global Certificate—Registration of Title*", holders of Securities represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in the Securities holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect to the Securities; however, holders of book-entry interest in the Securities may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

Upon their original issue, the Securities will be in global form represented by the Global Certificate. Interests in the Securities will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the

Securities through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Securities will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Securities through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

GENERAL

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Securities among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Neither of the Issuer, the Guarantor nor any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 16 January 2020 (the **Subscription Agreement**), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell, and the Joint Lead Managers have agreed severally and not jointly, to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Securities.

Joint Lead Managers	Principal amount of the Securities to be subscribed
Citigroup Global Markets Singapore Pte. Ltd.	U.S.$204,000,000
J.P. Morgan (S.E.A.) Limited	U.S.$204,000,000
Credit Suisse (Singapore) Limited	U.S.$ 96,000,000
Mizuho Securities (Singapore) Pte. Ltd	U.S.$ 96,000,000
Total	U.S.$600,000,000

In addition, the Issuer (failing which the Guarantor) has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Securities.

The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Joint Lead Managers against certain liabilities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and their affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services for the Issuer and the Guarantor and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and the Guarantor, and/or its affiliates in the ordinary course of their business.

The Joint Lead Managers or certain of their affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes but not with a view to distribution. The Issuer, the Guarantor or the Joint Lead Managers may pay commissions to certain third parties (including, without limitation, commission or rebate to private banks).

The Joint Lead Managers have entered into certain arrangements with the Joint Domestic Managers in connection with the sale of the Securities in the Philippines, for which the Joint Domestic Managers will receive customary fees.

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and the Guarantor or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer and the Guarantor or its subsidiaries, jointly controlled entities or associated companies, including the Securities, may be entered into at the same time or proximate to offers and sales of the Securities or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Securities. The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

If a jurisdiction requires that the offering of Securities be made by a licenced broker or dealer and the Joint Lead Managers or any of their respective affiliates is a licenced broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction. The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

OFFERING AND SELLING RESTRICTIONS

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities are subject to restrictions and may not be made except pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

None of the Issuer, the Guarantor or the Joint Lead Managers makes any representation that any action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Joint Lead Managers that would, or is intended to permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form), any amendment or supplement thereto issued in connection with the proposed resale of the Securities or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this offering circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Joint Lead Managers will also ensure that no obligations are imposed on the Issuer or the Guarantor in any such jurisdiction as a result of any of the foregoing actions. the Issuer and the Guarantor will have no responsibility for, and the Joint Lead Managers will not obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Securities other than as contained in, or which is consistent with, the Offering Circular or any amendment or supplement to it.

Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Securities, in all cases at their own expense.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Joint Lead Managers or any of their respective affiliates is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

United States of America

The Securities and the Securities Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to any other exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has, severally and not jointly, represented and warranted that it has not offered or sold, and agreed that it will not offer or sell, any Securities and the Securities Guarantee constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities and the Securities Guarantee. Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that:

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any of the Securities in circumstances in which Section 21(1)) of the FSMA does not apply to the Issuer; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and agreed that:

it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (i) to professional investors as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (**SFO**) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (**C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the SFO and any rules made under the SFO.

European Economic Area

Each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the EEA. For the purposes of this provision:

the expression retail investor means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Singapore

Each Joint Lead Manager has, severally and not jointly, acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the MAS. Accordingly, each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that it has not offered or sold any Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell the Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA), pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments), (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**). Each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that it will not offer or sell any Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Philippines

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SEC UNDER THE SRC. ANY FUTURE OFFER OR SALE OF THE SECURITIES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE OFFER OR SALE QUALIFIES AS EXEMPT SECURITIES OR AS AN EXEMPT TRANSACTION UNDER THE SRC.

Under Republic Act No. 8799, known as the SRC, and its implementing rules, securities, such as the Securities, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are registered with the Philippine SEC or are otherwise exempt securities or sold pursuant to an exempt transaction.

The offer or sale of the Securities in the Philippines to (a) primary institutional lenders pursuant to Rule 10.1.4 of the implementing rules of the SRC or (b) persons who are qualified buyers pursuant to Section 10.1(l) of the SRC qualify as exempt transactions. The Company has not applied for or obtained and will not obtain confirmation from the Philippine SEC that the offer and sale of the Securities within the Philippines qualifies as an exempt transaction. It is not required that the Philippine SEC confirm the exemption of such offers or sales from the registration requirements of the SRC. Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and agreed that it has not and will not sell or offer for sale or distribution any Securities in the Philippines except to "primary institutional lenders" pursuant to Rule 10.1.4 of the implementing rules of the SRC or to "qualified buyers" pursuant to Section 10.1(l) of the SRC. Prospective investors should take note of the transfer restrictions set out in the implementing rules of the SRC.

GENERAL INFORMATION

(1) **Clearing Systems**: The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 209956322. The International Securities Identification Number for the Securities is XS2099563228.

(2) **Listing of Securities**: Application will be made for the listing of the Securities on the SGX-ST. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates, including details of the paying agent in Singapore. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Securities, if traded on the SGX-ST, will be traded in a minimum board lot size of US$200,000.

(3) **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Securities. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the provision of and performance of its obligations under the Securities Guarantee. The issuance of the Securities was authorised by resolutions of the directors of the Issuer dated 9 and 16 January 2020. The provision of the Securities Guarantee was authorised by resolutions of the Board dated as of 9 and 16 January 2020.

(4) **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group since 30 September 2019 and no material adverse change in the financial position, trading position or prospects of the Group since 30 September 2019.

(5) **Litigation**: Save as disclosed in this Offering Circular, neither the Issuer nor the Guarantor is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant adverse effect on the financial position or trading position of the Issuer or the Guarantor nor is Issuer or the Guarantor aware that any such proceedings are pending or threatened.

(6) **Independent Auditors**: The audited consolidated financial statements of the Group as of 31 December 2016, 2017 and 2018 and for the years ended 31 December 2016, 2017 and 2018 and the unaudited interim condensed consolidated financial statements of the Group as of 30 September 2019 and for the nine months ended 30 September 2018 and 2019 appearing in this Offering Circular, have been audited and reviewed, respectively, by SyCip Gorres Velayo & Co., independent auditors, as set forth in their reports appearing herein.

INDEX TO FINANCIAL STATEMENTS

Jollibee Foods Corporation
Doing business under the name and style of Jollibee
(formerly Jollibee Foods Corporation)
and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As at September 30, 2019
and for the Nine-Month Periods Ended September 30, 2019 and 2018
(with Comparative Unaudited Consolidated Statement of Financial Position as at December 31, 2018)

and

Report on Review of Unaudited Interim Condensed Consolidated Financial Statements

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
Jollibee Foods Corporation
Doing business under the name and style of Jollibee
(formerly Jollibee Foods Corporation) and Subsidiaries
10/F Jollibee Plaza Building
10 F. Ortigas Jr. Avenue, Ortigas Center
Pasig City

Introduction

We have reviewed the accompanying unaudited interim condensed consolidated financial statements of Jollibee Foods Corporation Doing business under the name and style of Jollibee (formerly Jollibee Foods Corporation) and its subsidiaries (the "JFC Group"), which comprise the unaudited interim consolidated statement of financial position as at September 30, 2019 and the related unaudited interim consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month periods ended September 30, 2019 and 2018, and other explanatory notes to unaudited interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these unaudited interim condensed consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these unaudited interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim condensed consolidated financial statements of JFC Group as at September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018 are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-AR-1 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8116727, January 2, 2020, Makati City

January 3, 2020

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019
(With Comparative Unaudited Figures as at December 31, 2018)
(Amounts in Thousand Pesos)

	September 30, 2019	December 31, 2018 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 22 and 23)	**₱23,570,932**	₱23,285,915
Short-term investments (Notes 5, 22 and 23)	**433,914**	883,200
Receivables and contract assets (Notes 6, 22 and 23)	**4,703,372**	4,862,744
Inventories (Note 7)	**9,569,306**	8,812,174
Other current assets (Note 8)	**6,529,315**	4,902,601
Total Current Assets	**44,806,839**	42,746,634
Noncurrent Assets		
Financial assets at fair value through profit or loss (Notes 22 and 23)	**39,842**	39,842
Interests in and advances to joint ventures, co-venturers and associates (Note 9)	**4,647,249**	3,512,230
Property, plant and equipment (Note 10)	**29,933,209**	26,535,433
Right-of-use assets (Note 2)	**28,465,660**	32,406,678
Investment properties	**848,974**	848,974
Trademarks, goodwill and other intangible assets (Note 11)	**50,166,243**	31,512,627
Operating lease receivables (Notes 22 and 23)	**32,307**	31,635
Derivative asset (Note 14)	**–**	82,852
Deferred tax assets - net	**4,306,128**	3,746,068
Other noncurrent assets (Notes 12, 22 and 23)	**4,008,665**	3,751,044
Total Noncurrent Assets	**122,448,277**	102,467,383
	₱167,255,116	₱145,214,017
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities and contract liabilities (Notes 13, 22 and 23)	**₱30,840,478**	₱28,650,055
Income tax payable	**181,589**	263,473
Short-term debt (Note 14)	**22,027,750**	–
Current portion of:		
Lease liabilities (Notes 2, 22 and 23)	**1,277,146**	825,581
Long-term debt (Notes 14, 22 and 23)	**2,837,959**	4,892,102
Liability for acquisition of a business (Notes 22 and 23)	**5,692**	11,238
Total Current Liabilities	**57,170,614**	34,642,449
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 14, 22 and 23)	**20,368,282**	21,372,251
Liability for acquisition of a business (Notes 22 and 23)	**–**	2,907
Pension liability	**1,579,884**	1,320,646
Lease liabilities - net of current portion (Notes 2, 22 and 23)	**31,226,984**	34,874,962
Derivative liability (Note 14)	**63,062**	–
Provisions	**825,109**	825,109
Deferred tax liabilities - net	**4,452,855**	3,706,167
Total Noncurrent Liabilities	**58,516,176**	62,102,042
Total Liabilities (*Carried Forward*)	**115,686,790**	96,744,491

(Forward)

	September 30, 2019	December 31, 2018 (As restated - Note 2)
Total Liabilities *(Brought Forward)*	**₱115,686,790**	₱96,744,491
Equity Attributable to Equity Holders of the Parent Company (Note 22)		
Capital stock - net of subscription receivable (Note 15)	**1,092,848**	1,088,036
Additional paid-in capital (Note 15)	**9,415,267**	8,638,438
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates	**368,662**	559,181
Remeasurement loss on net defined benefit plan - net of tax	**(307,995)**	(307,995)
Comprehensive income (loss) on derivative liability (Note 14)	**(63,062)**	82,852
Excess of cost over the carrying value of non-controlling interests acquired (Note 15)	**(1,804,766)**	(1,804,766)
Retained earnings (Note 15):		
Appropriated for future expansion	**20,000,000**	20,000,000
Unappropriated	**21,595,984**	18,828,805
	50,296,938	47,084,551
Less cost of common stock held in treasury (Note 15)	**180,511**	180,511
	50,116,427	46,904,040
Non-controlling Interests	**1,451,899**	1,565,486
Total Equity	**51,568,326**	48,469,526
	₱167,255,116	₱145,214,017

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos, Except Per Share Data)

	Nine-Month Periods Ended September 30	
	2019	2018 (As restated - Note 2)
REVENUES		
Gross sales	**₱120,493,650**	₱110,837,632
Sales discount	**(2,246,199)**	(1,978,870)
Net sales	**118,247,451**	108,858,762
Royalty, set-up fees and others (Note 16)	**6,809,148**	5,983,875
	125,056,599	114,842,637
PFRS 15 impact on system-wide advertising fees	**2,149,321**	1,792,461
	127,205,920	116,635,098
DIRECT COSTS (Note 17)	**106,898,625**	96,924,415
GROSS PROFIT	**20,307,295**	19,710,683
EXPENSES		
General and administrative expenses (Note 18)	**13,106,830**	10,948,817
Advertising and promotions	**2,422,177**	2,522,205
	15,529,007	13,471,022
OPERATING INCOME	**4,778,288**	6,239,661
INTEREST INCOME (EXPENSE) (Note 19)		
Interest income	**275,705**	245,740
Interest expense	**(2,302,721)**	(1,775,797)
	(2,027,016)	(1,530,057)
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES AND ASSOCIATES - Net	**36,645**	(108,371)
OTHER INCOME (Note 19)	**2,680,082**	1,501,043
INCOME BEFORE INCOME TAX	**5,467,999**	6,102,276
PROVISION FOR INCOME TAX		
Current	**2,158,429**	1,957,636
Deferred	**(682,701)**	(612,976)
	1,475,728	1,344,660
NET INCOME	**3,992,271**	4,757,616
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Comprehensive income (loss) on derivative asset (liability) (Note 14)	**(145,914)**	131,443
Translation adjustments of foreign joint ventures and associates	**(97,904)**	(148,946)
Translation adjustments of foreign subsidiaries	**(90,116)**	642,729
	(333,934)	625,226
TOTAL COMPREHENSIVE INCOME	**₱3,658,337**	₱5,382,842
Net Income Attributable to:		
Equity holders of the Parent Company	**₱4,108,357**	₱5,157,255
Non-controlling interests	**(116,086)**	(399,639)
	₱3,992,271	₱4,757,616
Total Comprehensive Income Attributable to:		
Equity holders of the Parent Company	**₱3,771,924**	₱5,706,845
Non-controlling interests	**(113,587)**	(324,003)
	₱3,658,337	₱5,382,842
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 21)		
Basic	**₱3.761**	₱4.746
Diluted	**3.715**	4.670

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 and 2018
(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company (Note 22)											
							Retained Earnings (Note 15)					
	Capital Stock - Net of Subscription Receivable (Note 15)	Additional Paid-in Capital (Note 15)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and Associates (Note 9)	Remeasurement Loss on Net Defined Benefit Plan - Net of tax	Comprehensive Income (Loss) on Derivative Asset (Liability) (Note 14)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Note 15)	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Note 15)	Total	Non-controlling Interests (Note 9)	Total Equity
Balance at January 1, 2019, as previously reported (Audited)	**₱1,088,036**	**₱8,638,438**	**₱589,501**	**(₱307,995)**	**₱82,852**	**(₱1,804,766)**	**₱20,000,000**	**₱20,257,995**	**(₱180,511)**	**₱48,363,550**	**₱1,554,601**	**₱49,918,151**
Effect of adoption of PFRS 16, *Leases* (Note 2)	–	–	**(30,320)**	–	–	–	–	**(1,429,190)**	–	**(1,459,510)**	**10,885**	**(1,448,625)**
Balance at January 1, 2019 (As restated; Unaudited)	**1,088,036**	**8,638,438**	**559,181**	**(307,995)**	**82,852**	**(1,804,766)**	**20,000,000**	**18,828,805**	**(180,511)**	**46,904,040**	**1,565,486**	**48,469,526**
Net income (loss)	–	–	–	–	–	–	–	**4,108,357**	–	**4,108,357**	**(116,086)**	**3,992,271**
Other comprehensive income (loss)	–	–	**(190,519)**	–	**(145,914)**	–	–	–	–	**(336,433)**	**2,499**	**(333,934)**
Total comprehensive income (loss)	–	–	**(190,519)**	–	**(145,914)**	–	–	**4,108,357**	–	**3,771,924**	**(113,587)**	**3,658,337**
Movements in other equity accounts:												
Issuances of and subscriptions to capital stock (Note 15)	**4,812**	**565,213**	–	–	–	–	–	–	–	**570,025**	–	**570,025**
Cost of stock options granted (Notes 15 and 18)	–	**211,616**	–	–	–	–	–	–	–	**211,616**	–	**211,616**
Cash dividends (Note 15)	–	–	–	–	–	–	–	**(1,341,178)**	–	**(1,341,178)**	–	**(1,341,178)**
	4,812	**776,829**	–	–	–	–	–	**(1,341,178)**	–	**(559,537)**	–	**(559,537)**
Balances at September 30, 2019 (Unaudited)	**₱1,092,848**	**₱9,415,267**	**₱368,662**	**(₱307,995)**	**(₱63,062)**	**(₱1,804,766)**	**₱20,000,000**	**₱21,595,984**	**(₱180,511)**	**₱50,116,427**	**₱1,451,899**	**₱51,568,326**
Balance at January 1, 2018, as previously reported (Audited)	₱1,084,478	₱7,520,383	₱340,368	(₱461,769)	₱11,949	(₱2,152,161)	₱18,200,000	₱16,419,898	(₱180,511)	₱40,782,635	₱1,799,344	₱42,581,979
Effect of adoption of PFRS 16, *Leases*	–	–	(23,565)	–	–	–	–	(1,131,456)	–	(1,155,021)	(10,622)	(1,165,643)
Balance at January 1, 2018, as adjusted (Unaudited)	1,084,478	7,520,383	316,803	(461,769)	11,949	(2,152,161)	18,200,000	15,288,442	(180,511)	39,627,614	1,788,722	41,416,336
Net income (loss)	–	–	–	–	–	–	–	5,157,255	–	5,157,255	(399,639)	4,757,616
Other comprehensive income	–	–	418,148	–	131,442	–	–	–	–	549,590	75,636	625,226
Total comprehensive income (loss)	–	–	418,148	–	131,442	–	–	5,157,255	–	5,706,845	(324,003)	5,382,842
Movements in other equity accounts:												
Issuances of and subscriptions to capital stock (Note 15)	2,471	299,414	–	–	–	–	–	–	–	301,885	–	301,885
Cost of stock options granted (Notes 15 and 18)	–	226,952	–	–	–	–	–	–	–	226,952	–	226,952
Cash dividends (Note 15)	–	–	–	–	–	–	–	(1,236,518)	–	(1,236,518)	–	(1,236,518)
Acquisition of minority interests (Note 9)	–	–	–	–	–	–	–	–	–	–	1,082,548	1,082,548
Arising from incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	11,417	11,417
	2,471	526,366	–	–	–	–	–	(1,236,518)	–	(707,681)	1,093,965	386,284
Balances at September 30, 2018 (Unaudited)	₱1,086,949	₱8,046,749	₱734,951	(₱461,769)	₱143,391	(₱2,152,161)	₱18,200,000	₱19,209,179	(₱180,511)	₱44,626,778	₱2,558,684	₱47,185,462

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousand Pesos)

	Nine-Month Periods Ended September 30	
	2019	2018 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,467,999**	₱6,102,276
Adjustments for:		
Depreciation and amortization (Notes 10, 12, 17 and 18)	**8,780,688**	9,227,092
Interest expense (Note 19)	**2,302,721**	1,775,797
Gain from the acquisition of a subsidiary and re-measurement of previously held interest (Notes 9 and 19)	**(1,343,779)**	(754,804)
Interest income (Note 19)	**(275,705)**	(245,740)
Movement in pension liability	**259,238**	225,896
Stock options expense (Notes 15 and 18)	**211,616**	226,952
Loss on retirements and disposals of property, plant and equipment (Notes 10 and 18)	**161,517**	37,708
Pre-termination of operating leases	**95,641**	87,991
Net unrealized foreign exchange loss (gain)	**84,068**	(270,212)
Impairment losses on:		
Property, plant and equipment (Notes 10 and 18)	**31,008**	–
Receivables (Notes 6 and 18)	**13,745**	4,339
Inventories (Notes 7 and 18)	**1,677**	5,264
Equity in net losses (earnings) of joint ventures and associates	**(36,645)**	108,371
Reversals of impairment losses on:		
Property, plant and equipment (Notes 10 and 18)	**(16,086)**	(80,916)
Receivables (Notes 6 and 18)	**(4,650)**	(5,452)
Inventories (Notes 7 and 18)	**(2,251)**	(1,185)
Accretion of debt issue cost	**14,811**	9,932
Provisions (Note 19)	**–**	500,000
Income before working capital changes	**15,745,613**	16,953,309
Decreases (increases) in:		
Receivables	**575,202**	519,951
Inventories	**401,347**	(1,157,323)
Other current assets	**(1,510,822)**	(750,735)
Increases in trade payables and other current liabilities	**(428,018)**	104,668
Net cash generated from operations	**14,783,322**	15,669,870
Income taxes paid	**(2,240,313)**	(1,911,328)
Interest received	**270,417**	225,683
Net cash provided by operating activities	**12,813,426**	13,984,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Subsidiary - net of cash acquired (Note 9)	**(16,904,877)**	(3,800,283)
Property, plant and equipment (Note 10)	**(6,604,772)**	(7,212,655)
Interest in joint ventures	**(168,749)**	(742,206)
Intangible assets (Note 11)	**(78,527)**	(178,337)
Decreases (increases) in:		
Other noncurrent assets	**(1,017,407)**	(6,377)
Short term-investments	**449,286**	1,161,240
Advances to a joint venture (Note 9)	**(930,000)**	–
Proceeds from disposals of property, plant and equipment	**453,621**	527,432
Dividends received from non-controlling interests	**34,558**	34,637
Net cash used in investing activities	**(24,766,867)**	(10,216,549)

(Forward)

	Nine-Month Periods Ended September 30	
	2019	2018 (As restated - Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term debt (Note 14)	**₱22,027,750**	₱–
Long-term debt (Note 14)	**1,338,654**	11,057,665
Issuances of and subscriptions to capital stock (Note 15)	**570,025**	301,885
Payments of:		
Lease liabilities	**(4,950,087)**	(4,154,480)
Long-term debt (Note 14)	**(4,292,991)**	(5,245,028)
Cash dividends (Note 15)	**(1,349,024)**	(1,232,040)
Interest	**(1,037,097)**	(570,658)
Liability for acquisition of businesses	**(8,453)**	–
Contributions from non-controlling interests	**–**	11,417
Net cash provided by financing activities	**12,298,777**	168,761
NET INCREASE IN CASH AND CASH EQUIVALENTS	**345,336**	3,936,437
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(60,319)**	104,997
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**23,285,915**	21,107,474
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 5)	**₱23,570,932**	₱25,148,908

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Jollibee Foods Corporation Doing business under the name and style of Jollibee (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 11, 1978. The Parent Company and its subsidiaries (collectively referred to as "the JFC Group") and affiliates are involved primarily in the development, operations 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", "Hard Rock Cafe", "Dunkin' Donuts", "Smashburger", "Tim Ho Wan", "Tortas Frontera" and "The Coffee Bean & Tea Leaf". The other activities of the JFC Group include manufacturing and property leasing in support of the QSR systems and other business activities (see Note 4).

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 unaudited interim condensed consolidated financial statements as at September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018, were authorized for issuance by the Board of Directors (BOD) on January 3, 2020.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Basis of Consolidation

<u>Basis of Preparation</u>
The interim condensed consolidated financial statements of the JFC Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) and derivative financial instruments which are measured at fair value. The interim condensed consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand pesos, except par values, per share amounts, number of shares and when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the JFC Group's annual consolidated financial statements as at December 31, 2018. These interim condensed consolidated financial statements have been prepared for inclusion in the offering circular to be prepared by the JFC Group for its planned offering of perpetual bonds and for no other purpose.

New Standards, Interpretations and Amendments adopted by the JFC Group

The accounting policies adopted in the preparation of interim condensed consolidated financial statements are consistent with those followed in the preparation of the JFC Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as at January 1, 2019. The JFC Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The JFC Group applies, for the first time, PFRS 16, *Leases*, using the full retrospective method of adoption, that requires restatement of previous financial statements. As a result, the comparative December 31, 2018 audited consolidated statement of financial position was restated to reflect the impact of PFRS 16. As required by PAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the JFC Group.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC)-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The JFC Group adopted PFRS 16 using the full retrospective method of adoption with the date of initial application of January 1, 2019. The JFC Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. The JFC Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of PFRS 16 is as follows:

Impact on the interim consolidated statement of financial position (increase / (decrease)) as at December 31, 2018 and January 1, 2018:

	December 31, 2018	January 1, 2018
Assets		
Right-of-use assets	₱32,406,678	₱22,893,221
Property, plant and equipment (see Note 10)	(158,558)	(172,560)
Other intangible assets	(317,430)	(317,430)
Prepayments	8,433	(91,478)
Deferred tax assets	(576,928)	(49,669)
Total Assets	₱31,362,195	₱22,262,084
Liabilities		
Trade payables and other current liabilities	(₱66,714)	(₱644)
Operating lease payable	(3,016,923)	(2,051,567)
Lease liabilities	35,700,543	25,448,431
Deferred tax liabilities	193,914	31,507
Total Liabilities	32,810,820	23,427,727
Equity		
Retained earnings	(1,429,190)	(1,131,456)
Noncontrolling interests	10,885	(10,622)
Cumulative translation adjustments	(30,320)	(23,565)
Total Equity	(1,448,625)	(1,165,643)
Total Liabilities and Equity	₱31,362,195	₱22,262,084

Impact on the interim consolidated statement of comprehensive income (increase / (decrease)) for the nine-month period ended September 30, 2018:

Depreciation expense (included in "Store and manufacturing costs" under "Direct costs" account in the interim consolidated statement of comprehensive income)	₱4,932,720
Depreciation expense (included in "General and administrative expenses" in the interim consolidated statement of comprehensive income)	16,212
Rent expense (included in "Store and manufacturing costs" and "General and administrative expenses" in the interim consolidated statement of comprehensive income)	(4,972,210)
Operating profit	23,278
Finance costs	1,186,817
Other income	(87,991)
Income tax expense	(312,242)
Profit for the period	(₱939,288)
Attributable to:	
Equity holders of the parent	(₱928,317)
Non-controlling interests	(10,971)

Impact on the interim consolidated statement of cash flows (increase / (decrease)) for the nine-month period ended September 30, 2018:

Net cash flows from operating activities	₱4,154,480
Net cash flows from financing activities	(4,154,480)

There is no material impact on other comprehensive income. The basic EPS decreased from ₱5.600 to ₱4.746 while diluted EPS decreased ₱5.510 to ₱4.670 for the nine-month period ended September 30, 2018.

a) Nature of the effect of adoption of PFRS 16

The JFC Group has various lease commitments, as a lessee, for QSR outlets, warehouses and office spaces which were accounted for as operating leases under PAS 17. Before the adoption of PFRS 16, the JFC Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the JFC Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. The JFC Group has no lease commitments accounted for as finance lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under “Prepayments” and “Operating lease payable” in the consolidated statement of financial position, respectively.

Upon adoption of PFRS 16, the JFC Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The JFC Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the JFC Group applied PFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in this interim condensed consolidated financial statements has been restated.

As at December 31, 2018:

- Right-of-use assets of ₱32,406.7 million were recognized and presented separately in the statement of financial position. Asset retirement obligations of ₱158.6 million and previously recognized and included under property, plant and equipment were reclassified to right-of-use assets. The right of use assets was also adjusted by favourable terms of the lease relative to market terms of ₱317.4 million previously recognized and included under other intangible assets.
- Additional lease liabilities of ₱35,700.5 million were recognized and presented separately in the statement of financial position.
- Prepayments of ₱8.4 million were recognized and operating lease payable of ₱3,016.9 million related to previous operating leases were derecognized.
- Deferred tax liabilities increased by ₱193.9 million and deferred tax assets decreased by ₱576.9 million because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings (₱1,429.2 million), non-controlling interest (₱10.9 million) and cumulative translation adjustments (₱30.3 million).

For the nine-month period ended September 30, 2018:

- Depreciation expense increased by ₱4,948.9 million relating to the depreciation of additional assets recognized (i.e., increase in right-of-use assets, net of decrease in property, plant and equipment and other intangible assets).
- Rent expense decreased by ₱4,972.2 million relating to previous operating leases.
- Other income decreased by ₱88.0 million due to lease liabilities, net of right-of-use assets, derecognized relating to pre-terminated lease during the period.
- Finance costs increased by ₱1,186.8 million relating to the interest expense on additional lease liabilities recognized.
- Income tax expense decreased by ₱312.2 million relating to the tax effect of these changes in expenses.
- Cash outflows from operating activities decreased by ₱4,154.5 million and cash outflows from financing activities increased by the same amount, representing the payments for the principal portion of recognized lease liabilities.

b) Summary of new accounting policies

Set out below are the new accounting policies of the JFC Group upon adoption of PFRS 16:

- *Right-of-Use Assets.* The JFC Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of right-of-use assets also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the JFC Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease Liabilities.* At the commencement date of the lease, the JFC Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the JFC Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. In determining the IBR, the JFC Group uses risk-free rate plus credit spread where the credit spread is based on the credit risk of the lessee. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases and Leases of Low-value Assets*. The JFC Group applies the short-term lease recognition exemption to its short-term leases of QSR outlets. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below USD5,000 or approximately ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- *Significant Judgement in Determining the Lease Term of Contracts with Renewal Options*. The JFC Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

  The JFC Group has the option, under some of its leases to lease the assets for additional terms of 5 to 15 years. The JFC Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the JFC Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The JFC Group included the renewal period as part of the lease term for leases of QSR outlets and warehouses due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., 5 to 10 years) and there will be a significant negative effect on operations if a replacement is not readily available.

- *Significant Estimate in Determining the IBR*. The JFC Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the JFC Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the JFC Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The JFC Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

c) Amounts recognized in the interim consolidated statement of financial position and statement of comprehensive income

Set out below, are the carrying amounts of the JFC Group's right-of-use assets and leases liabilities and the movements during the period:

	Right-of-use Assets				Lease
	QSR Outlets	**Warehouses**	**Office Space**	**Total**	**Liabilities**
As at December 31, 2018 (Unaudited)	₱29,250,128	₱392,651	₱2,763,899	₱32,406,678	₱35,700,543
Additions	337,943	11,721	7,349	357,013	448,137
Depreciation expense	(4,222,951)	(51,568)	(23,512)	(4,298,031)	–
Interest expense	–	–	–	–	1,305,537
Payments	–	–	–	–	(4,950,087)
As at September 30, 2019 (Unaudited)	₱25,365,120	₱352,804	₱2,747,736	₱28,465,660	₱32,504,130

Set out below, are the amounts recognized in the interim consolidated statements of comprehensive income for the nine-month periods ended September 30:

	September 30, 2019 (Unaudited)	September 30 2018 (Unaudited)
Depreciation expense of right-of-use assets	**₱4,298,031**	₱4,948,932
Interest expense on lease liabilities	**1,305,537**	1,186,817
Rent expense - short-term leases (see Notes 17 and 18)	**3,051,845**	2,481,047
Rent expense - variable lease payments (see Notes 17 and 18)	**1,840,860**	1,755,370
	₱10,496,273	₱10,372,166

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the JFC Group has assessed whether it has any uncertain tax position. The JFC Group applies significant judgement in identifying uncertainties over its income tax treatments. The JFC Group determined, based on its tax compliance review/assessment, in consultation with its external tax counsels, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the interim condensed consolidated financial statements of the JFC Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed consolidated financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  These amendments had no impact on the interim condensed consolidated financial statements of the JFC Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  These amendments had no impact on the interim condensed consolidated financial statements as the JFC Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019.

    These amendments had no impact on the interim condensed consolidated financial statements of the JFC Group as there is no transaction where a joint control is obtained.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. These amendments had no impact on the interim condensed consolidated financial statements.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

    Since the JFC Group's practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements.

Basis of Consolidation
The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at September 30, 2019. As at September 30, 2019, there were no significant changes in the composition of the JFC Group and in the Parent Company's ownership interests in its subsidiaries except for the acquisition of The Coffee Bean & Tea Leaf (see Note 9).

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the interim condensed 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.

Except as otherwise stated, there were no significant changes in the significant accounting judgments, estimates, and assumptions used by the Company for the nine-month period ended September 30, 2019.

4. **Segment Information**

For management purposes, the JFC 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 JFC 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 JFC Group-owned and franchised QSR outlets.
- The franchising segment is involved in the franchising of the JFC Group's QSR store concepts.
- The leasing segment leases store sites mainly to the JFC Group's independent franchisees.

The following tables present certain information on revenues, expenses and other segment information of the different business segments for the nine-month periods ended September 30:

	Nine-month period ended September 30, 2019 (Unaudited)				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Consolidated**
Revenues from external customers	**₱118,464,755**	**₱8,445,178**	**₱295,987**	**₱–**	**₱127,205,920**
Inter-segment revenues	**30,703,504**	**2,746,822**	**5,237,229**	**(38,687,555)**	**–**
Segment revenues	**149,168,259**	**11,192,000**	**5,533,216**	**(38,687,555)**	**127,205,920**
Segment expenses	**(150,957,182)**	**(4,896,143)**	**(5,238,419)**	**38,687,555**	**(122,404,189)**
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	**(23,443)**	**–**	**–**	**–**	**(23,443)**
Equity in net earnings of joint ventures and associates - net	**36,645**	**–**	**–**	**–**	**36,645**
Other segment income	**2,679,419**	**–**	**663**	**–**	**2,680,082**
Segment result	**₱903,698**	**₱6,295,857**	**₱295,460**	**₱–**	**7,495,015**
Interest income					**275,705**
Interest expense					**(2,302,721)**
Income before income tax					**5,467,999**
Provision for income tax					**(1,475,728)**
Net income					**₱3,992,271**

	Nine-month period ended September 30, 2018 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱109,079,375	₱7,173,874	₱381,849	₱–	₱116,635,098
Inter-segment revenues	31,662,407	2,584,395	5,996,732	(40,243,534)	–
Segment revenues	140,741,782	9,758,269	6,378,581	(40,243,534)	116,635,098
Segment expenses	(140,235,402)	(4,376,856)	(6,104,663)	40,243,534	(110,473,387)
Reversal of impairment losses on receivables, inventories and property, plant and equipment - net of provisions	77,950	–	–	–	77,950
Equity in net losses of joint ventures and associates - net	(108,371)	–	–	–	(108,371)
Other segment income	1,499,820	–	1,223	–	1,501,043
Segment result	₱1,975,779	₱5,381,413	₱275,141	₱–	7,632,333
Interest income					245,740
Interest expense					(1,775,797)
Income before income tax					6,102,276
Provision for income tax					(1,344,660)
Net income					₱4,757,616

The following tables present certain information on assets and liabilities and other segment information of the different business segments as at September 30, 2019 and December 31, 2018:

	As at September 30, 2019 (Unaudited)				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Consolidated**
Assets and Liabilities					
Segment assets	**₱162,603,757**	**₱–**	**₱345,231**	**₱–**	**₱162,948,988**
Deferred tax assets - net	**4,306,128**	**–**	**–**	**–**	**4,306,128**
Consolidated assets	**₱166,909,885**	**₱–**	**₱345,231**	**₱–**	**₱167,255,116**
Segment liabilities	**₱87,783,751**	**₱–**	**₱62,354**	**₱–**	**₱87,846,105**
Deferred tax liabilities - net	**4,452,855**	**–**	**–**	**–**	**4,452,855**
Long-term debt - including current portion	**23,206,241**	**–**	**–**	**–**	**23,206,241**
Income tax payable	**178,231**	**–**	**3,358**	**–**	**181,589**
Consolidated liabilities	**₱115,621,078**	**₱–**	**₱65,712**	**₱–**	**₱115,686,790**
Other Segment Information					
Capital expenditures	**₱6,683,299**	**₱–**	**₱–**	**₱–**	**₱6,683,299**
Depreciation and amortization	**8,776,634**	**–**	**4,054**	**–**	**8,780,688**

	As at December 31, 2018 (As restated, Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Assets and Liabilities					
Segment assets	₱141,069,208	₱–	₱398,741	₱–	₱141,467,949
Deferred tax assets - net	3,745,916	–	152	–	3,746,068
Consolidated assets	₱144,815,124	₱–	₱398,893	₱–	₱145,214,017
Segment liabilities	₱66,420,399	₱–	₱90,099	₱–	₱66,510,498
Deferred tax liabilities - net	3,706,167	–	–	–	3,706,167
Long-term debt - including current portion	26,264,353	–	–	–	26,264,353
Income tax payable	260,919	–	2,554	–	263,473
Consolidated liabilities	₱96,651,838	₱–	₱92,653	₱–	₱96,744,491
Other Segment Information					
Capital expenditures	₱7,390,992	₱–	₱–	₱–	₱7,390,992
Depreciation and amortization	9,223,835	–	3,257	–	9,227,092

Geographical Segments

The JFC Group’s geographical segments are based on the location of the assets producing revenues in the Philippines and in other locations which includes People’s Republic of China, United States of America, Canada, Vietnam, United Arab Emirates, Hongkong, Macau, Brunei, Saudi Arabia, Singapore, Malaysia, Oman, Kuwait, Qatar, Italy and United Kingdom. Sales to external customers disclosed in the geographical segments are based on the geographical location of the customers.

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

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

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

	As at and for the Nine-month Period Ended September 30, 2019 (Unaudited)			
	Philippines	**International**	**Eliminations**	**Consolidated**
Segment revenues	**₱93,191,664**	**₱ 34,571,835**	**(₱557,579)**	**₱127,205,920**
Segment assets	**69,105,705**	**93,843,283**	**–**	**162,948,988**
Capital expenditures	**4,211,310**	**2,471,989**	**–**	**6,683,299**

	For the Nine-month Period Ended September 30, 2018 and as at December 31, 2018 (Unaudited)			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱86,634,974	₱30,521,908	(₱521,784)	₱116,635,098
Segment assets	72,632,457	68,835,492	–	141,467,949
Capital expenditures	5,276,149	2,114,843	–	7,390,992

Revenue from Contracts with Customers

Set out below is the disaggregation of the JFC Group's revenue from contracts with customers:

	For the Nine-month Period Ended September 30, 2019 (Unaudited)		
Segments	**Food Service**	**Franchising**	**Total**
Type of goods or service			
Sale of goods	**₱118,247,451**	**₱–**	**₱118,247,451**
Royalty fees	**–**	**5,958,851**	**5,958,851**
Set-up fees	**–**	**337,006**	**337,006**
System-wide advertising fees	**–**	**2,149,321**	**2,149,321**
Other revenues	**217,304**	**–**	**217,304**
Total revenue from contracts with customers	**₱118,464,755**	**₱8,445,178**	**₱126,909,933**
Timing of revenue recognition			
Goods transferred at a point in time			**₱124,423,606**
Services transferred over time			**2,486,327**
			₱126,909,933

	For the Nine-month Period Ended September 30, 2018 (Unaudited)		
Revenue Source	Food Service	Franchising	Total
Sale of goods	₱108,858,762	₱–	₱108,858,762
Royalty fees	–	5,004,545	5,004,545
Set-up fees	–	376,868	376,868
System-wide advertising fees	–	1,792,461	1,792,461
Other revenues	220,613	–	220,613
Total revenue from contracts with customers	₱109,079,375	₱7,173,874	₱116,253,249
Timing of revenue recognition			
Goods transferred at a point in time			₱114,083,920
Services transferred over time			2,169,329
			₱116,253,249

Seasonality of Operations

The JFC Group's food service operations have both peak and lean seasons. Higher sales in the second and fourth quarters are due to the summer and holiday seasons, respectively. Demand during the first and third quarters usually slackens. This information is provided to allow for a better understanding of the results, however, management has concluded that this is not "highly seasonal" in accordance with PAS 34.

5. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)	September 30, 2018 (Unaudited)
Cash on hand	**₱430,460**	₱480,889	₱380,862
Cash in banks	**14,899,968**	12,097,440	12,575,135
Short-term deposits	**8,240,504**	10,707,586	12,192,911
	₱23,570,932	₱23,285,915	₱25,148,908

Short-term Investments
The JFC Group also has short-term investments amounting to ₱433.9 million and ₱883.2 million as at September 30, 2019 and December 31, 2018, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱202.9 million and ₱191.1 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 19).

6. Receivables and Contract Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Trade	**₱4,073,217**	₱4,680,553
Less allowance for impairment loss	**644,310**	676,906
	3,428,907	4,003,647
Advances to employees	**184,858**	167,352
Current portion of employee car plan receivables	**83,749**	91,172
Interest receivable	**9,984**	19,314
Others	**298,517**	173,887
	4,006,015	4,455,372
Contract assets	**697,357**	407,372
	₱4,703,372	₱4,862,744

The movements in the allowance for impairment loss on trade receivables as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Nine Months) (Unaudited)	December 31, 2018 (One Year) (Unaudited)
Balance at beginning of period	**₱676,906**	₱690,119
Write-offs	**(40,944)**	(1,201)
Provisions (see Note 18)	**13,745**	10,188
Reversals (see Note 18)	**(4,650)**	(23,675)
Translation adjustments	**(747)**	1,475
Balance at end of period	**₱644,310**	₱676,906

7. **Inventories**

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
At cost:		
Food supplies and processed inventories	**₱8,781,870**	₱8,289,323
Packaging, store and other supplies	**536,533**	406,186
	9,318,403	8,695,509
At net realizable value -		
Novelty items	**250,903**	116,665
Total inventories at lower of cost and net realizable value	**₱9,569,306**	₱8,812,174

The cost of novelty items carried at net realizable value amounted to ₱281.1 million and ₱151.4 million as at September 30, 2019 and December 31, 2018, respectively.

The movements in the allowance for inventory obsolescence for novelty items as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Nine Months) (Unaudited)	December 31, 2018 (One Year) (Unaudited)
Balance at beginning of period	**₱34,694**	₱32,565
Write-offs	**(3,399)**	–
Reversals (see Note 18)	**(2,251)**	(6,148)
Provisions (see Note 18)	**1,677**	8,278
Translation adjustments	**(533)**	(1)
Balance at end of period	**₱30,188**	₱34,694

8. **Other Current Assets**

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Prepaid expenses:		
Taxes	**₱2,274,811**	₱1,963,937
Rent	**1,192,953**	576,032
Supplies	**100,691**	78,604
Insurance and others	**687,601**	490,748
Current portion of security and other deposits (see Note 12)	**239,096**	239,096
Deposits to suppliers and other third parties	**2,034,163**	1,554,184
	₱6,529,315	₱4,902,601

9. **Business Combinations, Incorporation of New Subsidiaries, Interests in and Advances to Joint Ventures and Associates and Cessation of Operations**

A. Business Combinations

Acquisition of CBTL. On June 4, 2019 and June 28, 2019, JWPL, a wholly owned subsidiary, incorporated Java Ventures, LLC in the state of Delaware, USA and Super Magnificent Coffee Company Pte. Ltd. (SMCC-SG) in Singapore, respectively.

On July 24, 2019, the JFC Group, through its wholly owned subsidiary, JWPL, entered into an agreement with Brewheal Pte. Ltd. (Brewheal), a company based in Singapore, to invest USD100.0 million (₱5,118.0 million) in SMCC-SG to acquire 100% of The Coffee Bean & Tea Leaf (CBTL), specialty coffee and tea brand based in Los Angeles, California, USA. Consequently, Brewheal subscribed to 20% ordinary shares of SMCC-SG. SMCC-SG is 80% owned by JWPL and 20% owned by Brewheal.

On September 11, 2019, the JFC Group, through SMCC-SG, incorporated Super Magnificent Coffee Company Hungary Kft. (SMCC-HU), a holding company based in Hungary.

On September 24, 2019, SMCC-SG, through its wholly owned subsidiary, SMCC-HU, completed the 100% acquisition of CBTL. The closing of the transactions was effected after the completion of closing conditions, including required government approvals, provided under the executed purchase agreement.

Consistent with the terms of the executed purchase agreement, the JFC Group, through SMCC-HU acquired CBTL for USD350.0 million (₱18,252.5 million) on a debt-free basis. SMCC-HU paid in cash amounting to USD329.1 million (₱17,163.0 million). The balance amounting to USD20.9 million (₱1,089.5 million) was applied to CBTL's debt from unearned revenue from gift certificates sold assumed by SMCC-HU at acquisition date (see Note 13).

Transaction costs of USD0.7 million (₱36.6 million) have been expensed and are included in general and administrative expenses in the interim consolidated statement of comprehensive income for the nine-month period ended September 30, 2019.

With the completion of the acquisition, the JFC Group included CBTL in its financial consolidation starting September 24, 2019 (the "acquisition date").

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	₱258,105
Receivables	436,663
Inventories	1,157,905
Other current assets	121,891
Property, plant and equipment (see Note 10)	1,919,020
Trademarks, favourable leases and other intangibles (see Note 11)	18,704,256
Other noncurrent assets	347,959
Total identifiable assets acquired	22,945,799
Less:	
Trade payables and other current liabilities	3,027,684
Other noncurrent liabilities	597,042
Deferred tax liabilities	814,312
Total identifiable liabilities assumed	4,439,038
Net identifiable assets acquired	₱18,506,761

The amount of gain on bargain purchase recorded at acquisition date shown as part of "Other Income" in the unaudited consolidated statements of comprehensive income amounted to ₱1,343.8 million determined as follows:

Cash consideration	₱17,162,982
Less fair value of net identifiable assets acquired	18,506,761
Gain on bargain purchase (see Note 19)	₱1,343,779

The net cash outflow from the acquisition is as follows:

Cash paid on acquisition	₱17,162,982
Less cash acquired from subsidiary	258,105
	₱16,904,877

Management has measured the trademarks that were acquired using the valuation report that were prepared by an independent valuation specialist. The trademarks were valued using the relief-from-royalty method wherein the fair value of trademarks is based on cost savings from owning the trademarks. Significant assumptions and estimates used include comparable royalty rates, long-term growth rates, discount rates based on available market data and revenue growth rate forecasts.

On September 24, 2019, SMCC-HU completed the acquisition of 100% of CBTL from previous shareholders. The previous shareholders had been looking for buyers for the past two years and were unable to sell CBTL. Upon notification and after doing due diligence, JFC agreed to purchase the business. The acquisition resulted in a gain on bargain purchase of ₱1,343.8 million.

The net assets recognized in the interim condensed consolidated financial statements were based on a provisional assessment of their fair value while the JFC Group sought an independent valuation for the property and equipment, trademarks and other intangible assets owned by CBTL, and any favourable terms of the lease relative to market terms. The valuation had not been completed by the date the interim condensed consolidated financial statements were approved for issue by the BOD.

As part of the ownership restructuring, the trademarks of CBTL are required to be valued by an independent third party. Management determined that the bargain purchase gain was mainly attributable to the value of trademarks. The legal structure of CBTL is being redesigned for fast growth both in the United States and Asia, to be driven mainly by franchising. This is in line with JFC Group's plan to build a truly global business. Management expects CBTL to be accretive to JFC Group's profit within a short period of time. The acquisition of the CBTL brand is JFC Group's largest and most multinational with business presence in 27 countries. This will bring JFC Group closer to its vision to be one of the top 5 restaurant companies in the world in terms of market capitalization. Combined with Highlands Coffee, the business mostly in Vietnam, the CBTL acquisition will enable JFC Group to become an important player in the large, fast growing, and profitable coffee business. CBTL will be JFC Group's second largest business after Jollibee brand. Management's priority is to accelerate the growth of the CBTL brand particularly in Asia, by strengthening its brand development, marketing and franchise support system.

From the acquisition date, CBTL has contributed ₱216.3 million of revenue and ₱27.8 million of net loss to the JFC Group. If the business combination had taken place at the beginning of 2019, contribution to consolidated revenues and net loss for the nine-month period ended September 30, 2019 would have been ₱11,485.7 million and ₱1,294.1 million, respectively.

Information on Prior Year Business Combination Achieved in Stages

Acquisition of SJBF. In 2019, the fair values of the assets acquired, and liabilities assumed were finalized. There were no changes or adjustments made from that of provisionally recognized in 2018.

B. Incorporation of New Subsidiaries

Super Magnificent Coffee Company Hungary Kft (SMCC-HU). On September 11, 2019 the JFC Group, through SMCC-SG, incorporated SMCC-HU., a holding company in Hungary. As at September 30, 2019, SMCC-HU owns the US Entities of CBTL and the capital contribution of SMCC-SG amounted to USD28.9 million (₱1,508.2 million).

Super Magnificent Coffee Company Ireland Limited (SMCC-IE). On August 22, 2019, the JFC Group, through SMCC-SG, incorporated SMCC-IE in Ireland. As at September 30, 2019, the capital contribution of SMCC-SG amounted to USD307.1 million (₱16,017.1 million). On October 1, 2019, SMCC-IE owns the intellectual property and existing contracts of CBTL.

Bee World Spain, Sociedad Limitada (Spain). On May 23, 2019, the JFC Group, through its wholly owned subsidiary, GPPL, incorporated Bee World Spain Sociedad Limitada. As at September 30, 2019, no capital investment has been made other than the investment to incorporate the new entity. The company will own and operate Jollibee stores in Spain.

C. Additional Investment to a Subsidiary

Bee World UK Limited (Bee World). On September 4, 2019, advances from JWPL amounting to USD1.5 million (₱76.34 million) were converted to equity and registered at Companies House in UK.

D. Interests in and Advances to Joint Ventures and Associates

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Interests in joint ventures:		
Titan Dining LP	**₱813,500**	₱742,206
Golden Bee Foods Restaurant LLC	**231,022**	227,585
JBPX Foods Inc.	**65,077**	–
C-Joy Poultry Meats Production, Inc.	–	–
	1,109,599	969,791
Interests in associates:		
Tortas Frontera LLC	**679,546**	668,679
Entrek (B) SDN BHD	**212,453**	191,744
C-Joy Poultry Realty, Inc.	**8,609**	9,155
	900,608	869,578
Advances to a joint venture and co-venturer:		
VTI Group	**1,689,871**	1,672,861
C-Joy Poultry Meats Production, Inc.	**947,171**	–
	2,637,042	1,672,861
	₱4,647,249	₱3,512,230

Titan Dining LP (Titan). On May 31, 2019, JWPL made an additional investment for the 3rd capital call amounting to SGD2.7 million (₱102.7 million). Share in equity in net losses amounted to ₱31.4 million for the nine-month period ended September 30, 2019.

Golden Bee Foods Restaurants LLC (Golden Bee). Share in equity in net earnings amounted to ₱37.9 million for the nine-month period ended September 30, 2019 and ₱63.5 million for the year ended December 31, 2018. Dividends received amounted to ₱34.6 million for the nine-month period ended September 30, 2019 and ₱34.6 million for the year ended December 31, 2018.

JBPX Foods Inc. (Panda Express). On September 27, 2018, the JFC Group, through the Parent Company, entered into an agreement with Panda Restaurant Group, Inc. to establish a joint venture entity to own and operate Panda Express restaurants in the Philippines.

On July 3, 2019, the joint venture was incorporated as JBPX Foods Inc. (JBPX), which is 50% owned by the Parent Company and 50% owned by Panda Restaurant Group, Inc. As at September 30, 2019, capital contribution of the Parent Company to Panda Express amounted to ₱66.0 million. Share in equity in net losses amounted to ₱0.9 million for the nine-month period ended September 30, 2019. JBPX started commercial operations on December 12, 2019.

C-Joy Poultry Meats Production, Inc (C-Joy Poultry). The JFC Group's equity share in net losses amounting to ₱527.1 million in 2018 exceeded the carrying value of its interest in C-Joy Poultry C-Joy Poultry amounting to ₱151.5 million as at December 31, 2017. Consequently, the JFC Group's unrecognized equity share in net losses amounted to ₱497.5 million for the nine-month period ended September 30, 2019 and ₱375.6 million for the year ended December 31, 2018.

Interest in Associates

Share in equity in net earnings (losses) amounted to ₱10.8 million, ₱20.7 million and (₱0.5 million) of Tortas Frontera LLC (Tortas), Entrek (B) SDN BHD (Entrek) and C-Joy Poultry Realty, Inc. (C-Joy Realty), respectively, for the nine-month period ended September 30, 2019. Share in equity in net earnings (losses) amounted to nil, ₱37.8 million and (₱0.5 million) of Tortas Frontera LLC (Tortas), Entrek (B) SDN BHD (Entrek) and C-Joy Poultry Realty, Inc. (C-Joy Realty), respectively, for the year ended December 31, 2018.

Advances to a Co-venturer

Total interest from the loan to VTI Group recognized as interest income amounted to USD0.8 million (₱41 million) for the nine-month period ended September 30, 2019 and 2018, respectively (see Note 19).

Advances to a Joint Venture

Advances to C-Joy Poultry. On May 30, 2019, loans totaling to ₱615.0 million were extended by the Parent Company to C-Joy Poultry payable on May 29, 2020. The loans were subject to interest rate based on PHP BVAL Reference Rates for the 6-month tenor (6-month BVAL) plus spread of 0.50%.

On June 28, 2019, additional loan was extended amounting to ₱315.0 million due on June 26, 2020. The loan was subject to 6-month BVAL interest rate plus spread of 0.50%. Total interest from the loans recognized as interest income amounted to ₱17.2 million for the nine-month period ended September 30, 2019 (see Note 19). As at September 30, 2019, the carrying value of the loans amounted to ₱947.2 million.

E. Cessation of Operations

WJ Investments Limited (WJ). On August 13, 2019, WJ completed the dissolution of 12 Hotpot in the People's Republic of China.

10. Property, Plant and Equipment

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

	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
Cost								
Balance at December 31, 2018, As previously reported (Audited)	**₱677,030**	**₱4,078,145**	**₱22,691,183**	**₱21,602,616**	**₱2,325,794**	**₱710,293**	**₱5,306,609**	**₱57,391,670**
Effect of adoption of PFRS 16 (see Note 2)	–	–	**(241,095)**	–	–	–	–	**(241,095)**
Balance at December 31, 2018 (As restated, Unaudited)	**677,030**	**4,078,145**	**22,450,088**	**21,602,616**	**2,325,794**	**710,293**	**5,306,609**	**57,150,575**
Additions	–	**339,804**	**780,423**	**1,150,337**	**75,764**	**25,329**	**4,233,115**	**6,604,772**
Acquisition of a business (see Note 9)	**356,876**	–	**246,686**	**687,622**	**452,091**	**1,867**	**173,878**	**1,919,020**
Retirements and disposals	–	**(11,690)**	**(977,874)**	**(730,498)**	**(35,722)**	**(104,514)**	**(148,815)**	**(2,009,113)**
Reclassifications	–	**2,224,631**	**1,190,195**	**2,262,968**	**63,569**	**11,485**	**(5,752,848)**	–
Translation adjustments	**(3,181)**	**(61,290)**	**(257,600)**	**(122,616)**	**(12,806)**	**(1,715)**	**(10,869)**	**(470,077)**
Balance at September 30, 2019 (Unaudited)	**1,030,725**	**6,569,600**	**23,431,918**	**24,850,429**	**2,868,690**	**642,745**	**3,801,070**	**63,195,177**
Accumulated Depreciation and Amortization								
Balance at December 31, 2018, As previously reported (Audited)	**7,564**	**1,887,219**	**12,790,556**	**14,143,755**	**1,301,456**	**532,563**	–	**30,663,113**
Effect of adoption of PFRS 16 (see Note 2)	–	–	**(82,537)**	–	–	–	–	**(82,537)**
Balance at December 31, 2018 (As restated, Unaudited)	**7,564**	**1,887,219**	**12,708,019**	**14,143,755**	**1,301,456**	**532,563**	–	**30,580,576**
Depreciation and amortization (see Notes 17 and 18)	–	**284,605**	**1,544,261**	**2,166,640**	**290,009**	**60,930**	–	**4,346,445**

(Forward)

	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
Retirements and disposals	₱–	(₱9,270)	(₱688,458)	(₱566,039)	(₱30,085)	(₱100,123)	₱–	(₱1,393,975)
Translation adjustments	–	(15,274)	(200,387)	(94,037)	(8,762)	(1,585)	–	(320,045)
Balance at September 30, 2019 (Unaudited)	7,564	2,147,280	13,363,435	15,650,319	1,552,618	491,785	–	33,213,001
Accumulated Impairment Losses								
Balance at December 31, 2018 (Unaudited)	–	–	–	34,566	–	–	–	34,566
Additions (see Note 18)	–	–	–	31,008	–	–	–	31,008
Reversals (see Note 18)	–	–	–	(16,086)	–	–	–	(16,086)
Translation adjustments	–	–	–	(521)	–	–	–	(521)
Balance at September 30, 2019 (Unaudited)	–	–	–	48,967	–	–	–	48,967
Net Book Value								
As at December 31, 2018 (As restated, Unaudited)	₱669,466	₱2,190,926	₱9,742,069	₱7,424,295	₱1,024,338	₱177,730	₱5,306,609	₱26,535,433
As at September 30, 2019 (Unaudited)	**1,023,161**	**4,422,320**	**10,068,483**	**9,151,143**	**1,316,072**	**150,960**	**3,801,070**	**29,933,209**

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores and commissaries. The borrowing cost that has been capitalized for the construction of commissaries amounted to ₱39.3 million and ₱19.6 million as at September 30, 2019 and December 31, 2018, respectively.

Loss on retirements and disposals of property, plant and equipment amounted to ₱161.5 million and ₱37.7 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 18).

The JFC Group performed impairment assessments of fixed assets considering that there are observable indications that the assets' values have significantly declined resulting to recognition of provision for impairment amounting to ₱31.0 million for the nine-month period ended September 30, 2019 (see Note 18).

Management reassessed the recoverable amount of the JFC Group's office, store and food processing equipment and recognized reversal of provision amounting to ₱16.1 million and ₱80.9 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 18). Consequently, allowance for impairment loss on office, store and food processing equipment amounted to ₱49.0 million and ₱34.6 million as at September 30, 2019 and December 31, 2018, respectively.

No property, plant and equipment as at September 30, 2019 and December 31, 2018 have been pledged as security or collateral.

11. Trademarks, Goodwill and Other Intangible Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Trademarks (see Note 9)	**₱35,047,990**	₱16,563,269
Goodwill (see Note 9)	**14,395,717**	14,395,717
Computer software, net of accumulated amortization	**622,797**	516,975
Other intangible assets, net of accumulated amortization	**99,739**	36,666
	₱50,166,243	₱31,512,627

Trademarks and Goodwill
Trademarks and goodwill acquired through business combinations are attributable to the following CGUs as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Trademarks:		
CBTL (see Note 9)	**₱18,484,721**	₱–
Smashburger	**10,414,000**	10,414,000
SuperFoods Group:		
Highlands Coffee	**3,681,912**	3,681,912
Pho 24	**463,101**	463,101
Mang Inasal	**2,004,256**	2,004,256
	35,047,990	16,563,269
Goodwill:		
Smashburger (see Note 9)	**5,345,494**	5,345,494
SuperFoods Group	**2,507,801**	2,507,801
Hong Zhuang Yuan	**2,497,253**	2,497,253
Mang Inasal	**1,781,267**	1,781,267
Red Ribbon Bakeshop (RRB):		
Philippine operations	**737,939**	737,939
US operations	**434,651**	434,651
Yong He King	**535,281**	535,281
Chowking US operations	**383,855**	383,855
GSC	**166,931**	166,931
Burger King	**5,245**	5,245
	14,395,717	14,395,717
Trademarks and goodwill	**₱49,443,707**	₱30,958,986

Impairment Testing of Trademarks and Goodwill
The JFC Group performed its annual impairment test in December and when circumstances indicated that the carrying value may be impaired. The JFC Group's impairment test for goodwill and trademarks with indefinite lives is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended December 31, 2018.

The JFC Group considers cash flows, among other factors, when reviewing for indicators of impairment. As at September 30, 2019, the actual financial performance of RRB – Philippine operations and Smashburger fall below its cash flow projections from financial budgets approved by the BOD, indicating a potential impairment of goodwill. As a result, management performed an impairment test as at September 30, 2019 for the RRB – Philippine operations and Smashburger.

The JFC Group used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the decreased demand for products and services and a pre-tax discount rate of 10.6% and 7.1% for RRB - Philippine Operations and Smashburger, respectively (December 31, 2018: RRB - Philippine Operations – 12.0% and Smashburger – 9.0%) was applied. Cash flows beyond the five-year period have been extrapolated using 6.5% and 2.0% growth rate for RRB - Philippine Operations and Smashburger, respectively (December 31, 2018: RRB – Philippine Operations - 6.8% and Smashburger – 2.0%).

All other assumptions remained consistent with those disclosed in the annual financial statements for the year ended December 31, 2018. As a result of the updated analysis, management did not identify an impairment for those cash-generating units to which goodwill of ₱6,083.4 million is allocated.

Sensitivity to Changes in Assumptions
There are no significant changes to the sensitivity information disclosed in the annual consolidated financial statements for the year ended December 31, 2018.

Key assumptions with respect to the calculation of value in use of the CGUs used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

a) Discount rates - discount rates represent the current market assessment of the risks specific to each CGU, 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 JFC Group's CGUs, derived from weighted average cost of capital (WACC) of each CGU. 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 CGU 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.

b) Long-term growth rates - rates are determined in consideration of historical and projected results, as well as the economic environment where the CGUs operate.

c) 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 CGUs to exceed its recoverable amount.

No impairment losses were recognized for trademarks and goodwill for the nine-month period ended September 30, 2019 and the year ended December 31, 2018.

12. **Other Noncurrent Assets**

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Security and other deposits (see Notes 8, 22 and 23)	**₱2,820,189**	₱2,474,748
Noncurrent portion of:		
Long-term prepayments	**511,674**	505,797
Employee car plan receivables (see Notes 22 and 23)	**144,971**	169,109
Prepaid market entry fee - net of accumulated amortization of ₱19.5 million and ₱15.4 million in 2019 and 2018, respectively	**88,888**	94,315

(Forward)

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Franchise rights - net of accumulated amortization of ₱58.8 million and ₱49.4 million in 2019 and 2018, respectively	**₱84,349**	₱80,903
Deferred rent expense	**77,233**	78,652
Deferred compensation	**27,367**	27,367
Returnable containers and others	**15,207**	38,644
Tools and other assets	**238,787**	281,509
	₱4,008,665	₱3,751,044

Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱14.6 million and ₱13.3 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 19).

13. Trade Payables and Other Current Liabilities and Contract Liabilities

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Trade	**₱13,221,716**	₱13,094,676
Accruals for:		
Salaries, wages and employee benefits	**3,021,856**	2,127,743
Store operations	**1,764,220**	1,699,887
Advertising and promotions	**1,503,638**	1,585,517
Local taxes	**1,247,352**	2,005,187
Rent	**1,023,104**	1,089,426
Freight	**675,915**	795,271
Utilities	**542,051**	484,693
Repairs and maintenance	**341,981**	393,278
Operating supplies	**265,576**	255,229
Professional fees	**201,572**	195,681
Interest (Note 14)	**199,574**	239,663
Security	**157,618**	169,245
Insurance	**102,635**	18,267
Transportation and travel	**90,881**	101,363
Communication	**87,413**	78,974
Trainings and seminars	**45,218**	29,531
Service fees and others	**1,467,284**	1,320,665
Customers’ deposits	**1,045,759**	898,248
Unearned revenue from gift certificates	**518,990**	628,070
Dividends payable	**72,934**	80,780
Other current liabilities	**2,135,355**	1,208,583
	29,732,642	28,499,977
Contract liabilities	**1,107,836**	150,078
	₱30,840,478	₱28,650,055

Accretion of interest on customers' deposits amounted to ₱0.2 million and ₱0.5 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 19).

Contract liabilities pertain to deferred revenue and unearned revenue from gift certificates from international operations.

Movements of contract liabilities arising from deferred revenue and unearned revenue from gift certificates from international operations are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Balance beginning of period	**₱150,078**	₱–
Acquisition of a business (see Note 9)	**1,041,703**	113,572
Utilized gift certificates	**(79,135)**	(2,650)
Additions	**2,073**	36,506
Effect of adoption of PFRS 15	**–**	2,650
Translation adjustments	**(6,883)**	–
Balance at end of period	**₱1,107,836**	₱150,078

The amount of contract liabilities arising from deferred revenue and unearned revenue from gift certificates from international operation is expected to be earned within one year.

14. **Short and Long-term Debts**

Short-term Debt

Short-term debt consists of USD-denominated bank loans as at September 30, 2019. Details as follows:

	Availment Date	Maturity Date	Interest Rate	Condition	**Amount**
Loan 1	September 23, 2019	September 23, 2020	LIBOR plus spread; quarterly	Unsecured	**₱2,591,500**
Loan 2	September 20, 2019	September 20, 2020	LIBOR plus spread; quarterly	Unsecured	**4,664,700**
Loan 3	September 20, 2019	September 20, 2020	LIBOR plus spread; quarterly	Unsecured	**4,664,700**
Loan 4	September 20, 2019	September 7, 2020	LIBOR plus spread; quarterly	Unsecured	**2,591,500**
Loan 5	September 13, 2019	September 7, 2020	LIBOR plus spread; quarterly	Unsecured	**6,219,600**
Loan 6	March 22, 2019	March 23, 2020	LIBOR plus spread; quarterly	Unsecured	**1,036,600**
Loan 7	August 14, 2019	August 14, 2020	LIBOR plus spread; quarterly	Unsecured	**259,150**
					₱22,027,750

Loans of JWPL. Loan 1 consists of a short-term loan availed on September 23, 2019 from a local bank amounting to USD50.0 million (₱2,679.5 million) subject to a variable interest rate based on London Interbank Offered Rate (LIBOR) plus spread of 0.55% which is payable and is reset on a quarterly basis. The principal is payable on September 23, 2020, the maturity date. As at September 30, 2019, the carrying value of the loan amounted to USD50.0 million (₱2,591.5 million). The loan is guaranteed by the Parent Company.

Loan 2 consists of a short-term loan availed on September 20, 2019 from a local bank amounting to USD90.0 million (₱4,823.1 million) subject to a variable interest rate based on three-month LIBOR plus spread of 0.62% which is payable and is reset on a quarterly basis. The principal is payable on September 20, 2020, the maturity date. As at September 30, 2019, the carrying value of the loan amounted to USD90.0 million (₱4,664.7 million). The loan is guaranteed by the Parent Company.

Loan 3 consists of a short-term loan availed on September 20, 2019 from a local bank amounting to USD90.0 million (₱4,823.1 million) subject to a variable interest rate based on LIBOR plus spread of 0.55% which is payable and is reset on a quarterly basis. The principal is payable on September 20, 2020, the maturity date. As at September 30, 2019, the carrying value of the loan amounted to USD90.0 million (₱4,664.7 million). The loan is guaranteed by the Parent Company.

Loan 4 consists of a short-term loan availed on September 20, 2019 from a foreign bank amounting to USD50.0 million (₱2,679.5 million) subject to a variable interest rate based on LIBOR plus spread of 0.90% which is payable and is reset on a quarterly basis. The principal is payable on September 7, 2020, the maturity date. As at September 30, 2019, the carrying value of the loan amounted to USD50.0 million (₱2,591.5 million). The loan is guaranteed by the Parent Company.

Loan 5 consists of a short-term loan availed on September 13, 2019 from a foreign bank amounting to USD120.0 million (₱6,430.8 million) subject to a variable interest rate based on three-month LIBOR plus spread of 0.50% which is payable and is reset on a quarterly basis. The principal is payable on September 7, 2020, the maturity date. As at September 30, 2019, the carrying value of the loan amounted to USD50.0 million (₱6,219.6 million). The loan is guaranteed by the Parent Company.

Loans of SJBF. Loan 6 consists of a short-term uncommitted line of credit agreement signed on March 22, 2019 with a local bank up to an aggregate amount of USD20.0 million (₱1,046.4 million) until April 1, 2020. The loan is subject to variable interest rate based on three-month LIBOR plus spread of 0.95% which is payable monthly and subject to quarterly repricing. The initial drawdown was availed on April 5, 2019 amounting to USD5.0 million (₱260.5 million). Subsequently, 2nd, 3rd and 4th drawdowns amounting to USD5.0 million (₱262.2 million), USD5.0 million (₱257.9 million) and USD5.0 million (₱255.2 million) were availed on May 14, 2019, June 21, 2019 and July 19, 2019, respectively. The loan will mature on March 23, 2020. As at September 30, 2019, the carrying value of the loan amounted to USD20.0 million (₱1,036.6 million).

On August 14, 2019, Smashburger Finance LLC signed a short-term uncommitted line of credit agreement (Loan 7) with a local bank up to an aggregate amount of USD20.0 million (₱1,045.6 million) until August 14, 2020. The loan is subject to variable interest rate based on three-month LIBOR plus spread of 0.95% which is payable monthly and subject to quarterly repricing. The initial drawdown was availed on August 22, 2019 amounting to USD5.0 million (₱261.3 million). The loan will mature on August 14, 2020. As at September 30, 2019, the carrying value of the loan amounted to USD5.0 million (₱259.2 million).

Interest expense recognized on short-term debt amounted to ₱13.5 million for the nine-month period ended September 30, 2019 (see Note 19).

Long-term Debt

The long-term debt consists of the following:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Principal	**₱23,298,204**	₱26,363,627
Unamortized debt issue cost	**(91,963)**	(99,274)
	₱23,206,241	₱26,264,353

The details of long-term debt follow:

	Availment Date	Maturity Date	Interest Rate	Condition	**September 30, 2019 (Unaudited)**	December 31, 2018 (Unaudited)
USD-denominated						
Subsidiaries						
Loan 1	October 21, 2015	October 21, 2025	LIBOR plus spread; quarterly	Unsecured	**₱3,959,236**	₱4,498,511
Loan 2	November 29, 2016	November 29, 2024	3.0% per annum; annually	Unsecured	**1,523,802**	1,545,852
Loan 3	November 29, 2016	November 29, 2022	ROP 2121 and ROP 2024 plus spread; annually	Unsecured	**406,347**	412,227
Loan 4	April 25, 2014	April 25, 2019	1.48% plus spread; quarterly	Unsecured	**–**	310,222
VND-denominated						
Subsidiaries						
Loan 5	February 19, 2015	February 20, 2020	VIOR plus spread; monthly	Unsecured	**27,509**	79,296
Loan 6	December 30, 2015	December 20, 2020	VND COF plus spread; quarterly	Unsecured	**47,558**	88,128
Loan 7	April 3, 2017	April 1, 2022	VND COF plus spread; quarterly	Unsecured	**104,626**	137,088
Loan 8	February 13, 2018	March 20, 2023	VND COF plus spread; quarterly	Unsecured	**252,894**	260,352
Loan 9	November 15, 2018	December 24, 2023	Bank's three-month COF plus spread; quarterly	Unsecured	**384,982**	41,951
PHP-denominated						
Parent Company						
Loan 10	December 16, 2013	June 17, 2019	PDST-F rate plus spread; quarterly	Unsecured	**–**	1,454,318
Loan 11	April 21, 2014	April 22, 2019	PDST-F rate plus spread; quarterly	Unsecured	**–**	799,733
Loan 12	April 22, 2016	April 22, 2021	PDST-R2 rate plus spread; quarterly	Unsecured	**435,833**	622,583
Loan 13	December 22, 2017	December 22, 2022	PDST-R2 rate plus spread; quarterly	Unsecured	**1,294,800**	1,593,600
Loan 14	December 22, 2017	December 22, 2022	PDST-R2 rate plus spread; quarterly	Unsecured	**1,699,425**	2,091,600
Loan 15	December 22, 2017	December 22, 2022	PDST-R2 rate plus spread; quarterly	Unsecured	**647,400**	796,800
Loan 16	December 27, 2017	December 27, 2022	PDST-R2 rate plus spread; quarterly	Unsecured	**485,550**	597,600
Loan 17	March 27, 2018	March 27, 2025	PDST R-2 plus spread; quarterly	Unsecured	**4,175,250**	4,171,875
Loan 18	May 11, 2018	May 11, 2025	PDST R-2 plus spread; quarterly	Unsecured	**2,981,785**	2,979,376
Loan 19	August 15, 2018	August 15, 2025	PDST-R2 plus spread; quarterly	Unsecured	**2,682,884**	2,680,714
Subsidiaries						
Loan 20	December 21, 2016	December 21, 2021	PDST-R2 plus spread; quarterly	Unsecured	**109,753**	109,670
Loan 21	August 24, 2018	August 24, 2025	PDST-R2 plus spread; quarterly	Unsecured	**993,661**	992,857
Loan 22	May 8, 2019	May 8, 2026	BVAL plus spread	Unsecured	**992,946**	–
					23,206,241	26,264,353
Less current portion - net of debt issue costs of ₱13.8 million and ₱7.0 million in 2019 and 2018, respectively					**2,837,959**	4,892,102
					₱20,368,282	₱21,372,251

LIBOR – London Interbank Offered Rate
VIOR – Vietnam Interbank Offered Rate
BVAL – Bloomberg Valuation Service
PDST-F – Philippine Dealing System Treasury Fixing

On May 8, 2019, Zenith acquired Loan 22 which consists of 7-year unsecured loan acquired from a local bank amounting to ₱1,000.0 million. The loan is subject to a variable interest that is equal to the simple average of the preceding five (5) banking days PHP BVAL Reference rate for three (3) months tenor plus spread of 0.66% or to an interest rate floor equal to the BSP Overnight Reverse Repurchase Rate plus spread of 0.50%. Zenith has an option to convert the variable interest rate into a fixed interest within one (1) year from the drawdown date. The conversion to fixed interest rate is based on simple average of the applicable/interpolated PHP BVAL Reference rate for the remaining tenor of the loan plus spread of 1.0%. Zenith incurred debt issue cost of ₱7.5 million, representing documentary stamp tax, in relation to this loan. The principal is payable in equal quarterly installments commencing on the 9th quarter from the drawdown date and every quarter thereafter until maturity. The carrying amount of the loan is ₱992.9 million, net of unamortized debt issue cost of ₱7.1 million, as at September 30, 2019.

In 2019, Loans 4, 10 and 11 were paid in full at maturity dates.

The loans of the subsidiaries are guaranteed by the Parent Company. Consequently, the Parent Company is subject to certain debt covenants which include, among others, maintaining a required Debt-to-Equity ratio, Debt-to-EBITDA ratio and Debt-to-Service Coverage ratio. As at September 30, 2019, the Debt-to-Service Coverage ratio was waived until December 31, 2020. The Parent Company is in compliance with these debt covenants as at September 30, 2019 and December 31, 2018.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱983.6 million and ₱588.5 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 19).

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
2019	**₱603,395**	₱4,899,151
2020	**3,457,978**	3,510,235
2021	**4,700,996**	4,391,793
2022	**4,927,223**	4,552,194
2023 to 2026	**9,608,612**	9,010,254
	23,298,204	26,363,627
Less debt issue costs	**91,963**	99,274
	₱23,206,241	₱26,264,353

Embedded Derivatives

Certain long-term loans of the JFC 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 JFC Group's long-term loans generally provide an option to pre-pay the loan in full before the maturity date.

The JFC 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 September 30, 2019 and December 31, 2018.

Freestanding Derivatives, Hedges and Hedge Effectiveness Testing
On November 20, 2015, the JFC 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 JFC 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 JFC 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 ₱63.1 million as at September 30, 2019, presented as derivative liability and ₱82.9 million as at December 31, 2018, presented as derivative asset 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 loss of ₱145.9 million and unrealized income of ₱131.4 million were recognized in other comprehensive income for the nine-month periods ended September 30, 2019 and 2018, respectively.

15. **Equity**

a. Capital Stock

The movements in the account are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Authorized - ₱1 par value		
1,450,000,000 shares	**₱1,450,000**	₱1,450,000
Issued and subscribed:		
Balance at beginning of period	**₱1,105,214**	₱1,101,656
Issuances during the period	**4,812**	3,558
Balance at end of period	**1,110,026**	1,105,214
Subscriptions receivable	**(17,178)**	(17,178)
	₱1,092,848	₱1,088,036

The total number of shareholders of the Parent Company is 3,004 and 3,023 as at September 30, 2019 and December 31, 2018, respectively.

b. Additional Paid-in-Capital

The movements in the additional paid in-capital pertain to the difference between the exercise prices of stock options exercised and the par value of Parent Company's shares. For the nine-month period ended September 30, 2019 and year ended December 31, 2018, stock options totaling 4,812,499 shares and 3,558,182 shares, respectively, were exercised. These resulted to an additional paid-in capital amounting to ₱565.2 million and ₱472.0 million for the nine-month period ended September 30, 2019 and year ended December 31, 2018, respectively.

Stock options expense, amounting to ₱211.6 million and ₱227.0 million for the nine-month periods ended September 30, 2019 and 2018, respectively were also recognized as part of additional paid-in capital (see Note 18).

The JFC Group recognized deferred tax assets on MSOP and ELTIP, resulting to additional paid-in capital of ₱334.1 million in 2018.

As at September 30, 2019 and December 31, 2018, total additional paid-in capital amounted to ₱9,415.3 million and ₱8,638.4 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 September 30, 2019 and December 31, 2018.

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 September 30, 2019 and December 31, 2018, recognized as part of "Equity Attributable to Equity Holders of the Parent Company" section in the interim consolidated statements of financial position, resulted from the following acquisitions of non-controlling interests:

20% of Greenwich in 2006	₱168,257
15% of Belmont in 2007	375,721
40% of Adgraphix in 2010	(1,214)
30% of Mang Inasal in 2016	1,217,615
30% of HBFPPL in 2016	391,782
15% of SJBF in 2018	(347,395)
	₱1,804,766

e. Retained Earnings

The JFC Group has a cash dividend policy of declaring one-third of the JFC 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 32.7% and 32.4% in 2019 and 2018, 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 ₱14,558.6 million and ₱12,538.8 million as at September 30, 2019 and December 31, 2018, respectively.

The Parent Company's cash dividend declarations for 2019 and 2018 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
			(In Thousands, except dividend per share)	
2019				
April 8	April 26	May 9	**₱1.23**	**₱1,341,178**
2018				
April 6	April 24	May 9	₱1.14	₱1,236,518
November 9	November 26	December 10	1.34	1,455,269
			₱2.48	₱2,691,787

An important part of the JFC Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were recent acquisitions of remaining 60% share in SJBF LLC (₱5,735.8 million) in 2018 and 80% of The Coffee Bean & Tea Leaf (₱16,904.9 million) in 2019.

The JFC Group plans to continue to make substantial acquisitions in the coming years. The JFC 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.

On November 9, 2018, the BOD approved the following:

- Release of previously appropriated retained earnings amounting to ₱18,200.0 million as at September 30, 2018 related to the completed projects in 2013 to 2018; and
- Appropriation of retained earnings amounting to ₱20,000.0 million. Details are as follows:

Projects	Timeline	Amount
Capital expenditures	2019 - 2024	₱12,000,000
Acquisition of businesses	2019 - 2024	8,000,000
		₱20,000,000

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 as well as the undistributed retained earnings of its subsidiaries which amounted to ₱2,559.6 million and ₱3,063.9 million as at September 30, 2019 and December 31, 2018, respectively.

16. Royalty, Set-up Fees and Others

This account consists of:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Royalty fees	**₱5,958,851**	₱5,004,545
Set-up fees	**337,006**	376,868
Service fees	**236,086**	300,975
Scrap sales	**62,790**	87,388
Rent income	**52,363**	39,236
Other revenues	**162,052**	174,863
	₱6,809,148	₱5,983,875

The JFC Group has existing Royalty and Service 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", "Hong Zhuang Yuan", "Highlands Coffee", "Pho 24", "Smashburger" and "The Coffee Bean & Tea Leaf" concepts and trade names. In consideration thereof, the franchisees agree to pay set-up fees and monthly royalty fees equivalent to a certain percentage of the franchisees' net sales.

The JFC Group's franchisees pay service fees for various services, including repairs and maintenance services, rendered by the JFC Group's personnel.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the JFC Group.

17. **Direct Costs**

This account consists of:

	September 30, 2019 (Unaudited)	September 30, 2018 (As restated - Note 2; Unaudited)
Cost of Sales		
Cost of inventories	**₱60,521,173**	₱54,046,915
Personnel costs:		
Salaries, wages and other employee benefits	**12,785,938**	10,919,304
Pension expense	**130,668**	110,689
Depreciation and amortization (see Notes 2 and 10)	**8,317,834**	8,816,754
Contracted services	**6,931,704**	6,394,829
Rent (see Note 2)	**4,474,597**	3,823,782
Electricity and other utilities	**4,101,037**	3,915,062
Supplies	**2,120,446**	2,286,841
Repairs and maintenance	**1,371,641**	1,205,989
Security and janitorial	**809,089**	711,200
Communication	**227,847**	212,477
Professional fees	**106,047**	139,486
Representation and entertainment	**95,626**	92,598
Others	**2,755,657**	2,456,028
	104,749,304	95,131,954
Cost of Services		
Advertising expense	**2,149,321**	1,792,461
	₱106,898,625	₱96,924,415

Others consist of delivery costs, insurance and other miscellaneous expenses.

18. **General and Administrative Expenses**

This account consists of:

	September 30, 2019 (Unaudited)	September 30, 2018 (As restated - Note 2; Unaudited)
Personnel costs:		
Salaries, wages and other employee benefits	**₱6,832,934**	₱5,797,762
Stock options expense (see Note 15)	**211,616**	226,952
Pension expense	**128,570**	115,207
Taxes and licenses	**1,297,757**	1,134,135
Transportation and travel	**622,590**	535,324
Professional fees	**616,909**	575,701

(Forward)

	September 30, 2019 (Unaudited)	September 30, 2018 (As restated - Note 2; Unaudited)
Depreciation and amortization (see Notes 2, 10 and 12)	**₱462,854**	₱410,338
Rent (see Note 2)	**418,108**	412,635
Contracted services	**393,988**	360,343
Repairs and maintenance	**211,294**	190,238
Training	**163,542**	131,719
Loss on retirements and disposals of property, plant and equipment (see Note 10)	**161,517**	37,708
Corporate events	**153,047**	171,315
Membership and subscriptions	**138,424**	109,496
Communication	**122,785**	103,359
Donations	**120,037**	100,359
Representation and entertainment	**66,764**	89,322
Supplies	**65,553**	69,700
Electricity and other utilities	**55,164**	52,167
Impairment in value of:		
Property, plant and equipment (see Note 10)	**31,008**	–
Receivables (see Note 6)	**13,745**	4,339
Inventories (see Note 7)	**1,677**	5,264
Insurance	**45,224**	32,412
Association dues	**30,215**	53,951
Security and janitorial	**22,399**	17,673
Reversals of provision for impairment on:		
Property, plant and equipment (see Note 10)	**(16,086)**	(80,916)
Receivables (see Note 6)	**(4,650)**	(5,452)
Inventories (see Note 7)	**(2,251)**	(1,185)
Others	**742,096**	298,951
	₱13,106,830	₱10,948,817

Others pertain to research and development, penalties on pre-termination of leases and other miscellaneous expenses.

19. Interest Income (Expense) and Other Income (Expense)

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Interest income:		
Cash and cash equivalents and short-term investments (see Note 5)	**₱202,860**	₱191,058
Loans and advances (see Note 9)	**58,226**	41,394
Accretion of interest on security and other deposits and employee car plan receivables (see Note 12)	**14,619**	13,288
	₱275,705	₱245,740

	September 30, 2019 (Unaudited)	September 30, 2018 (As restated - Note 2; Unaudited)
Interest expense:		
Accretion of lease liability (see Note 2)	**(₱1,305,537)**	(₱1,186,817)
Long-term debt (see Note 14)	**(983,553)**	(588,501)
Short-term debt (see Note 14)	**(13,454)**	–
Accretion of customers' deposits (see Note 13)	**(177)**	(479)
	(₱2,302,721)	(₱1,775,797)
Other income (expense):		
Write-off of liabilities	**₱1,390,355**	₱951,541
Gain from acquisition of a business and re-measurement of previously held interest (see Note 9)	**1,343,779**	754,804
Bank charges	**(282,751)**	(225,100)
Rebates and suppliers' incentives	**164,142**	109,787
Foreign exchange gain (loss) - net	**(88,135)**	219,186
Penalties and charges	**46,374**	48,687
Charges to franchisees	**16,810**	17,697
Other rentals	**4,837**	6,050
Reversal of impairment loss on interest in an associate	**–**	16,660
Provisions, insurance claims and others	**84,671**	(398,269)
	₱2,680,082	₱1,501,043

In the normal course of business, the JFC Group accrues liabilities based on management's best estimate of costs incurred, particularly in cases when the JFC 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.

20. **Related Party Transactions**

The JFC 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 JFC Group, including holding companies, subsidiaries and fellow subsidiaries are related entities of the JFC Group. Individuals owning, directly or indirectly, an interest in the voting power of the JFC Group that give them significant influence over the enterprise; key management personnel, including directors and officers of the JFC 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 JFC Group

The aggregate compensation and benefits to key management personnel of the JFC Group for the nine-month periods ended September 30, 2019 and 2018 are as follows:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Salaries and short-term benefits	**₱932,183**	₱915,962
Stock options expense	**211,616**	233,973
Net pension expense	**106,389**	80,067
Employee car plan and other long-term benefits	**44,228**	44,144
	₱1,294,416	₱1,274,146

Transactions with the Retirement Plans

As at September 30, 2019 and December 31, 2018, certain retirement funds of the JFC Group include investment in equity securities of the Parent Company with details as follows:

	September 30, 2019 (Nine Months) (Unaudited)	December 31, 2018 (One Year) (Unaudited)
Number of shares	**151,810**	144,740
Market value	**₱33,702**	₱42,694
Less: Cost	**11,564**	9,860
Unrealized gain	**₱22,138**	₱32,834

The JFC Group's receivable from the retirement fund amounted to ₱193.6 million and ₱72.8 million as at September 30, 2019 and December 31, 2018, respectively. The receivable arose from benefit payments made by the JFC Group for and in behalf of the retirement plans. The receivable is noninterest-bearing.

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 JFC Group are eliminated in the consolidation process.

21. **Earnings Per Share**

Basic and diluted EPS are computed as follows:

	September 30, 2019 (Unaudited)	September 30, 2018 (As restated - Note 2; Unaudited)
	(In Thousand pesos, except for shares data and EPS)	
(a) Net income attributable to the equity holders of the Parent Company	**₱4,108,357**	₱5,157,255
(b) Weighted average number of shares - basic	**1,092,253,316**	1,086,764,866
Weighted average number of shares outstanding under the stock options plan	**32,770,628**	38,805,384
Weighted average number of shares that would have been purchased at fair market value	**(19,269,280)**	(21,128,011)
(c) Adjusted weighted average shares - diluted	**1,105,754,664**	1,104,442,239
EPS:		
Basic (a/b)	**₱3.761**	₱4.746
Diluted (a/c)	**3.715**	4.670

Potential common shares for stock options under the 15th MSOP cycle were not included in the calculation of the diluted EPS in 2019 because they are antidilutive.

22. **Financial Risk Management Objectives and Policies**

The JFC Group is exposed to a variety of financial risks from its operating, investing and financing activities. The JFC Group's risk management policies focus on actively securing the JFC Group's short-term to medium-term cash flows by minimizing the exposure to financial markets.

The JFC Group's principal financial instruments comprise of cash and cash equivalents, short-term investments, receivables, short-term and long-term debts. The main purpose of these financial instruments is to obtain financing for the JFC Group's operations. The JFC Group has other financial assets and liabilities such as security and other deposits, operating lease receivables, lease liability and trade payables and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificates) which arise directly from its operations, and financial assets at FVTPL.

The main risks arising from these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The risk management policies reviewed regularly by the Parent Company's BOD and management for managing each of these risks are summarized as follows:

<u>Interest Rate Risk</u>
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 JFC Group's exposure to interest rate risk relates primarily to short-term and long-term debts with floating interest rates. Floating rate financial instruments are subject to cash flow interest rate risk. The JFC Group's interest rate exposure management policy centers on reducing the JFC Group's overall interest expense and exposure to changes in the interest rates.

To manage the interest rate risk related to the JFC Group's long-term debts, the JFC Group used a derivative instrument to fix the interest rate over the term of one of its long-term debts (see Note 14). With the JFC 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 JFC Group's interest rate risk. These other sources are from the JFC Group's cash in banks, short-term deposits and short-term investments.

The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the JFC Group's income before income tax as at September 30, 2019 and December 31, 2018.

Long-term Debt with Floating Interest Rates

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax	
		September 30, 2019	December 31, 2018
PHP	+100	(164,993)	(188,907)
	-100	164,993	188,907
USD	+100	(58,894)	(67,688)
	-100	58,894	67,688
VND	+100	(7,901)	(6,068)
	-100	7,901	6,068

The assumed movement in basis point for interest rate sensitivity analysis is based on the currently observable market environment.

Foreign Currency Risk

The JFC 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 5.1% and 6.1% of the consolidated net assets of the JFC Group as at September 30, 2019 and December 31, 2018, respectively.

The JFC Group also has transactional foreign currency exposures. Such exposure arises from the JFC Group's Philippine operations' cash and cash equivalents, receivables and trade payables in foreign currencies.

The following table shows the JFC Group's Philippine operations' foreign currency-denominated monetary assets and liabilities and their peso equivalents as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)		December 31, 2018 (Unaudited)	
	USD	**PHP Equivalent**	USD	PHP Equivalent
Foreign currency denominated assets:				
Cash and cash equivalents	**55,093**	**2,855,458**	71,661	3,767,938
Receivables	**9,828**	**509,371**	9,014	473,955
	64,921	**3,364,829**	80,675	4,241,893
Foreign currency denominated liability - Accounts payable - trade	**(5,236)**	**(271,357)**	(4,929)	(259,177)
Foreign currency denominated assets - net	**59,685**	**3,093,472**	75,746	3,982,716

Foreign Currency Risk Sensitivity Analysis
The JFC Group has recognized in profit or loss, a net foreign exchange loss of ₱88.1 million and net foreign exchange gain of ₱219.2 million for the periods ended September 30, 2019 and 2018, respectively (see Note 19), included under "Other income" account. This resulted from the movements of the Philippine peso against the USD as shown in the following table:

	Peso to USD
September 30, 2019	51.83
December 31, 2018	52.58

The following table demonstrates the sensitivity to a reasonably possible change in USD to Philippine peso exchange rate, with all other variables held constant, of the JFC Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as at September 30, 2019 and December 31, 2018:

	Appreciation (Depreciation) of ₱ against Foreign Currency	**September 30, 2019 (Unaudited)**		December 31, 2018 (Unaudited)	
		Effect on Income before Income Tax	**Effect on Equity before Income Tax**	Effect on Income before Income Tax	Effect on Equity before Income Tax
USD	1.50	**(₱89,528)**	**(₱89,528)**	(₱113,619)	(₱113,619)
	(1.50)	**89,528**	**89,528**	113,619	113,619
	1.00	**(59,685)**	**(59,685)**	(75,746)	(75,746)
	(1.00)	**59,685**	**59,685**	75,746	75,746

Credit Risk

Credit risk is the risk that a customer or counterparty fails to fulfill its contractual obligations to the JFC Group. This includes risk of non-payment by borrowers, failed settlement of transactions and default on outstanding contracts.

The JFC 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 services 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 JFC Group are discontinued.

The JFC Group has no significant concentration of credit risk with counterparty. The JFC Group's franchisee profile is such that no single franchisee accounts for more than 5% of the total system wide sales of the JFC Group.

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the JFC Group as at September 30, 2019 and December 31, 2018 without considering the effects of collaterals and other credit risk mitigation techniques:

	September 30, 2019 (Unaudited)		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Millions)	
Financial Assets at Amortized Cost			
Cash and cash equivalents*	₱23,140.5	₱32.0	₱23,108.5**
Short-term investments	433.9	–	433.9
Receivables:			
Trade	4,073.2	214.4	3,858.8***
Employee car plan receivables	228.7	–	228.7
Advances to employees	184.9	–	184.9
Other receivables****	252.2	–	252.2
Security and other deposits	3,059.3	–	3,059.3
Operating lease receivables	32.3	–	32.3
Financial assets at FVTPL	39.8	–	39.8
	₱31,444.8	₱246.4	₱31,198.4

** Excluding cash on hand amounting to ₱430.5 million.*
*** 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.*
***** Including interest receivable and excluding receivables from government agencies amounting to ₱56.3 million.*

	December 31, 2018 (Unaudited)		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Millions)	
Financial Assets at Amortized Cost			
Cash and cash equivalents*	₱22,805.0	₱31.6	₱22,773.4**
Short-term investments	883.2	–	883.2
Receivables:			
Trade	4,680.6	216.3	4,464.3***
Employee car plan receivables	260.3	–	260.3
Advances to employees	167.4	–	167.4
Other receivables****	151.6	–	151.6
Security and other deposits	2,713.8	–	2,713.8
Operating lease receivables	31.6	–	31.6
Financial assets at FVTPL	39.8	–	39.8
	₱31,733.3	₱247.9	₱31,485.4

** Excluding cash on hand amounting to ₱480.9 million.*
*** 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.*
***** Including interest receivable and excluding receivables from government agencies amounting to ₱41.6 million.*

With respect to credit risk arising from financial assets of the JFC Group, the JFC 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 financial assets of the JFC Group are grouped according to stage of which description is explained as follows:

Stage 1 - Those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as at reporting date.

Stage 3 - Those that are considered in default or demonstrate objective evidence of impairment as at reporting date.

The tables below show determination of ECL stage of the JFC Group's financial assets as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)			
		Stage 1	**Stage 2**	**Stage 3**
	Total	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**
Financial Assets at Amortized Cost		*(in Millions)*		
Receivables				
Trade	**₱4,073.2**	**₱2,600.2**	**₱828.7**	**₱644.3**
Employee car plan receivables*	**228.7**	**228.7**	**–**	**–**
Advances to employees	**184.9**	**184.9**	**–**	**–**
Other receivables**	**252.2**	**156.1**	**96.1**	**–**
	₱4,739.0	**₱3,169.9**	**₱924.8**	**₱644.3**

**Including noncurrent portion of employee car plan receivables.*
***Including interest receivable and excluding receivables from government agencies amounting to ₱56.3 million in 2019.*

	December 2018 (Unaudited)			
		Stage 1	Stage 2	Stage 3
	Total	12-month ECL	Lifetime ECL	Lifetime ECL
Financial Assets at Amortized Cost		*(in Millions)*		
Receivables				
Trade	₱4,680.6	₱3,137.1	₱866.6	₱676.9
Employee car plan receivables*	260.3	260.3	–	–
Advances to employees	167.4	167.4	–	–
Other receivables**	151.6	93.8	57.8	–
	₱5,259.9	₱3,658.6	₱924.4	₱676.9

**Including noncurrent portion of employee car plan receivables.*
***Including interest receivable and excluding receivables from government agencies amounting to ₱41.6 million in 2018.*

Liquidity Risk

The JFC 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 JFC 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. Also, due to the nature of JFC Group's operations (i.e., daily inflows of cash from store operations), the JFC Group is able to build up sufficient cash from operating revenues prior to the maturity of its obligations.

On a weekly basis, the JFC 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 JFC Group has short-term cash deposits and has available credit lines with accredited banking institutions, in case there is a sudden deficiency. The JFC 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 JFC Group during the nine-month period ended September 30, 2019 and year ended December 31, 2018.

The JFC 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 ₱23,570.9 million, ₱433.9 million and ₱4,126.3 million, respectively, as at September 30, 2019 and ₱23,285.9 million, ₱883.2 million and ₱4,411.0 million, respectively, as at December 31, 2018.

The tables below summarize the maturity profile of the JFC Group's other financial liabilities based on the contractual undiscounted cash flows as at September 30, 2019 and December 31, 2018:

	September 2019 (Unaudited)				
	Due and Demandable	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
			(in Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	**₱6,551.9**	**₱20,258.1**	**₱–**	**₱–**	**₱26,810.0**
Long-term debt (including current portion)	**598.7**	**2,579.3**	**18,036.4**	**1,991.8**	**23,206.2**
Liability for acquisition of a business (including current portion)	**–**	**1,095.2**	**–**	**–**	**1,095.2**
Lease liabilities	**–**	**1,277.1**	**9,553.0**	**21,674.0**	**32,504.1**
Total Financial Liabilities	**₱7,150.6**	**₱25,209.7**	**₱27,589.4**	**₱23,665.8**	**₱83,615.5**

	December 2018 (Unaudited)				
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
			(in Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	₱6,957.7	₱18,808.7	₱–	₱–	₱25,766.4
Long-term debt (including current portion)	22.5	4,857.9	19,681.5	1,702.5	26,264.4
Liability for acquisition of a business (including current portion)	–	11.2	2.9	–	14.1
Lease liabilities	–	825.6	10,492.4	24,382.5	35,700.5
Total Financial Liabilities	₱6,980.2	₱24,503.4	₱30,176.8	₱26,085.0	₱87,745.4

**Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱2,922.6 million and ₱2,733.6 million as at September 30, 2019 and December 31, 2018, respectively.*

Equity Price Risk

The JFC Group is not exposed to significant equity price risk on its investment in quoted equity securities consisting of investment in club shares.

Capital Management Policy

Capital includes equity attributable to equity holders of the Parent Company.

The primary objective of the JFC 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 JFC Group has sufficient capitalization.

The JFC 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 JFC Group would borrow money for acquisitions of new businesses.

As at September 30, 2019 and December 31, 2018, the JFC Group's debt ratio and net debt ratio are as follows:

Debt Ratio

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Total debt* (a)	**₱115,686,790**	₱96,744,491
Total equity attributable to equity holders of the Parent Company	**50,116,427**	46,904,039
Total debt and equity attributable to equity holders of the Parent Company (b)	**₱165,803,217**	₱143,648,530
Debt ratio (a/b)	**70%**	67%

**Total debt is equal to total liability and may not be the same as the total debt used to comply debt covenants.*

Net Debt Ratio

	September 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Total debt	**₱115,686,790**	₱96,744,491
Less cash and cash equivalents and short-term investments	**24,004,846**	24,169,115
Net debt (a)	**91,681,944**	72,575,376
Total equity attributable to equity holders of the Parent Company	**50,116,427**	46,904,039
Net debt and equity attributable to equity holders of the Parent Company (b)	**₱141,798,371**	₱119,479,415
Net debt ratio (a/b)	**65%**	61%

23. 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 Which 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, 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.

Financial Assets at FVTPL. The fair value of investments in quoted shares of stock is based on quoted prices. The JFC Group does not have the intention to dispose these financial assets in the near term.

Investment Properties. The fair values 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 Lease Liability. Management has determined that the estimated fair value of security and other deposits, noncurrent portion of employee car plan receivables, long-term debt, derivative asset and lease liability are based on the discounted value of future cash flows using applicable rates as follows:

	September 30, 2019	December 31, 2018
Security and other deposits	2.36%–7.51%	2.36%–8.20%
Employee car plan receivables	2.50%–7.03%	2.51%–8.23%
Long-term debt	2.50%–5.77%	2.50%–4.07%
Lease liability	1.83%–22.57%	1.90%–22.57%

The following tables provide the fair value measurement hierarchy of the JFC Group's recurring financial assets and liabilities.

The following tables show the quantitative disclosure fair value measurement hierarchy for assets as at:

	September 30, 2019 (Unaudited)				
		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:					
Financial assets at FVTPL	**₱39,842**	**₱39,842**	**₱–**	**₱39,842**	**₱–**
Assets for which fair values are disclosed:					
Investment properties:					
Land	**848,974**	**2,083,920**	**–**	**–**	**2,083,920**
Buildings	**–**	**954,427**	**–**	**–**	**954,427**
Other noncurrent assets:					
Security and other deposits	**2,820,189**	**2,265,230**	**–**	**–**	**2,265,230**
Employee car plan receivables	**144,971**	**202,003**	**–**	**–**	**202,003**

	December 31, 2018 (Unaudited)				
		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:					
Financial assets at FVTPL	₱39,842	₱39,842	₱–	₱39,842	₱–
Derivative asset - interest rate swap	82,852	82,852	–	82,852	–
Assets for which fair values are disclosed:					
Investment properties:					
Land	848,974	2,083,920	–	–	2,083,920
Buildings	–	954,427	–	–	954,427
Other noncurrent assets:					
Security and other deposits	2,474,748	2,506,400	–	–	2,506,400
Employee car plan receivables	169,109	251,492	–	–	251,492

The following tables show the quantitative fair value measurement hierarchy for liabilities as at:

	September 30, 2019 (Unaudited)				
		Fair Value Measurement Using			
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities disclosed at fair value:					
Tenants' deposit	**September 30, 2019**	**₱4,745**	**₱–**	**₱4,745**	**₱–**
Long-term debt	**September 30, 2019**	**19,043,559**	**–**	**19,043,559**	**–**

	December 31, 2018 (Unaudited)				
		Fair Value Measurement Using			
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities disclosed at fair value:					
Tenants' deposit	December 31, 2018	₱5,907	₱–	₱5,907	₱–
Long-term debt	December 31, 2018	16,421,331	–	16,421,331	–

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.

24. Events after the Reporting Period

Sale of Land and Purchase of Condominium Units

On December 9, 2019, RRB Holdings Inc., a wholly owned subsidiary, entered into a memorandum of agreement with Robinsons Land Corporation, Double Dragon Properties Corp. and Hotel of Asia, Inc. for the sale of a parcel of land for ₱1,033.2 million with carrying amount of ₱181.5 million.

On December 24, 2019, the Parent Company entered into a contract to sell with Double Dragon Properties Corp. for the purchase of units in Jollibee Tower for ₱1,055.0 million.

Dividend Declaration

On November 11, 2019, the BOD approved the declaration of cash dividend of ₱1,473.8 million or ₱1.35 per share of common stock to all stockholders of record as at November 26, 2019. Consequently, the cash dividend is expected to be paid out on December 10, 2019. The cash dividend is 0.7% higher than the ₱1.34 regular dividend a share declared on November 9, 2018.

Increase in Investment in Titan

On October 2, 2019, the JFC Group disclosed that the fund size of Titan Dining LP will increase from SGD100.0 million to SGD200.0 million. As such, the JFC Group, through JWPL, will increase its capital commitment to Titan from SGD45.0 million to SGD120.0 million. Thus, the JFC Group's investment will constitute from 40% to 60% of the fund. The increase in fund size and additional capital commitment of JWPL are in furtherance of certain strategic projects currently being undertaken by Titan, consistent with its mandate to invest in the food service sector and grow strong Asia Pacific food service brands.

On November 13, 2019, the JFC Group disclosed that its wholly owned subsidiary, GPPL, entered into a Joint Venture (JV) Agreement with Dim Sum Pte. Ltd. (DSPL) to form a JV Company in the People's Republic of China (PRC). After the incorporation of the JV Company, it shall sign a Unit Franchise Agreement with Tim Ho Wan Pte. Ltd. (Franchisor), authorized master franchisor of Tim Ho Wan in the Asia-Pacific, to develop and operate Tim Ho Wan stores in Shanghai and other cities within the PRC as may be agreed with the Franchisor. GPPL will own 60% of the business and

DSPL will own the remaining 40%. GPPL and DSPL have committed to invest up to USD13.0 million to the JV Company, of which up to USD7.8 million will be contributed by GPPL in proportion to its ownership in the business. The JV Company shall have its own resources and personnel to operate and manage the business.

Jollibee Foods Corporation
Doing business under the name and style of Jollibee
(formerly Jollibee Foods Corporation)
and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017
and Years Ended December 31, 2018,
2017 and 2016

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Jollibee Foods Corporation
Doing business under the name and style of Jollibee
(formerly Jollibee Foods Corporation) and Subsidiaries

Opinion

We have audited the consolidated financial statements of Jollibee Foods Corporation Doing business under the name and style of Jollibee (formerly Jollibee Foods Corporation) (the Parent Company) and its subsidiaries (the Jollibee Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, 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 financial position of the Jollibee Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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 Jollibee 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.

Accounting for Business Combination – Acquisition of SJBF LLC

On April 17, 2018, the Jollibee Group, through its wholly owned subsidiary, Bee Good! Inc., obtained 45% additional interest over SJBF LLC resulting in 85% controlling interest. The Jollibee Group recognized goodwill of ₱5,345.5 million and trademark and favourable leases of ₱10,782.4 million based on the purchase price allocation performed. We considered the accounting for this acquisition to be a key audit matter because it required significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired property and equipment, trademark and favourable leases.

The disclosures in relation to the acquisition of SJBF LLC are included in Notes 4 and 11 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report for the property and equipment and the external valuation specialist who valued the trademark and favourable leases by considering their qualifications, relevant experience and reporting responsibilities. We involved our internal specialist in the review of the methodologies and assumptions used in arriving at the fair values of the property and equipment, trademark and favourable leases. We compared the key assumptions used such as the list prices and adjustment factors by reference to relevant market data for the valuation of property and equipment and favourable leases. We also compared the key assumptions in the valuation of trademark such as revenue growth rate, long-term growth rate and royalty rate by reference to existing contractual terms, historical trends and relevant external information. We tested the parameters used in determining the discount rate against market data. We reviewed the presentation and disclosures in the consolidated financial statements.

Recoverability of Goodwill and Trademarks with Indefinite Life

Goodwill and trademarks with indefinite life account for 27.2% of the Jollibee Group's consolidated total assets as at December 31, 2018. Goodwill relate to several cash generating units (CGUs) mainly from Jollibee Group's acquisitions in the Philippines, the People's Republic of China, Vietnam 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 trademarks 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 belongs and the trademarks with indefinite life involves significant assumptions about the future results of business such as discount rates which are applied to the cash flow or net sales forecasts, long-term revenue growth rates, and earnings before interest, taxes, depreciation and amortization (EBITDA).

Refer to Notes 4 and 14 to the consolidated financial statements for the details on trademarks and goodwill and the assumptions used in the forecasts.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverable amounts of the CGUs for goodwill and the trademarks with indefinite life. These assumptions include the discount rates, long-term revenue growth rates and EBITDA. We compared the forecasted long-term revenue growth rates, forecasted net sales 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 trademarks with indefinite life.

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.

Refer to Notes 4 and 17 for the disclosures about provisions and Note 29 for the disclosures about contingencies of the Jollibee Group.

Audit Response

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 read correspondences with the relevant government agencies, obtained replies from third party legal counsels, and any relevant laws and rulings on similar matters. We evaluated the position of the Jollibee Group by considering the relevant laws, rulings and jurisprudence.

Recoverability of Deferred Income Tax Assets

The Parent Company and certain subsidiaries (foreign and local) have recognized deferred tax assets amounting to ₱4,842.8 million as at December 31, 2018. Of that amount, around 24.0% 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, the People's Republic of China and the United States of America. 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.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Jollibee Group adopted the new revenue recognition standard, PFRS 15, Revenue from Contracts with Customers, using the full retrospective method of adoption. The adoption of PFRS 15 resulted in significant changes in the Group's revenue recognition policies, process, and procedures. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in the following areas: (1) assessment whether all promises in the franchise agreement meet the definition of distinct performance obligations; (2) determination of the transaction price of the franchise agreement; (3) assessment of the timing of revenue recognition; and (4) presentation of the Jollibee Group's share in advertising expense arising from the franchise agreement.

The disclosures related to the adoption of PFRS 15 are included in Note 2 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Jollibee Group's process in implementing the new revenue recognition standard, including revenue streams identification and scoping. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management. For significant revenue streams, we obtained sample contracts and reviewed whether the accounting policies considered the five-step model and cost requirements of PFRS 15.

In relation to franchise fees, we reviewed sample franchise contracts focusing on the identification of the performance obligations, determination of the transaction price, and the timing of revenue recognition. We reviewed management's assessment on whether the activities being performed prior to opening of franchise store are distinct performance obligations.

In relation to reimbursements of system-wide advertising fees arising from franchise agreements, we reviewed and checked management's assessment on whether the promises within these agreements meet the definition of distinct performance obligations. We also reviewed management's assessment in determining that the Jollibee Group is acting as a principal for the system-wide advertising fees stated in the franchise agreements and the presentation of these share in the system-wide advertising fees in the consolidated statement of comprehensive income. We test computed the transition adjustments and reviewed the disclosures on the adoption of PFRS 15 in notes to the consolidated financial statements.

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, 2018, 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, 2018 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 Mariecris N. Barbaso.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-AR-1 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332526, January 3, 2019, Makati City

April 8, 2019

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousand Pesos)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 30 and 31)	**₱23,285,915**	₱21,107,474
Short-term investments (Notes 6, 30 and 31)	**883,200**	1,413,400
Receivables and contract assets (Notes 7, 30 and 31)	**4,862,744**	3,941,073
Inventories (Note 8)	**8,812,174**	6,835,514
Other current assets (Notes 9 and 32)	**4,894,168**	4,031,459
Total Current Assets	**42,738,201**	37,328,920
Noncurrent Assets		
Financial assets at fair value through profit or loss (Notes 10, 30 and 31)	**39,842**	–
Available-for-sale financial assets (Notes 10, 30 and 31)	**–**	29,862
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	**3,512,230**	7,492,771
Property, plant and equipment (Note 12)	**26,693,991**	20,893,814
Investment properties (Note 13)	**848,974**	848,974
Trademarks, goodwill and other intangible assets (Note 14)	**31,830,057**	15,730,239
Operating lease receivables (Notes 29, 30 and 31)	**31,635**	28,035
Derivative asset (Notes 18, 30 and 31)	**82,852**	11,949
Deferred tax assets - net (Note 24)	**4,322,996**	3,908,813
Other noncurrent assets (Notes 15, 30, 31 and 32)	**3,751,044**	3,510,518
Total Noncurrent Assets	**71,113,621**	52,454,975
	₱113,851,822	₱89,783,895
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities and contract liabilities (Notes 16, 30 and 31)	**₱28,716,769**	₱25,254,613
Income tax payable	**263,473**	223,773
Current portion of:		
Long-term debt (Notes 18, 30 and 31)	**4,892,102**	1,216,219
Operating lease payables (Notes 29, 30, 31 and 32)	**300,945**	252,235
Liability for acquisition of a business (Notes 11, 30 and 31)	**11,238**	–
Total Current Liabilities	**34,184,527**	26,946,840
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 18, 30 and 31)	**21,372,251**	14,901,052
Liability for acquisition of a business (Notes 11, 30 and 31)	**2,907**	–
Pension liability (Note 25)	**1,320,646**	1,489,546
Operating lease payables - net of current portion (Notes 29, 30, 31 and 32)	**2,715,978**	1,799,332
Derivative liability (Notes 11, 30 and 31)	**–**	51,042
Provisions (Note 17)	**825,109**	825,109
Deferred tax liabilities - net (Note 24)	**3,512,253**	1,188,995
Total Noncurrent Liabilities	**29,749,144**	20,255,076
Total Liabilities	**63,933,671**	47,201,916
Equity Attributable to Equity Holders of the Parent Company (Note 30)		
Capital stock - net of subscription receivable (Note 19)	**1,088,036**	1,084,478
Additional paid-in capital (Note 19)	**8,638,438**	7,520,383
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and associates (Note 11)	**589,501**	340,368
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	**(307,995)**	(461,769)
Unrealized gain on change in fair value of available-for-sale financial assets (Note 10)	**–**	6,758
Comprehensive income on derivative liability (Note 18)	**82,852**	11,949
Excess of cost over the carrying value of non-controlling interests acquired (Notes 11 and 19)	**(1,804,766)**	(2,152,161)
Retained earnings (Note 19):		
Appropriated for future expansion	**20,000,000**	18,200,000
Unappropriated	**20,257,995**	16,413,140
	48,544,061	40,963,146
Less cost of common stock held in treasury (Note 19)	**180,511**	180,511
	48,363,550	40,782,635
Non-controlling Interests (Note 11)	**1,554,601**	1,799,344
Total Equity	**49,918,151**	42,581,979
	₱113,851,822	₱89,783,895

See accompanying Notes to Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos, Except Per Share Data)

	Years Ended December 31		
	2018	2017 (As Restated)	2016 (As Restated)
REVENUES			
Gross sales	**₱153,068,666**	₱126,229,530	₱108,992,341
Sales discount	**(2,867,840)**	(1,565,982)	(1,067,887)
Net sales	**150,200,826**	124,663,548	107,924,454
Royalty, set-up fees and others (Note 20)	**8,475,070**	6,913,003	5,887,016
	158,675,896	131,576,551	113,811,470
PFRS 15 impact on system-wide advertising fees	**2,523,492**	2,036,535	1,802,072
	161,199,388	133,613,086	115,613,542
DIRECT COSTS (Note 21)	**133,894,709**	109,694,675	94,617,560
GROSS PROFIT	**27,304,679**	23,918,411	20,995,982
EXPENSES			
General and administrative expenses (Note 22)	**15,461,474**	13,905,845	11,861,440
Advertising and promotions	**4,027,609**	3,342,911	2,669,495
	19,489,083	17,248,756	14,530,935
INTEREST INCOME (EXPENSE) (Note 23)			
Interest income	**415,385**	259,567	286,913
Interest expense	**(888,843)**	(405,820)	(267,618)
	(473,458)	(146,253)	19,295
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net (Note 11)	**(86,750)**	(282,645)	(337,145)
OTHER INCOME (Note 23)	**3,235,196**	2,098,753	1,582,923
INCOME BEFORE INCOME TAX	**10,490,584**	8,339,510	7,730,120
PROVISION FOR INCOME TAX (Note 24)			
Current	**2,822,092**	2,310,630	2,334,855
Deferred	**(102,843)**	(643,702)	(658,244)
	2,719,249	1,666,928	1,676,611
NET INCOME	**7,771,335**	6,672,582	6,053,509
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Translation adjustments of foreign subsidiaries	**667,473**	97,735	(137,728)
Translation adjustments of foreign joint ventures and associates (Note 11)	**(382,259)**	269,119	12,316
Comprehensive income on derivative liability (Note 18)	**70,903**	45,479	2,368
Net unrealized gain on change in fair value of available-for-sale financial assets - net of tax (Note 10)	–	2,467	4,291
	356,117	414,800	(118,753)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on pension - net of tax (Note 25)	**153,774**	147,032	(72,221)
	509,891	561,832	(190,974)
TOTAL COMPREHENSIVE INCOME	**₱8,281,226**	₱7,234,414	₱5,862,535
Net Income Attributable to:			
Equity holders of the Parent Company (Note 28)	**₱8,329,884**	₱7,109,120	₱6,164,735
Non-controlling interests	**(558,549)**	(436,538)	(111,226)
	₱7,771,335	₱6,672,582	₱6,053,509
Total Comprehensive Income Attributable to:			
Equity holders of the Parent Company	**₱8,803,694**	₱7,665,277	₱5,970,688
Non-controlling interests	**(522,468)**	(430,863)	(108,153)
	₱8,281,226	₱7,234,414	₱5,862,535
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 28)			
Basic	**₱7.663**	₱6.580	₱5.747
Diluted	**7.550**	6.494	5.643

See accompanying Notes to Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 and 2016
(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company (Note 30)												
								Retained Earnings (Note 19)					
	Capital Stock - Net of Subscription Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and Associates (Note 11)	Remeasurement Gain (Loss) on Net Defined Benefit Plan - Net of tax (Note 25)	Unrealized Gain on Change in Fair Value of Available-for-Sale Financial Assets (Note 10)	Comprehensive Income (Loss) on Derivative Liability (Note 18)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Notes 11 and 19)	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
Balance at January 1, 2018, as previously reported	₱1,084,478	₱7,520,383	₱340,368	(₱461,769)	₱6,758	₱11,949	(₱2,152,161)	₱18,200,000	₱16,413,140	(₱180,511)	₱40,782,635	₱1,799,344	₱42,581,979
Effect of adoption of new accounting standards (Notes 2 and 10)	–	–	–	–	(6,758)	–	–	–	6,758	–	–	–	–
Balance at January 1, 2018, as adjusted	1,084,478	7,520,383	340,368	(461,769)	–	11,949	(2,152,161))	18,200,000	16,419,898	(180,511)	40,782,635	1,799,344	42,581,979
Net income (loss)	–	–	–	–	–	–	–	–	8,329,884	–	8,329,884	(558,549)	7,771,335
Other comprehensive income	–	–	249,133	153,774	–	70,903	–	–	–	–	473,810	36,081	509,891
Total comprehensive income (loss)	–	–	249,133	153,774	–	70,903	–	–	8,329,884	–	8,803,694	(522,468)	8,281,226
Movements in other equity accounts:													
Issuances of and subscriptions to capital stock (Note 19)	3,558	471,979	–	–	–	–	–	–	–	–	475,537	–	475,537
Cost of stock options granted (Note 26)	–	646,076	–	–	–	–	–	–	–	–	646,076	–	646,076
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	(2,691,787)	–	(2,691,787)	–	(2,691,787)
Appropriation during the year (Note 19)	–	–	–	–	–	–	–	20,000,000	(20,000,000)	–	–	–	–
Reversal during the year (Note 19)	–	–	–	–	–	–	–	(18,200,000)	18,200,000	–	–	–	–
Acquisition of minority interests (Note 11)	–	–	–	–	–	–	347,395	–	–	–	347,395	266,308	613,703
Arising from incorporation of a subsidiary (Note 11)	–	–	–	–	–	–	–	–	–	–	–	11,417	11,417
	3,558	1,118,055	–	–	–	–	347,395	1,800,000	(4,491,787)	–	(1,222,779)	277,725	(945,054)
Balances at December 31, 2018	₱1,088,036	₱8,638,438	₱589,501	(₱307,995)	₱–	₱82,852	(₱1,804,766)	₱20,000,000	₱20,257,995	(₱180,511)	₱48,363,550	₱1,554,601	₱49,918,151
Balance at January 1, 2017	₱1,074,123	₱5,660,085	(₱20,811)	(₱608,801)	₱4,291	(₱33,530)	(₱2,152,161)	₱18,200,000	₱11,659,531	(₱180,511)	₱33,602,216	₱679,188	₱34,281,404
Net income (loss)	–	–	–	–	–	–	–	–	7,109,120	–	7,109,120	(436,538)	6,672,582
Other comprehensive income	–	–	361,179	147,032	2,467	45,479	–	–	–	–	556,157	5,675	561,832
Total comprehensive income (loss)	–	–	361,179	147,032	2,467	45,479	–	–	7,109,120	–	7,665,277	(430,863)	7,234,414
Movements in other equity accounts:													
Issuances of and subscriptions to capital stock (Note 19)	10,355	850,770	–	–	–	–	–	–	–	–	861,125	–	861,125
Cost of stock options granted (Note 26)	–	1,009,528	–	–	–	–	–	–	–	–	1,009,528	–	1,009,528
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	(2,355,511)	–	(2,355,511)	–	(2,355,511)
Acquisition of minority interests (Note 11)	–	–	–	–	–	–	–	–	–	–	–	1,536,441	1,536,441
Arising from incorporation of a subsidiary (Note 11)	–	–	–	–	–	–	–	–	–	–	–	14,578	14,578
	10,355	1,860,298	–	–	–	–	–	–	(2,355,511)	–	(484,858)	1,551,019	1,066,161
Balances at December 31, 2017	₱1,084,478	₱7,520,383	₱340,368	(₱461,769)	₱6,758	₱11,949	(₱2,152,161)	₱18,200,000	₱16,413,140	(₱180,511)	₱40,782,635	₱1,799,344	₱42,581,979

	Equity Attributable to Equity Holders of the Parent Company (Note 30)												
	Capital Stock - Net of Subscription Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and Associates (Note 11)	Remeasurement Loss on Net Defined Benefit Plan - Net of tax (Note 25)	Unrealized Gain on Change in Fair Value of Available-for-Sale Financial Assets (Note 10)	Comprehensive Income (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) Appropriated for Future Expansion	Retained Earnings (Note 19) Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
Balance at January 1, 2016	₱1,068,971	₱5,055,293	₱107,225	(₱536,580)	₱–	(₱35,449)	(₱542,764)	₱10,200,000	₱15,487,039	(₱180,511)	₱30,623,224	₱1,133,366	₱31,756,590
Net income (loss)	–	–	–	–	–	–	–	–	6,164,735	–	6,164,735	(111,226)	6,053,509
Other comprehensive income (loss)	–	–	(128,036)	(72,221)	4,291	1,919	–	–	–	–	(194,047)	3,073	(190,974)
Total comprehensive income (loss)	–	–	(128,036)	(72,221)	4,291	1,919	–	–	6,164,735	–	5,970,688	(108,153)	5,862,535
Movements in other equity accounts:													
Issuances of and subscriptions to capital stock (Note 19)	5,152	363,468	–	–	–	–	–	–	–	–	368,620	–	368,620
Cost of stock options granted (Note 26)	–	241,324	–	–	–	–	–	–	–	–	241,324	–	241,324
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	(1,992,243)	–	(1,992,243)	–	(1,992,243)
Acquisition of minority interests (Note 11)	–	–	–	–	–	–	(1,609,397)	–		–	(1,609,397)	(905,536)	(2,514,933)
Appropriation during the period (Note 19)	–	–	–	–	–	–	–	8,000,000	(8,000,000)	–	–	–	–
Arising from incorporation of a subsidiary (Note 11)	–	–	–	–	–	–	–	–	–	–	–	715,608	715,608
Arising from divestment of subsidiaries (Note 11)	–	–	–	–	–	–	–	–	–	–	–	(156,097)	(156,097)
	5,152	604,792	–	–	–	–	(1,609,397)	8,000,000	(9,992,243)	–	(2,991,696)	(346,025)	(3,337,721)
Balances at December 31, 2016	₱1,074,123	₱5,660,085	(₱20,811)	(₱608,801)	₱4,291	(₱33,530)	(₱2,152,161)	₱18,200,000	₱11,659,531	(₱180,511)	₱33,602,216	₱679,188	₱34,281,404

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱10,490,584**	₱8,339,510	₱7,730,120
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	**5,909,760**	4,745,166	3,995,868
Deferred rent amortization - net (Note 29)	**961,756**	256,630	193,237
Interest expense (Note 23)	**888,843**	405,820	267,618
Gain from the re-measurement of the previously held interest (Notes 11 and 23)	**(754,804)**	(1,328,733)	–
Reversals of impairment losses on:			
Property, plant and equipment (Notes 12 and 22)	**(408,184)**	(2,111)	(2,000)
Receivables (Notes 7 and 22)	**(23,675)**	(20,705)	(3,188)
Inventories (Notes 8 and 22)	**(6,148)**	(53,819)	(18,129)
Interest income (Note 23)	**(415,385)**	(259,567)	(286,913)
Stock options expense (Notes 22 and 26)	**311,964**	227,483	241,324
Equity in net losses of joint ventures and an associate (Note 11)	**86,750**	282,645	337,145
Loss (gain) on movement in derivative liability (Note 11)	**49,791**	129,371	(3,298)
Loss (gain) on disposals and retirements of:			
Property and equipment (Notes 12 and 22)	**45,540**	174,510	236,809
Investment properties (Notes 13 and 22)	**–**	(231,036)	–
Movement in pension liability (Notes 21, 22 and 25)	**39,705**	37,840	89,781
Accretion of debt issue cost (Note 18)	**14,945**	3,274	–
Impairment losses on:			
Receivables (Notes 7 and 22)	**10,188**	143,772	91,415
Inventories (Notes 8 and 22)	**8,278**	7,443	78,621
Other assets (Note 15)	**–**	122,759	–
Property, plant and equipment (Note 22)	**–**	431,939	42,731
Net unrealized foreign exchange gain	**(5,007)**	(6,913)	(79,314)
Provisions (Notes 17 and 23)	**–**	794,609	–
Loss (gain) on divestment of subsidiaries and interest in joint venture (Notes 11 and 23)	**–**	116,207	(66,695)
Income before working capital changes	**17,204,901**	14,316,094	12,845,132
Decreases (increases) in:			
Receivables	**(740,070)**	(532,690)	2,299,070
Inventories	**(1,919,312)**	(715,127)	(593,238)
Other current assets	**(540,941)**	(229,836)	327,544
Increases in trade payables and other current liabilities	**1,910,083**	2,176,062	1,865,217
Net cash generated from operations	**15,914,661**	15,014,503	16,743,725
Income taxes paid	**(2,782,392)**	(2,396,189)	(2,261,503)
Interest received	**361,394**	225,314	278,099
Net cash provided by operating activities	**13,493,663**	12,843,628	14,760,321
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 12)	**(9,520,681)**	(8,904,796)	(6,694,133)
Interest in joint ventures (Note 11)	**(1,410,885)**	(531,147)	(1,617,092)
Minority interests (Note 11)	**(528,800)**	–	(2,070,159)
Intangible assets (Note 14)	**(111,216)**	(69,634)	(23,706)
Available-for-sale financial assets (Note 10)	**–**	(450)	–
Proceeds from disposals of:			
Property, plant and equipment (Note 12)	**932,283**	362,288	92,730
Investment properties (Note 13)	**–**	365,490	–
Subsidiaries - net (Note 11)	**–**	–	96,486
Decreases (increases) in:			
Short term-investments	**530,200**	(687,398)	196,315
Other noncurrent assets	**(102,327)**	(482,215)	(170,598)
Interests in and advances to joint ventures, co-venturers and associates	**–**	337,960	–
Cash (paid) received from acquisition of business - net of cash received (paid) (Note 11)	**(3,798,118)**	105,251	113,358
Dividends received from non-controlling interests (Note 11)	**34,637**	20,037	–
Advances to a joint venture (Note 11)	**–**	(1,059,786)	–
Net cash used in investing activities	**(13,974,907)**	(10,544,400)	(10,076,799)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Long-term debt (Note 18)	**₱11,126,459**	₱5,517,281	₱2,993,810
Issuances of and subscriptions to capital stock (Note 19)	**475,537**	861,125	368,620
Payments of:			
Long-term debt (Note 18)	**(5,524,746)**	(1,607,623)	(929,558)
Cash dividends (Note 19)	**(2,667,060)**	(2,347,164)	(1,988,082)
Short-term debt (Note 18)	**–**	–	(282,360)
Liability for acquisition of businesses (Note 11)	**–**	–	(94,852)
Interest paid	**(731,670)**	(360,856)	(232,646)
Contributions from non-controlling interests	**11,417**	14,578	715,608
Net cash provided by financing activities	**2,689,937**	2,077,341	550,540
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,208,693**	4,376,569	5,234,062
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(30,252)**	(2,441)	1,724
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**21,107,474**	16,733,346	11,497,560
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱23,285,915**	₱21,107,474	₱16,733,346

JOLLIBEE FOODS CORPORATION
Doing business under the name and style of Jollibee
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Jollibee Foods Corporation Doing business under the name and style of Jollibee (formerly Jollibee Foods Corporation) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 11, 1978. The Parent Company and its subsidiaries (collectively referred to as "the Jollibee Group") and affiliates are involved primarily in the development, operations 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", "Hard Rock Cafe", "Dunkin' Donuts", "Smashburger", "Tim Ho Wan" and "Tortas Frontera". 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 corporate life of the Parent Company is fifty (50) years from the date of incorporation or until 2028.

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 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 8, 2019.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Basis of Consolidation

<u>Basis of Preparation</u>
The consolidated financial statements of the Jollibee Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) and derivative financial instruments in 2018 and available-for-sale (AFS) investments and derivative financial instruments in 2017, 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. All values are rounded to the nearest thousand pesos, except par values, per share amounts, number of shares and when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the consolidated statement of financial position and performance unless otherwise indicated.

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as at January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Jollibee Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Jollibee Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Jollibee Group's consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9, replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or January 1, 2018, bringing together all these aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Jollibee Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Jollibee Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and net unrealized gain on AFS financial assets.

  The effect of adopting PFRS 9 follows:

  (a) Classification and Measurement

  Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Jollibee Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

  The assessment of the Jollibee Group's business model was made as of the date of initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact on Jollibee Group. The Jollibee Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Jollibee Group's financial assets:

- Cash in banks, short-term deposits, short-term investments, receivables (excluding receivables from government agencies), receivable from sale of business, security and other deposits and operating lease receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortized cost beginning January 1, 2018.

- Investments in golf and leisure club shares previously classified as AFS financial assets are now classified and measured as financial assets at FVTPL beginning January 1, 2018. As a result of the change in classification of Jollibee Group's investments in golf and leisure club shares, the net unrealized gain on AFS financial assets related to those investments that were previously presented under other comprehensive income (OCI), was reclassified to retained earnings as at January 1, 2018, resulting in a decrease in other components of equity and an increase in retained earnings of ₱6.8 million.

There are no changes in classification and measurement for the Jollibee Group's financial liabilities.

In summary, upon adoption of PFRS 9, the Jollibee Group had the following required or elected reclassifications as at January 1, 2018:

	Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
			(In Millions)	
Financial Assets				
Cash in banks and short-term deposits	Loans and receivables	Financial assets at amortized cost	₱20,762.5	₱20,762.5
Short-term investments	Loans and receivables	Financial assets at amortized cost	1,413.4	1,413.4
Receivables*	Loans and receivables	Financial assets at amortized cost	4,028.8	4,028.8
Security and other deposits*	Loans and receivables	Financial assets at amortized cost	2,465.0	2,465.0
Other noncurrent assets - Operating lease receivables	Loans and receivables	Financial assets at amortized cost	28.0	28.0
Investments in golf and leisure club shares	AFS financial assets	Financial assets at FVTPL	29.9	29.9
			₱28,727.6	₱28,727.6

**Including noncurrent portion.*

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Jollibee Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Jollibee Group to record ECL for all debt instruments not held at FVTPL and contract assets.

Incurred Loss versus Expected Credit Loss Methodology. The application of ECL significantly changes the Jollibee Group's credit loss methodology and models. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminated the threshold or trigger event required under incurred loss model, and lifetime ECL are recognized earlier.

Staging Assessment

For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Jollibee Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Jollibee Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires a lifetime ECL for impaired financial instruments.

For cash in banks, short-term deposits, short-term investments, and security and other deposits, the Jollibee Group has applied the General Approach and has calculated ECL based on 12-month ECL. For receivables and contract assets, and operating lease receivables, the Jollibee Group applied the simplified approach permitted by PFRS 9, which requires lifetime ECL to be recognized from initial recognition of the receivables. As at January 1, 2018, the Jollibee Group assessed that there was no SICR related to its financial assets at amortized cost.

The adoption of ECL approach has no significant impact on the allowance for impairment losses recognized in the consolidated financial statements.

- Amendments to PFRS 4, *Applying PFRS 9 with PFRS 4, Insurance Contracts*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard.
  The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. 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. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Jollibee Group since none of the entities within the Jollibee Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Jollibee Group adopted PFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Jollibee Group did not apply any of the other available optional practical expedients.

  The adoption of PFRS 15 did not have a material impact to the consolidated statement of financial position, consolidated statement of changes in equity, on OCI or the Jollibee Group's operating, investing and financing cash flows.

  The effect of adopting PFRS 15 on the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016 resulted to an increase in:

	2017	2016
	(in Millions)	
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from contracts with customers	₱2,036.5	₱1,802.1
DIRECT COSTS		
Share on system-wide advertising fees	2,036.5	1,802.1
NET INCOME	₱–	₱–

  The reason for the above changes in the consolidated statement of comprehensive income for the years ended December 31, 2017 and 2016 is described below:

  - *Principal versus Agent Consideration.* The Jollibee Group's agreement with the franchisee includes the right to charge the franchisee its share in the Jollibee Group's nationwide advertising and marketing efforts as well as fees for the Jollibee Group's administration of various advertisements, network and media placements. Upon adoption of PFRS 15, the Jollibee Group determined that it is acting as principal for the nationwide advertising because it is the Jollibee Group who retains the right to direct the service provider of the advertisements, network and media placements, and has the discretion on how to price the advertising fee charges.

  Before the adoption of PFRS 15, contract asset is not presented separately from receivables while contract liabilities are presented as other liabilities. Under PFRS 15, the timing of revenue recognition, schedule of payment and cash collections results in billed accounts receivable (trade receivables), accrued receivables (contract assets) and deferred revenue and unearned revenue from gift certificates (contract liabilities). Upon adoption of PFRS 15, the Jollibee Group reclassified “Trade receivables” to “Contract assets” amounting to ₱407.4 million and “Other liabilities” to “Contract liabilities” amounting to ₱2.7 million as at December 31, 2017.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required. The Jollibee Group elected to retain the fair value measurement applied by the investment entity joint venture in accounting for its investment.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  Since the Jollibee Group’s current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation International Financial Reporting Interpretations Committee (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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Jollibee Group’s current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Jollibee Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Jollibee Group intends to adopt the following pronouncements when these become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Jollibee Group has assessed that the adoption of these amendments will not have any impact on the consolidated financial statements.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Jollibee Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Jollibee Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Jollibee Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Jollibee Group is currently assessing the impact of adopting this interpretation.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

      The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

      A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

      An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Jollibee Group but may apply to future transactions.

    - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

      The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

      An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not expected to have significant impact to the Jollibee Group.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Jollibee Group's current practice is in line with these amendments, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Jollibee Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. The Jollibee Group is currently assessing the impact of these amendments.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. Adoption of this standard is not expected to have any impact to the Jollibee Group.

Deferred Effectivity

- 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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2018 and for each of the three years in the period ended December 31, 2018.

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. Specifically, the Jollibee Group controls an investee if, and only if, the Jollibee Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

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

A change 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, Happy Bee Foods Processing Pte. Ltd. and Smashburger. 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 changes in the ownership interest in a subsidiary do not result in the recognition of a gain or loss in profit or loss.

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned and majority-owned subsidiaries as at December 31, 2018 and 2017:

			2018		2017	
	Country of Incorporation	Principal Activities	**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. (RRBH):	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)	Philippines	Food service	**100**	**–**	100	–
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)	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 Piatto Pte. Ltd. [e]	Singapore	Holding company	**–**	**75**	–	75
• Cibo Felice S.R.L. [c]	Italy	Food service	**–**	**100**	–	100
Golden Cup Pte.Ltd.	Singapore	Holding company	**–**	**60**	–	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	People's Republic of China (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
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	**–**	**100**	–	100
Happy Bee Foods Processing Pte. Ltd. (HBFPPL)	Singapore	Holding company	**–**	**100**	–	100
- Happy Bee Foods Processing (Anhui) Co. Ltd.	PRC	Food service	**–**	**100**	–	100
JSF Investments Pte. Ltd. (JSF):	Singapore	Holding company	**–**	**99**	–	99
- SF Vung Tau Joint Stock Company [d]	Vietnam	Holding company	**–**	**60**	–	60
• Highland Coffee Service Joint-stock Company	Vietnam	Food service	**–**	**100**	–	100
• Quantum Corporation	Vietnam	Food service	**–**	**100**	–	100
· Pho Viet Joint Stock Company	Vietnam	Food service	**–**	**100**	–	100
· Pho 24 Service Trade Manufacture Corporation	Vietnam	Food service	**–**	**100**	–	100
- Blue Sky Holdings Limited [d]	Hong Kong	Holding company	**–**	**60**	–	60
• Sino Ocean Limited	Hong Kong	Food service	**–**	**100**	–	100
• Blue Sky Holdings (Macau) Limited	Macau	Food service	**–**	**100**	–	100
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)	Vietnam	Food service	**–**	**100**	–	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. (BGI)	USA	Holding company	**–**	**100**	–	100
- SJBF LLC (SJBF)[a]	USA	Food service	**–**	**100**	–	40
Bee World UK Limited (UK) [b]	UK	Holding company	**–**	**100**	–	–
Chanceux, Inc.	Philippines	Holding company	**100**	**–**	100	–
BKTitans Inc. (BKTitans)	Philippines	Holding company	**–**	**54**	–	54
- PFN Holdings Corporation	Philippines	Holding company	**–**	**99**	–	99
• PERF Restaurants, Inc.	Philippines	Food service	**–**	**100**	–	100
· PERF Trinoma	Philippines	Food service	**–**	**100**	–	100
· PERF MOA	Philippines	Food service	**–**	**100**	–	100
Jollibee Foods Corporation (USA)	USA	Holding company	**100**	**–**	100	–
Donut Magic Phils., Inc. (Donut Magic)[f]	Philippines	Dormant	**100**	**–**	100	–
Ice Cream Copenhagen Phils., Inc. (ICCP)[f]	Philippines	Dormant	**100**	**–**	100	–
Mary's Foods Corporation (Mary's)[f]	Philippines	Dormant	**100**	**–**	100	–
QSR Builders, Inc.	Philippines	Dormant	**100**	**–**	100	–

(a) On April 17, 2018, the Jollibee Group, through BGI completed the acquisition of additional 45% share of SJBF, increasing its ownership from 40% to 85%. Subsequently, on December 14, 2018, the Jollibee Group, through BGI acquired the remaining 15% share resulting to 100% share in SJBF.
(b) On April 16, 2018, Bee World UK Limited (UK) was incorporated.
(c) On July 31, 2017, the Jollibee Group, through Golden Piatto Pte. Ltd. incorporated Cibo Felice in Italy.
(d) On May 10, 2017, the Jollibee Group, through JSF increased its shareholding in SF Vung Tau Joint Stock Company (SFVT) and Blue Sky Holdings Limited (Blue Sky) to 60%.
(e) On April 12, 2017, the Jollibee Group, through GPPL, incorporated Golden Piatto Pte. Ltd. to own and operate Jollibee restaurants in Italy.
(f) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three (3) dormant companies. The application is pending approval from the SEC as at December 31, 2018.

3. **Summary of 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.

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 assets and 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 prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities), the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and 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.

<u>Cash and Cash Equivalents</u>
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.

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

<u>Financial Instruments</u>
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.

Date of Recognition. The Jollibee Group recognizes a financial asset or a financial liability in the consolidated statement of financial position, when it becomes a party to the contractual provisions of the instrument. 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 Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Effective beginning January 1, 2018 (Upon Adoption of PFRS 9)

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Jollibee Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Jollibee Group has applied the practical expedient, the Jollibee Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Jollibee Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Jollibee Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The Jollibee Group has no financial assets at FVOCI as at December 31, 2018.

Financial Assets at Amortized Cost (Debt Instruments). This category is the most relevant to the Jollibee Group. The Jollibee Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Jollibee Group's cash in banks, short-term deposits, short-term investments, receivables (excluding receivables from government agencies), receivable from sale of business, security and other deposits and operating lease receivables are classified under this category as at December 31, 2018.

Financial Assets at FVTPL. Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. 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. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

The Jollibee Group elected to classify irrevocably its investments in golf and leisure club shares under this category as at December 31, 2018.

Impairment of Financial Assets. The Jollibee Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows the Jollibee Group expects to receive discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables and contract assets, and operating lease receivables, the Jollibee Group applies a simplified approach in calculating ECLs. Therefore, the Jollibee Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Jollibee Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For security and other deposits, the Jollibee Group applies the general approach and calculates ECL based on the 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instruments since initial recognition.

For cash in banks, short-term deposits and short-term investments, the Jollibee Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Jollibee Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Jollibee Group assesses that there is a significant increase in credit risk of a financial asset when default occurs. The Jollibee Group uses the ratings from Moody's to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Jollibee Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Jollibee Group may also consider a financial asset to be in default when internal or external information indicates that the Jollibee Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Jollibee Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Jollibee Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. To do this, the Jollibee Group has considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

Based on the Jollibee Group's evaluation and assessment and after taking into consideration external actual and forecast information, the Jollibee Group considers two or more economic scenarios and the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The Jollibee Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group considers macro-economic factors such as gross domestic product growth rates and inflation rates in its analysis.

Effective before January 1, 2018 (Prior to Adoption of PFRS 9)

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at FVTPL, 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 FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

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.

The Jollibee Group's financial assets consist of financial assets at FVTPL, loans and receivables, and AFS financial assets as at December 31, 2017. The Jollibee Group has no financial assets classified under the HTM investments category as at December 31, 2017.

Subsequent Measurement

Financial Assets at FVTPL. Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. 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 FVTPL. Financial assets at FVTPL 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 FVTPL. 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 FVTPL.

This category generally applies to the Jollibee Group's derivative assets as at December 31, 2017.

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 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 effective interest rate. The effective interest rate amortization is recognized in profit or loss. The losses arising from impairment are recognized also in profit or loss.

This category includes the Jollibee Group's cash in banks, short-term deposits, short-term investments, receivables, receivable from sale of business, security and other deposits, and operating lease receivables as at December 31, 2017.

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 FVTPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income 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.

This category includes investments in golf and leisure club shares as at December 31, 2017.

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, and individually 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 and receivables, 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 to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

- *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 (Applies before and after January 1, 2018)

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables 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, payables and derivative financial liabilities as at December 31, 2018 and 2017.

Subsequent Measurement

- *Financial Liabilities at FVTPL.* Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. 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 FVTPL 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 FVTPL.

- *Loans and Borrowings, and Other Payables.* This is the category most relevant to the Jollibee Group. After initial recognition, interest-bearing loans and borrowings, and other payables 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 effective interest rate. The effective interest rate amortization is included as interest expense in the consolidated statement of comprehensive income.

  This category includes the Jollibee Group's trade payables and other current liabilities (excluding local and other taxes payable and unearned revenue from gift certificates), long-term debts and operating lease payables as at December 31, 2018 and 2017.

- *Debt Issue Costs.* Debt issue costs are specific incremental costs, other than those paid to the lender, that are directly related to issuing a debt instrument. These are presented in the consolidated statement of financial position as a reduction from the related debt instrument and are amortized through the EIR amortization process.

<u>Derecognition of Financial Assets and Liabilities (Applies to Financial Instruments before and after January 1, 2018)</u>

Financial Assets. 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 Jollibee Group's 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 recognized 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.

Financial Liabilities. 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

‘Day 1 Difference’

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Jollibee Group recognizes the difference between the transaction price and fair value (a ‘Day 1 difference’) in the profit or loss unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is recognized in the profit or loss only when the inputs become observable or when the instrument is derecognized. For each transaction, the Jollibee Group determines the appropriate method of recognizing the ‘Day 1 difference’ amount.

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 Jollibee 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 other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

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
- Hedges of a net investment in a foreign operation

The Jollibee Group's interest rate swap is cash flow hedge. The Jollibee Group has no fair value hedge and hedge of a net investment in a foreign operation as at December 31, 2018 and 2017.

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.

Before January 1, 2018, 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.

Beginning January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Jollibee Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Jollibee Group actually hedges and the quantity of the hedging instrument that the Jollibee Group actually uses to hedge that quantity of hedged item

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

Cash Flow Hedges. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of comprehensive income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Comprehensive income (loss) on derivative liability" in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in profit or loss.

The Jollibee Group has an interest rate swap for its exposure to volatility in interest rates.

Amounts recognized as other comprehensive 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 other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Contract Balances

Contract Assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Jollibee Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade Receivables. A receivable represents the Jollibee Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Jollibee Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Jollibee Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Jollibee Group performs under the contract.

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 prepaid expenses which are paid in advance and recorded as asset before these are utilized, deposits which pertain to advance payments to suppliers to be applied for future purchases, 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.

Interests in and Advances to Joint Ventures, Co-venturers and Associates
An associate is an entity over which the Jollibee Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not in 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 associates 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 associates 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 associates or joint ventures, less any impairment in value. Goodwill relating to the joint ventures or associates 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 associates or joint ventures. The Jollibee Group's share in profit or loss of the associates is shown on the face of the consolidated statement of comprehensive income as "Equity in net losses of joint ventures and associates - net", which is the profit or loss attributable to equity holders of the joint ventures and associates.

When the Jollibee Group's share of losses in the joint ventures or associates 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 associates 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.

Unrealized gains arising from transactions with the associates or joint ventures are eliminated to the extent of the Jollibee Group's interests in the associates 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 the associates, 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.

Property, Plant and Equipment
Property, plant and equipment, except land and construction in progress, 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. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the asset. 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

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

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

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.

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 at each financial year-end and adjusted prospectively, if appropriate.

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.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Jollibee Group as an owner-occupied property becomes an investment property, the Jollibee Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

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 fair value of 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 business 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.

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
Trademarks	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.

Impairment of Nonfinancial Assets
The carrying values of interests in and advances to joint ventures, co-venturers and associates, property, plant and equipment, investment properties, trademarks, 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.

Subscription Receivable. Subscription 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, joint ventures 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 from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Jollibee Group expects to be entitled in exchange for those goods or services. The Jollibee Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Jollibee Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of goods is recognized at the point in time when control is transferred to the customer, which is normally upon delivery. Sales returns and 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 certain percentages of the franchisees' net sales.

Set-up Fees. Revenue from set-up fees is recognized on a straight-basis over the term of the franchise agreement and when performance obligations relating to the payment of set-up fees have been satisfied.

System-wide Advertising Fees. Revenues consisting of reimbursements of network advertising and promotional costs from franchisees are recognized upon performance of service.

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

Management Fees. Revenue is recognized in the period in which the administration services has been rendered based on a certain percentage of the total costs incurred.

<u>Other Revenues</u>
The following specific recognition criteria must also be met before other revenue is recognized:

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.

<u>Cost and Expenses</u>
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.

<u>Pension Benefits</u>
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 “Direct costs” 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 other comprehensive income 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 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, at 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.

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 in 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.

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. Nonmonetary 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, Hong Kong dollar, Canadian dollar, Macau pataca and Euro. 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 interests in joint ventures and associates". 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
- in respect of taxable temporary differences associated with investments in subsidiaries and interests 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 other comprehensive income 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 VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position. When VAT passed on from purchases of gods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of "Other current assets" account 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.

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.

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.

Revenue Contracts with Customers - Determining the Timing of Satisfaction of Set-up Fees. The Jollibee Group undertakes activities prior to store opening (e.g., initial training, site development, systems set-up, etc.) as indicated in the franchise agreement. The Jollibee Group determines whether these activities are capable of being distinct (i.e., whether the franchisee can benefit on each of these activities on a standalone basis) and whether these activities are distinct within the context of the franchise agreement (i.e., whether these activities can be separated from the franchise license granted to the franchisee).

The Jollibee Group determined that revenue from set-up fees should be recognized on a straight-basis over the term of the franchise agreement and when performance obligations relating to the payment of set-up fees have been satisfied.

Principal versus Agent Consideration. The Jollibee Group's agreement with the franchisee includes the right to charge the franchisee its share in the Jollibee Group's nationwide advertising and marketing efforts as well as fees for the Jollibee Group's administration of various advertisements, network and media placements. The Jollibee Group determined that it is acting as principal for the nationwide advertising because it is the Jollibee Group who retains the right to direct the service provider of the advertisements, network and media placements, and has the discretion on how to price the advertising fee charges. The Jollibee Group considers both the legal form and the substance of its agreement to determine each party's respective roles in the agreement.

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 ₱12,738.2 million, ₱10,236.6 million and ₱8,704.5 million in 2018, 2017 and 2016, 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 ₱53.3 million, ₱57.2 million and ₱91.4 million in 2018, 2017 and 2016, 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 entities 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 with activities that are important to the Jollibee Group as at end of the period.

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

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.

Determination of Purchase Price Allocation. In April 2018, the Jollibee Group, through BGI, increased its ownership interest in SJBF from 40% to 85% ownership interest for a total consideration of ₱11,284.9 million (see Note 11). In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the trademark of Smashburger amounting to ₱10,414.0 million (see Note 14).

In 2017, the Jollibee Group, through JSF, increased its ownership interest in SF Vung Tau Joint Stock Company and Blue Sky Holdings Ltd. (collectively SuperFoods Group) from 50% to 60% ownership interest for a total consideration of ₱4,812.5 million (see Note 11). In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the trademarks of Highlands Coffee and Pho 24 amounting to ₱3,681.9 million and ₱463.1 million, respectively (see Note 14).

Management has measured the trademarks and favourable leases, and the property and equipment that were acquired using the appraisal reports that were prepared by an independent appraiser. The trademarks were valued using the relief-from-royalty method wherein the fair value of trademarks is based on cost savings from owning the trademarks. Significant assumptions and estimates used include comparable royalty rates, long-term growth rates, discount rates based on available market data and revenue growth rate forecasts. The property and equipment were valued using the replacement cost. Adjustments were made to replacement cost to reflect depreciation. The valuation of favourable leases was based on market values using income approach.

Recoverability of Trademarks, Goodwill and Other Intangible Assets. The Jollibee Group determines whether trademarks, 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 trademarks, goodwill and other intangible assets are not impaired. The carrying amount of trademarks, goodwill and other intangible assets amounted to ₱31,830.1 million and ₱15,730.2 million as at December 31, 2018 and 2017, 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.

Reversal of impairment loss on interest in an associate was recognized in 2018 amounting to ₱16.7 million (see Notes 11 and 23). In 2017 and 2016, no provision or reversal of impairment loss was recognized. The gain (loss) from divestment of subsidiaries and interest in a joint venture recognized amounted to nil, (₱116.2 million) and ₱66.7 million in 2018, 2017 and 2016, respectively (see Notes 11 and 23). The carrying amounts of interests in and advances to joint ventures, co-venturers and associates as at December 31 are as follows (see Note 11):

	2018	2017
Interests in joint ventures	**₱969.8**	₱5,810.3
Interests in associates	**869.6**	146.9
Advances to co-venturers	**1,672.8**	1,535.6

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 the recognized deferred tax assets amounted to ₱4,842.8 million and ₱4,372.7 million as at December 31, 2018 and 2017, respectively. Unrecognized deferred tax assets amounted to ₱10.3 million and ₱67.6 million as at December 31, 2018 and 2017, respectively (see Note 24).

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.

Reversal of impairment loss amounted to ₱408.2 million, ₱2.1 million and ₱2.0 million in 2018, 2017 and 2016, respectively (see Notes 12 and 22). The Jollibee Group recognized provision for impairment loss amounting to ₱431.9 million and ₱42.7 million in 2017 and 2016, respectively. No provision for impairment loss was recognized in 2018 (see Notes 12 and 22).

The aggregate carrying values of property, plant and equipment and investment properties as at December 31 are as follows:

	2018	2017
Property, plant and equipment (see Note 12)	**₱26,694.0**	₱20,893.8
Investment properties (see Note 13)	**849.0**	849.0

Impairment of Receivables (Upon Adoption of PFRS 9). The Jollibee Group uses a provision matrix to calculate ECLs for its receivables. The provision rates are based on days past due.

The provision matrix is initially based on the Jollibee Group's historical observed default rates. The Jollibee Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forward-looking information, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Jollibee Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

Provision for impairment loss on receivables amounted to ₱10.2 million in 2018. Reversal of previously recognized provision for impairment loss amounted to ₱23.7 million in 2018 (see Notes 7 and 22). The carrying amount of receivables and contract assets amounted to ₱4,862.7 million as at December 31, 2018 (see Note 7).

Impairment of Receivables (Prior to Adoption of PFRS 9). 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 2017 and 2016 amounted to ₱143.8 million and ₱91.4 million, respectively, resulting from specific and collective assessments (see Note 22). Reversal of previously recognized provisions amounting to ₱20.7 million and ₱3.2 million were recognized in 2017 and 2016, respectively (see Note 22). The carrying amount of receivables and contract assets amounted to ₱3,941.1 million as at December 31, 2017 (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 ₱8.3 million, ₱7.4 million and ₱78.6 million in 2018, 2017 and 2016, respectively (see Note 22). Reversal of previously recognized provisions amounting to ₱6.1 million, ₱53.8 million and ₱18.1 million were recognized in 2018, 2017 and 2016, respectively (see Note 22). The carrying amount of inventories amounted to ₱8,812.2 million and ₱6,835.5 million as at December 31, 2018 and 2017, 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 ₱1,320.6 million and ₱1,489.5 million as at December 31, 2018 and 2017, 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 ₱312.0 million, ₱227.5 million and ₱241.3 million in 2018, 2017 and 2016, respectively (see Notes 19, 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 2018 and 2017.

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.

The Jollibee Group recognized a derivative liability amounting to nil and ₱51.0 million as at December 31, 2018 and 2017 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.

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.

The Jollibee Group recognized provision amounting to ₱794.6 million in 2017. No provision was recognized in 2018 and 2016 (see Note 23).

Total outstanding provisions amounted to ₱825.1 million as at December 31, 2018 and 2017 (see Notes 17 and 29).

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, 2018, 2017 and 2016:

	2018				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Consolidated**
Revenues from external customers	**₱150,498,395**	**₱10,114,292**	**₱586,701**	**₱–**	**₱161,199,388**
Inter-segment revenues	**43,571,728**	**3,225,369**	**8,824,495**	**(55,621,592)**	**–**
Segment revenues	**194,070,123**	**13,339,661**	**9,411,196**	**(55,621,592)**	**161,199,388**
Segment expenses	**(194,697,929)**	**(5,748,861)**	**(8,978,135)**	**55,621,592**	**(153,803,333)**
Reversal of impairment losses on receivables, inventories and property, plant and equipment - net of provisions	**419,541**	**–**	**–**	**–**	**419,541**
Equity in net losses of joint ventures and associates – net	**(86,750)**	**–**	**–**	**–**	**(86,750)**
Other segment income	**3,232,084**	**–**	**3,112**	**–**	**3,235,196**
Segment result	**₱2,937,069**	**₱7,590,800**	**₱436,173**	**₱–**	**10,964,042**
Interest income					**415,385**
Interest expense					**(888,843)**
Income before income tax					**10,490,584**
Provision for income tax					**(2,719,249)**
Net income					**₱7,771,335**

	2018				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Consolidated**
Assets and Liabilities					
Segment assets	**₱109,159,626**	**₱–**	**₱369,200**	**₱–**	**₱109,528,826**
Deferred tax assets - net	**4,322,996**	**–**	**–**	**–**	**4,322,996**
Consolidated assets	**₱113,482,622**	**₱–**	**₱369,200**	**₱–**	**₱113,851,822**
Segment liabilities	**₱33,828,169**	**₱–**	**₱65,423**	**₱–**	**₱33,893,592**
Deferred tax liabilities - net	**3,512,253**	**–**	**–**	**–**	**3,512,253**
Long-term debt - including current portion	**26,264,353**	**–**	**–**	**–**	**26,264,353**
Income tax payable	**260,421**	**–**	**3,052**	**–**	**263,473**
Consolidated liabilities	**₱63,865,196**	**₱–**	**₱68,475**	**₱–**	**₱63,933,671**
Other Segment Information					
Capital expenditures	**₱9,631,897**	**₱–**	**₱–**	**₱–**	**₱9,631,897**
Depreciation and amortization	**5,905,180**	**–**	**4,580**	**–**	**5,909,760**

	2017				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱124,972,802	₱8,075,199	₱565,085	₱–	₱133,613,086
Inter-segment revenues	38,836,601	2,928,473	8,205,610	(49,970,684)	–
Segment revenues	163,809,403	11,003,672	8,770,695	(49,970,684)	133,613,086
Segment expenses	(162,923,487)	(4,965,008)	(8,396,342)	49,970,684	(126,314,153)
Impairment losses on receivables, inventories and property, plant and equipment and other assets - net of reversals	(629,278)	–	–	–	(629,278)
Equity in net losses of joint ventures and associates - net	(282,645)	–	–	–	(282,645)
Other segment income	2,072,932	–	25,821	–	2,098,753
Segment result	₱2,046,925	₱6,038,664	₱400,174	₱–	8,485,763
Interest income					259,567
Interest expense					(405,820)
Income before income tax					8,339,510
Provision for income tax					(1,666,928)
Net income					₱6,672,582

	2017				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Assets and Liabilities					
Segment assets	₱85,523,719	₱–	₱351,363	₱–	₱85,875,082
Deferred tax assets - net	3,908,103	–	710	–	3,908,813
Consolidated assets	₱89,431,822	₱–	₱352,073	₱–	₱89,783,895
Segment liabilities	₱29,587,940	₱–	₱83,937	₱–	₱29,671,877
Deferred tax liabilities - net	1,188,995	–	–	–	1,188,995
Long-term debt - including current portion	16,117,271	–	–	–	16,117,271
Income tax payable	221,713	–	2,060	–	223,773
Consolidated liabilities	₱47,115,919	₱–	₱85,997	₱–	₱47,201,916
Other Segment Information					
Capital expenditures	₱8,974,430	₱–	₱–	₱–	₱8,974,430
Depreciation and amortization	4,739,924	–	5,242	–	4,745,166

	2016				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱108,263,045	₱7,070,993	₱279,504	₱–	₱115,613,542
Inter-segment revenues	33,576,257	1,757,050	5,386,826	(40,720,133)	–
Segment revenues	141,839,302	8,828,043	5,666,330	(40,720,133)	115,613,542
Segment expenses	(140,568,751)	(3,559,122)	(5,551,305)	40,720,133	(108,959,045)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	(189,450)	–	–	–	(189,450)
Equity in net losses of joint ventures and associates - net	(337,145)	–	–	–	(337,145)
Other segment income	1,576,667	–	6,256	–	1,582,923
Segment result	₱2,320,623	₱5,268,921	₱121,281	₱–	7,710,825
Interest income					286,913
Interest expense					(267,618)
Income before income tax					7,730,120
Provision for income tax					(1,676,611)
Net income					₱6,053,509

	2016				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Other Segment Information					
Capital expenditures	₱6,717,839	₱–	₱–	₱–	₱6,717,839
Depreciation and amortization	3,990,980	–	4,888	–	3,995,868

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, Canada, Vietnam, UAE, Hongkong, Macau, Brunei, Saudi Arabia, Singapore, Malaysia, Oman, Kuwait, Qatar, Italy and UK. 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:

	2018			
	Philippines	**International**	**Eliminations**	**Consolidated**
Segment revenues	**₱120,303,894**	**₱41,621,421**	**(₱725,927)**	**₱161,199,388**
Segment assets	**60,422,654**	**49,106,172**	**–**	**109,528,826**
Capital expenditures	**7,121,815**	**2,510,082**	**–**	**9,631,897**

	2017			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱105,193,712	₱28,937,959	(₱518,585)	₱133,613,086
Segment assets	47,459,418	38,415,664	–	85,875,082
Capital expenditures	7,382,960	1,591,470	–	8,974,430

	2016			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱92,427,367	₱23,594,721	(₱408,546)	₱115,613,542
Capital expenditures	5,493,783	1,224,056	–	6,717,839

Revenue from Contracts with Customers

Set out below is the disaggregation of the Jollibee Group's revenue from contracts with customers:

	2018		
Revenue Source	**Food Service**	**Franchising**	**Total**
Sale of goods	**₱150,200,826**	**₱–**	**₱150,200,826**
Royalty fees	**–**	**7,043,891**	**7,043,891**
Set-up fees	**–**	**546,909**	**546,909**
System-wide advertising fees	**–**	**2,523,492**	**2,523,492**
Other revenues	**297,569**	**–**	**297,569**
Total revenue from contracts with customers	**₱150,498,395**	**₱10,114,292**	**₱160,612,687**
Timing of recognition:			
Goods transferred at a point in time			**₱160,065,778**
Services transferred over time			**546,909**
			₱160,612,687

	2017		
Revenue Source	Food Service	Franchising	Total
Sale of goods	₱124,663,548	₱–	₱124,663,548
Royalty fees	–	5,614,447	5,614,447
Set-up fees	–	424,217	424,217
System-wide advertising fees	–	2,036,535	2,036,535
Other revenues	309,254	–	309,254
Total revenue from contracts with customers	₱124,972,802	₱8,075,199	₱133,048,001
Timing of recognition:			
Goods transferred at a point in time			₱132,623,784
Services transferred over time			424,217
			₱133,048,001

Revenue Source	2016 Food Service	Franchising	Total
Sale of goods	₱107,924,454	₱–	₱107,924,454
Royalty fees	–	4,959,567	4,959,567
Set-up fees	–	309,354	309,354
System-wide advertising fees	–	1,802,072	1,802,072
Other revenues	338,591	–	338,591
Total revenue from contracts with customers	₱108,263,045	₱7,070,993	₱115,334,038

Timing of recognition:	
Goods transferred at a point in time	₱115,024,684
Services transferred over time	309,354
	₱115,334,038

6. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2018	2017
Cash on hand	**₱480,889**	₱344,976
Cash in banks	**12,097,440**	15,120,958
Short-term deposits	**10,707,586**	5,641,540
	₱23,285,915	₱21,107,474

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.

Short-term Investments
The Jollibee Group also has short-term investments amounting to ₱883.2 million and ₱1,413.4 million as at December 31, 2018 and 2017, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱313.3 million, ₱149.3 million and ₱136.7 million in 2018, 2017 and 2016, respectively (see Note 23).

7. Receivables and Contract Assets

This account consists of:

	2018	2017
Trade	**₱4,680,553**	₱4,077,531
Less allowance for impairment loss	**676,906**	690,119
	4,003,647	3,387,412
Advances to employees	**167,352**	144,791
Current portion of employee car plan receivables (see Note 15)	**91,172**	88,971

(Forward)

	2018	2017
Interest receivable	**₱19,314**	₱11,911
Others	**173,887**	160,538
	4,455,372	3,793,623
Contract assets	**407,372**	147,450
	₱4,862,744	₱3,941,073

The terms and conditions of the receivables are as follows:

- Trade receivables are noninterest-bearing and are generally settled on a 14-day term. Upon adoption of PFRS 15, the Jollibee Group classified accrued receivables as contract assets.
- 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, 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:

	2018	2017
Balance at beginning of year	**₱690,119**	₱579,792
Reversals (see Note 22)	**(23,675)**	(20,705)
Provisions (see Note 22)	**10,188**	143,772
Write-offs	**(1,201)**	(12,797)
Translation adjustments	**1,475**	57
Balance at end of year	**₱676,906**	₱690,119

The provisions in 2018 were based on the Jollibee Group's ECL. The provisions in 2017 resulted from specific and collective impairment assessments on trade receivables performed by the Jollibee Group.

8. Inventories

This account consists of:

	2018	2017
At cost:		
Food supplies and processed inventories	**₱8,289,323**	₱6,377,956
Packaging, store and other supplies	**406,186**	434,999
	8,695,509	6,812,955
At net realizable value -		
Novelty items	**116,665**	22,559
Total inventories at lower of cost and net realizable value	**₱8,812,174**	₱6,835,514

The cost of novelty items carried at net realizable value amounted to ₱151.4 million and ₱55.1 million as at December 31, 2018 and 2017, respectively.

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

	2018	2017
Balance at beginning of year	**₱32,565**	₱78,647
Provisions (see Note 22)	**8,278**	7,443
Reversals (see Note 22)	**(6,148)**	(53,819)
Translation adjustments	**(1)**	294
Balance at end of year	**₱34,694**	₱32,565

9. **Other Current Assets**

This account consists of:

	2018	2017
Prepaid expenses:		
Taxes	**₱1,963,937**	₱1,499,728
Rent	**567,599**	526,809
Insurance and others	**490,748**	211,505
Supplies	**78,604**	111,378
Current portion of security and other deposits (see Note 15)	**239,096**	187,904
Deposits to suppliers and other third parties	**1,554,184**	1,417,735
Receivable from sale of business (see Note 11)	**–**	76,400
	₱4,894,168	₱4,031,459

Terms and conditions of other current assets are as follows:

- 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.

- Prepaid rent pertains to the rent of store and office spaces that are paid in advance. Supplies consist of various office and administrative supplies. Prepaid rent, insurance and others are normally utilized within the next financial year.

- 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 in 2016 (see Note 11).

10. Financial Assets at FVTPL/Available-for-Sale Financial Assets

This account consists of investment in shares of stocks of Manila Polo Club, Tagaytay Highlands and other golf and leisure clubs.

Due to the adoption of PFRS 9, the Jollibee Group classified its investments in golf and leisure club shares as financial assets at FVTPL as at January 1, 2018.

Financial Assets at FVTPL
The movements in financial assets at FVTPL in 2018 are as follows:

Balance at beginning of year, as previously reported	₱–
Reclassification from AFS financial assets	29,862
Balance at beginning of year, as adjusted	29,862
Market-to-market gain on financial assets at FVTPL (see Note 23)	9,980
Balance at end of year	₱39,842

AFS Financial Assets
The movements of AFS financial assets in 2017 are as follows:

Cost	
Balance at beginning of year	₱21,462
Additions	450
Balance at end of year	21,912
Cumulative Unrealized Gain on AFS Financial Assets	
Balance at beginning of year	4,750
Unrealized gain due to change in fair value	3,200
Balance at end of year	7,950
	₱29,862

The fair value of financial assets at FVTPL/AFS financial assets have been determined directly by reference to quoted prices in active market or inputs other than quoted prices that are directly or indirectly observable (see Note 31).

11. Business Combinations, Incorporation of New Subsidiaries, Material Non-controlling Interests, Interests in and Advances to Joint Ventures, Co-venturers and Associates, Divestments and Cessation of Operations

A. Business Combinations

Business Combination Achieved in Stages

SJBF. On October 8, 2015, the Jollibee Group, through JWPL, incorporated 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) and USD0.8 million (₱36.6 million) in December 2015 and January 2016, respectively. 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.

The agreement between BGI and Master dated October 27, 2015 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.

On February 25, 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.

On March 24, 2017 and September 7, 2017, BGI made additional investments to SJBF amounting to USD8.0 million (₱402.6 million) and USD2.5 million (₱128.5 million), respectively. The additional investments did not change BGI's equity interest in SJBF.

On March 8, 2018, BGI executed the Purchase Agreement with Master for the acquisition of an additional 45% share of SJBF pursuant to the exercise by Master of its First Put Option for USD100.0 million (₱5,207.0 million). This increased BGI's ownership in SJBF from 40% to 85%.

On April 17, 2018, closing conditions, including required government approvals, have been obtained as provided under the Purchase Agreement. The Jollibee Group, through BGI, paid Master in cash amounting to USD100.0 million (₱5,207.0 million). With the completion of the acquisition, the Jollibee Group included Smashburger in its financial consolidation starting April 17, 2018 (the "acquisition date").

As a result of the first and second Put/Call Rights in the agreement between BGI and Master, 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. The Jollibee Group recognized a derivative liability amounting to nil and ₱51.0 million as at December 31, 2018 and 2017, respectively, to the Put/Call Rights. The marked-to-market loss amounted to ₱49.8 million and ₱129.3 million in 2018 and 2017, respectively (see Note 23).

The details of Jollibee Group's interest in SJBF as at December 31, 2018 and 2017 are as follows:

	2018	2017
Interest in a joint venture - cost:		
Balance at beginning of year	**₱6,151,981**	₱5,620,834
Additions during the year	**–**	531,147
Balance at transfer date/year	**6,151,981**	6,151,981
Cumulative equity in net losses:		
Balance at beginning of year	**(691,926)**	(361,911)
Equity in net loss during the year	**(36,085)**	(330,015)
Balance at transfer date/year	**(728,011)**	(691,926)
	5,423,970	5,460,055
Transferred to investment in a subsidiary	**(5,423,970)**	–
	₱–	₱5,460,055

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	₱1,408,882
Receivables	154,360
Inventories	59,478
Other current assets	321,766
Property, plant and equipment (see Note 12)	2,565,988
Trademarks and favourable leases (see Note 14)	10,782,418
Other noncurrent assets	68,201
Total identifiable assets acquired	15,361,093
Less:	
Short-term debt	84,300
Trade payables and other current liabilities	1,092,701
Long-term debt	4,133,311
Other noncurrent liabilities	645,552
Deferred tax liabilities	2,323,280
Total identifiable liabilities assumed	8,279,144
Net identifiable assets acquired	₱7,081,949

The Jollibee Group's investment in SJBF was previously accounted for as investment in a joint venture. In accordance with PFRS 3, with the Jollibee Group's acquisition of control over SJBF in 2018, the fair value of the previously held interest amounted to ₱6,178.8 million and the resulting gain from the re-measurement of the 40% previously held interest amounted to ₱754.8 million (see Note 23).

The fair value of trade receivables approximates the carrying amount of receivables acquired amounting to ₱154.4 million and it is expected that the full contractual amounts can be collected.

The amount of provisional goodwill recorded at acquisition date amounted to ₱5,345.5 million determined as follows:

Fair value of consideration transferred:	
Fair value of previously held interest	₱6,178,774
Cash consideration	5,207,000
Derivative liability at acquisition date	(100,833)
	11,284,941
Fair value of non-controlling interest's share in the net identifiable assets acquired	1,142,502
Aggregate amount	12,427,443
Less fair value of net identifiable assets acquired	7,081,949
Goodwill (see Note 14)	₱5,345,494

The net cash outflow from the acquisition is as follows:

Cash paid on acquisition	₱5,207,000
Less cash acquired from subsidiary	1,408,882
	₱3,798,118

The provisional goodwill of ₱5,345.5 million is attributable to synergies and other benefits from the acquisition of SJBF.

The non-controlling interest was recognized as a proportion of the fair value of the net assets acquired. The fair value of the non-controlling interest in SJBF has been estimated by applying the following valuation methodology and significant inputs:

- Relief-from-Royalty method for trademark using a royalty rate of 4.12% and terminal value, calculated based on long-term sustainable growth rate for the industry of 2% and estimated discount rate of 11%
- Income approach for favourable leases using a market rent growth of 2.5% and a discount rate of 7.5%
- Cost method for other intangible assets
- Replacement cost method for property, plant and equipment

The Jollibee Group's acquisition of additional shares in SJBF will allow the Jollibee Group to have a more significant business in the USA by increasing the sales contribution from that country to the Jollibee Group's worldwide system-wide sales.

Summarized financial information of SJBF based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements for the year ended December 31, 2017 are set out below:

Current assets	₱2,024,938
Noncurrent assets	4,792,879
Total assets	₱6,817,817
Current liabilities	₱5,164,688
Noncurrent liabilities	941,102
Total liabilities	₱6,105,790

The amounts of assets and liabilities above include the following:

Cash and cash equivalents	₱1,459,318
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	4,047,423
Noncurrent financial liabilities (excluding provisions)	20,613

From the acquisition date, SJBF contributed ₱886.8 million net loss to the Jollibee Group. If the business combination had taken place at the beginning of 2018, contribution to consolidated revenues and net loss for 2018 would have been ₱9,423.1 million and ₱1,065.9 million, respectively.

The amounts of the income and expense accounts for the period ended April 16, 2018 and for the year ended December 31, 2017 include the following:

	April 2018	December 2017
Revenues	**₱2,875,260**	₱9,905,070
Depreciation and amortization	**141,417**	599,675
Interest expense	**104,852**	340,820
Net loss	**(90,212)**	(825,038)
Total comprehensive loss	**(90,212)**	(825,038)

	2017
Net assets	₱712,027
Proportion of the Jollibee Group's ownership	40%
	284,811
Goodwill	4,837,671
Cumulative translation adjustments	337,573
	₱5,460,055

SJBF has outstanding liabilities for the purchase of non-controlling interest in a joint venture and acquisition of franchise markets amounting to USD0.3 million (₱14.1 million) as at December 31, 2018. The last installment is expected to be settled in 2020.

On December 14, 2018, the Jollibee Group, through BGI, acquired the remaining 15% stake in SJBF for a total cash consideration of USD10.0 million (₱528.8 million). The acquisition resulted to SJBF becoming a wholly owned subsidiary of BGI.

The difference of the carrying value of the minority interest over the acquisition cost at the date of acquisition, amounting to ₱347.4 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).

On December 21, 2018, upon signing of the Restructuring Agreement, the loan of BGI to SJBF amounting to USD80.0 million (₱4,206.4 million) was converted to additional equity.

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 (SFVT), Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holdings Limited Hongkong (Blue Sky), Sino Ocean Asia Limited Hongkong and Blue Sky Holdings Limited Macau) through formation of joint ventures. This consists of a 49% share in SFVT in Vietnam and a 60% share in Blue Sky in Hongkong (the SuperFoods Group 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) (collectively, VTI Group). 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 (₱1,079.6 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 (₱1,079.6 million) in 2011.

On October 22, 2015, JSF contributed additional investment in SuperFoods Group amounting to USD0.7 million (₱34.1 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). No additional consideration was 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 and Fourth Supplements to the Loan Agreement signed on December 29, 2016 and March 28, 2017, respectively.

- *Advances to SFVT.* 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 at 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 USD0.003 million (₱0.1 million) and USD0.06 million (₱2.8 million) for the period ended May 10, 2017 and year ended December 31, 2016, 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 at 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. Total interest from this loan recognized as interest income amounted to USD0.003 million (₱0.1 million) and USD0.06 million (₱2.8 million) for the period ended May 10, 2017 and year ended December 31, 2016, respectively.

The loans granted on April 30, 2013 and August 22, 2013, including accrued interests as at May 10, 2017, were converted to additional equity on SFVT upon the completion of the Settlement Transaction Documents and the approval of certain legal and regulatory requirements in Vietnam on May 10, 2017 as provided in the Third Supplement to the Loan Agreement signed on December 29, 2016.

- *Advances to Blue Sky.* On June 10, 2011, a loan was extended to Blue Sky, the Hong Kong-based holding company, amounting to USD5.0 million (₱216.0 million) payable in June 2014. As at 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 at June 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.01 million (₱0.7 million) and USD0.3 million (₱15.4 million) for the period ended May 10, 2017 and year ended December 31, 2016, 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 at May 9, 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 starting May 10, 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.01 million (₱0.3 million) and USD0.1 million (₱7.4 million) for the period ended May 10, 2017 and year ended December 31, 2016, respectively.

  With the Third Supplement to the Loan Agreement signed on December 29, 2016 and upon the completion of the Settlement Transaction Documents, the loans to Blue Sky including accrued interests as at May 10, 2017 were converted into equity except for the balance of USD2.9 million (₱157.7 million). The carrying value of the remaining loan of Blue Sky to the Parent Company is eliminated in the consolidation process as at December 31, 2018 and 2017.

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

  On May 10, 2017, a key step in the plan to list SuperFoods Group as a public company in the Vietnam Stock Exchange was completed by adjusting the ownership interest in the SuperFoods Group to 60% Jollibee Group and 40% VTI Group from its previous 50-50 ownership share. As a result, Jollibee Group obtained control over SuperFoods Group and started consolidating these companies as at acquisition date.

  To help fund the SuperFoods Group's expansion plans, the Jollibee Group will henceforth take the lead in the former's capital raising activities and will work with various financial institutions in Vietnam and other parts of Asia in this undertaking.

The analysis of the Jollibee Group's interests in the SuperFoods Group as at December 31, 2017 are as follows:

Interest in a joint venture – cost	₱1,120,659
Cumulative equity in net losses:	
Balance at beginning of year	(367,155)
Equity in net earnings for the year	17,484
Balance at transfer date	(349,671)
Transferred to investment in a subsidiary	(770,988)
	–
Advances to SuperFoods Group:	
Balance at beginning of year	604,638
Converted to equity during the year	(458,871)
Transferred to advances to a subsidiary	(145,767)
Balance at end of year	–
	₱–

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	₱105,251
Receivables	99,746
Inventories	86,664
Other current assets	137,035
Property, plant and equipment (see Note 12)	846,327
Trademarks (see Note 14)	4,145,013
Other noncurrent assets	223,240
Total identifiable assets acquired	5,643,276
Less:	
Trade payables and other current liabilities	488,645
Loans and other noncurrent liabilities (see Note 18)	569,523
Deferred tax liability	744,006
Total identifiable liabilities assumed	1,802,174
Net identifiable assets acquired	₱3,841,102

The Jollibee Group's investment in SuperFoods Group was previously accounted for as investment in a joint venture. In accordance with PFRS 3, with the Jollibee Group's acquisition of control over SuperFoods Group in 2017, the fair value of the previously held interest amounted to ₱2,099.7 million and the resulting gain from the re-measurement of the 50% previously held interest amounted to ₱1,328.7 million (see Note 23). A total of ₱2,712.7 million loan to SuperFoods Group was also converted to equity which was included in the consideration transferred.

The non-controlling interest was recognized as a proportion of the fair value of the net assets acquired.

The amount of goodwill recorded at acquisition date amounted to ₱2,507.8 million determined as follows:

Fair value of consideration transferred:	
Fair value of previously held interest	₱2,099,721
Advances converted to equity:	
Advances to VTI Group (see Part D of this note)	2,253,870
Advances to SuperFoods Group	458,871
	2,712,741
	4,812,462
Fair value of non-controlling interest's share in the net identifiable assets acquired	1,536,441
Aggregate amount	6,348,903
Less fair value of net identifiable assets acquired	3,841,102
Goodwill (see Note 14)	₱2,507,801

The net cash inflow from the acquisition is as follows:	
Cash acquired from subsidiary	₱105,251

The goodwill of ₱2,507.8 million is attributable to synergies and other benefits from the acquisition of SuperFoods Group.

From the acquisition date, SuperFoods Group contributed ₱67.3 million net income to the Jollibee Group. If the business combination had taken place at the beginning of 2017, contribution to consolidated revenues and net income for 2017 would have been ₱3,715.0 million and ₱100.9 million, respectively.

The amounts of the income and expense accounts of SuperFoods Group for the period ended May 10, 2017 and December 31, 2016 include the following:

	May 2017	December 2016
Revenues	₱1,467,717	₱3,213,339
Depreciation and amortization	67,865	201,971
Interest income	1,456	6
Interest expense	24,284	74,645
Provision for income tax	27,406	38,727
Net income	34,968	(87,648)
Total comprehensive income	34,968	(87,648)

B. Incorporation of New Subsidiaries

Bee World UK Limited (Bee World). On April 16, 2018 the Jollibee Group, through its wholly owned subsidiary, JWPL, incorporated Bee World UK Limited in UK. As at December 31, 2018, no capital investment has been made other than the investment to incorporate the new entity. The first store started its commercial operations on October 20, 2018.

Golden Piatto Pte. Ltd. (Golden Piatto). On March 31, 2017, the Jollibee Group, through its wholly owned subsidiary, GPPL, entered into an agreement with Blackbird Holdings Pte. Ltd. (Blackbird) to own and operate Cibo Felice S. R. L. (Cibo Felice), the first Jollibee store in Italy. The first store started its commercial operations on March 18, 2018.

Golden Piatto incorporated on April 12, 2017, is 75% owned by GPPL and 25% owned by Blackbird. GPPL and Blackbird have committed to invest up to EUR1 million (₱60.2 million) to Golden Piatto, of which EUR0.8 million (₱48.2 million) will be contributed by GPPL in proportion to its ownership in the business. As at December 31, 2018, capital contribution of GPPL to Golden Piatto amounted to USD1.5 million (₱77.0 million).

C. Material Non-Controlling Interest

The Jollibee Group has subsidiaries with material non-controlling interest as provided below.

Proportion of equity interest held by non-controlling interest:

	Country of incorporation and operation	**2018**	2017	2016
GCPL	Singapore	**40%**	40%	40%
SuperFoods Group	Vietnam	**40%**	40%	–

The summarized financial information of GCPL and SuperFoods Group in 2018 and 2017 are provided below. These information are based on amounts before intercompany elimination.

Summarized Statements of Comprehensive Income for the year ended December 31

	GCPL		
	2018	2017	2016
Revenues	**₱276,325**	₱318,082	₱100,920
Net loss	**(472,122)**	(674,982)	(324,509)
Other comprehensive income	**95,338**	8,109	8,269
Total comprehensive loss	**(376,784)**	(666,873)	(316,240)
Total comprehensive loss attributable to non-controlling interests	**(150,714)**	(266,749)	(126,496)

	SuperFoods Group		
	2018	2017	2016
Revenues	**₱4,756,001**	₱2,486,779	₱–
Net income (loss)	**(18,571)**	78,129	–
Other comprehensive income (loss)	**3,398**	(3,877)	–
Total comprehensive income (loss)	**(15,173)**	74,252	–
Total comprehensive income (loss) attributable to non-controlling interests	**(6,069)**	29,701	–

Summarized Statements of Financial Position as at December 31

	GCPL	
	2018	2017
Current assets	**₱1,532,013**	₱1,513,179
Noncurrent assets	**271,262**	373,698
Current liabilities	**1,002,821**	709,617
Total equity	**800,454**	1,177,260
Equity attributable to non-controlling interests	**320,182**	470,904

	SuperFoods Group	
	2018	2017
Current assets	**₱640,186**	₱601,786
Noncurrent assets	**1,941,206**	1,688,852
Current liabilities	**1,053,309**	781,993
Noncurrent liabilities	**597,851**	563,239
Total equity	**930,232**	945,406
Equity attributable to non-controlling interests	**372,093**	378,162

Summarized Cash Flow Information for the year ended December 31

	GCPL		
	2018	2017	2016
Net cash provided by (used in) operating activities	**(₱58,718)**	(₱430,134)	₱31,950
Net cash provided by (used in) investing activities	**89,220**	57,512	(237,729)
Net cash provided by financing activities	**–**	–	1,789,020
Net increase (decrease) in cash and cash equivalents	**30,502**	(372,622)	1,583,241

	SuperFoods Group		
	2018	2017	2016
Net cash provided by (used in) operating activities	**₱310,283**	(₱827,535)	₱–
Net cash used in investing activities	**(335,086)**	(408,572)	–
Net cash provided by financing activities	**51,678**	1,572,770	–
Net increase in cash and cash equivalents	**26,875**	336,663	–

In 2016, the following non-controlling interest were derecognized either by acquisition of the minority interest or by divestment of interest 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" (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 statement 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.

The purchase price was USD10.3 million (₱514.9 million). The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition amounting to ₱391.8 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 on the divestment of San Pin Wang.

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

	2018	2017
Interests in joint ventures:		
Titan Dining LP	**₱742,206**	₱–
Golden Bee Foods Restaurant LLC	**227,585**	198,767
C-Joy Poultry Meats Production, Inc.	–	151,458
SJBF LLC	–	5,460,055
	969,791	5,810,280
Interests in associates:		
Tortas Frontera	**668,679**	–
Entrek (B) SDN BHD	**191,744**	137,237
C-Joy Poultry Realty, Inc.	**9,155**	9,664
	869,578	146,901
Advances to VTI Group	**1,672,861**	1,535,590
	₱3,512,230	₱7,492,771

Interests in Joint Ventures

Titan Dining LP (Titan). On May 23, 2018, the Jollibee Group, through JWPL, invested SGD18.0 million (₱706.9 million) in Titan Dining LP., a private equity fund that has executed (through a wholly-owned subsidiary) a binding agreement for the acquisition of 100% of the Asia Pacific master franchise holder of the "Tim Ho Wan" brand, Tim Ho Wan Pte. Ltd. and its affiliate Dim Sum Pte. Ltd., which owns and operates Tim Ho Wan stores in Singapore. The investment provides an opportunity for the Jollibee Group to have a significant interest in the Tim Ho Wan franchise in the long-term.

On August 29, 2018, JWPL made an additional investment to Titan amounting to SGD0.9 million (₱35.3 million). JWPL shall invest up to SGD45.0 million or 45% of the total maximum fund of SGD100.0 million in Titan.

As at December 31, 2018, Titan's total assets and total liabilities amounted to ₱1,581.2 million and ₱14.8 million. The assets of Titan include cash and cash equivalents amounting to ₱27.7 million as at December 31, 2018.

In 2018, net loss and total comprehensive loss amounted to ₱49.4 million.

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.

GPPL has invested USD0.8 million (₱33.9 million) in Golden Bee. The first store started commercial operations on May 4, 2015.

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.

The details of the Jollibee Group's interest in the Golden Bee joint venture as at December 31, 2018 and 2017 are as follows:

	2018	2017
Interest in a joint venture - cost	**₱33,926**	₱33,926
Cumulative equity in net earnings:		
Balance at beginning of year	**164,841**	66,237
Equity in net earnings during the year	**63,455**	118,641
Dividends received during the year	**(34,637)**	(20,037)
Balance at end of year	**193,659**	164,841
	₱227,585	₱198,767

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 as at December 31 are set out below:

	2018	2017
Current assets	**₱523,053**	₱371,611
Noncurrent assets	**346,422**	258,303
Total assets	**₱869,475**	₱629,914
Current liabilities	**₱383,523**	₱224,935

The amounts of assets and liabilities above include the following:

	2018	2017
Cash and cash equivalents	**₱193,920**	₱142,980

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

	2018	2017	2016
Revenues	**₱1,601,623**	₱1,313,210	₱689,150
Depreciation and amortization	**78,438**	54,539	14,652
Net income	**129,501**	242,124	106,571
Total comprehensive income	**129,501**	242,124	106,571

	2018	2017
Net assets	**₱485,952**	₱404,979
Proportion of the Jollibee Group's ownership	**49%**	49%
	238,116	198,440
Cumulative translation adjustments	**(10,531)**	327
	₱227,585	₱198,767

C-Joy Poultry Meats Production, Inc. (C-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.

C-Joy Poultry, the joint venture entity formerly incorporated as Cargill Joy Poultry Meats Production, Inc., is 70% owned by Cargill and 30% owned by the Parent Company. This entity is estimated to create 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 started its commercial operations on December 5, 2017.

The details of Jollibee Group's interest in C-Joy Poultry as at December 31, 2018 and 2017 are as follows:

	2018	2017
Interest in a joint venture - cost	**₱233,406**	₱233,406
Cumulative equity in net losses:		
Balance at beginning of year	**(81,948)**	(3,925)
Equity in net loss during the year	**(151,458)**	(78,023)
Balance at end of year	**(233,406)**	(81,948)
	₱–	₱151,458

The Jollibee Group's equity share in net losses amounting to ₱527.1 million in 2018 exceeded the carrying value of its interest in C-Joy Poultry amounting to ₱151.5 million as at December 31, 2017. Consequently, the Jollibee Group's unrecognized equity share in net losses amounted to ₱375.6 million in 2018.

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

	2018	2017
Current assets	**₱1,523,852**	₱992,531
Noncurrent assets	**1,843,050**	1,600,832
Total Assets	**₱3,366,902**	₱2,593,363
Current liabilities	**₱4,591,583**	₱2,060,619
Noncurrent liabilities	**27,430**	27,884
Total liabilities	**₱4,619,013**	₱2,088,503

The amounts of assets and liabilities above include the following:

	2018	2017
Cash and cash equivalents	**₱192,876**	₱83,406
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**399,134**	375,116
Noncurrent financial liabilities (excluding provisions)	**26,635**	27,884

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

	2018	2017	2016
Revenues	**₱4,014,768**	₱1,929,850	₱–
Depreciation and amortization	**109,629**	5,510	–
Taxes and licenses	**35,788**	6,890	–
Interest income	**593**	6,727	8,643
Interest expense	**101,939**	1,091	–
Net loss	**(1,756,971)**	(260,076)	(13,083)
Total comprehensive loss	**(1,755,682)**	(260,076)	(13,083)

	2018	2017
Net assets (liabilities)	**(₱1,252,111)**	₱504,860
Proportion of the Jollibee Group's ownership	**30%**	30%
	(₱375,633)	₱151,458

SJBF LLC (SJBF). See Part A of this note for the discussion on the Interest and Advances to SJBF.

Interest in Associates

Tortas Frontera LLC (Tortas). On September 7, 2018, the Jollibee Group, through Jollibee Foods Corporation (USA), entered into a business venture with award-winning Chef Rick Bayless to build a Mexican fast-casual restaurant business in the USA.

This partnership was formalized through an investment by Jollibee Group of USD12.6 million (₱668.7 million) in Tortas, which owns the Tortas Frontera business founded by Chef Bayless, in consideration for 47% of the fully-diluted membership interests therein. The remaining 53% membership interests in Tortas shall be held by Chef Ricky Bayless and other shareholders. The transaction is subject to the fulfillment of agreed closing conditions.

On December 21, 2018, upon fulfillment of the closing conditions, Jollibee Foods Corporation (USA) paid Chef Bayless in cash.

The carrying value of investment in Tortas amounted to ₱668.7 million as at December 31, 2018 with equity in net earnings amounting to ₱0.5 million in 2018.

Summarized financial information of Tortas based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2018 are set out below:

Current assets	₱548,001
Current liabilities	₱4,893

The assets of Tortas include cash and cash equivalents amounting to ₱544.4 million as at December 31, 2018.

The amounts of the income and expense accounts for the year ended December 31, 2018 include the following:

Revenues	₱48,213
Net income	34,717
Total comprehensive income	34,717

	As at December 31, 2018
Net assets	₱543,108
Proportion of the Jollibee Group's ownership	52.22%
	283,611
Provisional goodwill	381,532
Cumulative translation adjustments	3,536
	₱668,679

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, 2018 and 2017 are as follows:

	2018	2017
Interest in an associate - cost	**₱16,660**	₱16,660
Cumulative equity in net earnings:		
Balance at beginning of year	**120,577**	95,567
Equity in net earnings during the year	**37,847**	25,010
Reversal of impairment loss (see Note 23)	**16,660**	–
Balance at end of year	**175,084**	120,577
	₱191,744	₱137,237

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

	2018	2017
Current assets	**₱743,134**	₱631,739
Noncurrent assets	**270,932**	199,488
Total assets	**₱1,014,066**	₱831,227
Current liabilities	**₱385,870**	₱330,429
Noncurrent liabilities	**5,594**	5,427
Total liabilities	**₱391,464**	₱335,856

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

	2018	2017	2016
Revenues	**₱888,909**	₱733,217	₱629,123
Depreciation	**52,429**	38,381	32,177
Net income	**113,543**	75,031	59,865
Total comprehensive income	**113,543**	75,031	59,865

	2018	2017
Net assets	**₱622,602**	₱495,371
Proportion of the Jollibee Group's ownership	**33.33%**	33.33%
	207,534	165,124
Impairment loss recognized in 2011	**–**	(16,660)
Cumulative translation adjustments	**(15,790)**	(11,227)
	₱191,744	₱137,237

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

The details of the Jollibee Group's interest in C-Joy Realty as at December 31, 2018 and 2017 are as follows:

	2018	2017
Interest in an associate - cost	**₱10,586**	₱10,586
Cumulative equity in net losses:		
Balance at beginning of year	**(922)**	(602)
Equity in net loss during the year	**(509)**	(320)
Balance at end of year	**(1,431)**	(922)
	₱9,155	₱9,664

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

	2018	2017
Current assets	**₱2,597**	₱6,035
Noncurrent assets	**62,152**	62,152
Total assets	**₱64,749**	₱68,187

	2018	2017
Current liabilities	**₱1,025**	₱689
Noncurrent liabilities	**33,209**	35,285
Total liabilities	**₱34,234**	₱35,974

The amounts of assets and liabilities above include the following:

	2018	2017
Cash and cash equivalents	**₱1,380**	₱5,746
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**164**	185
Noncurrent financial liabilities	**33,209**	35,285

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

	2018	2017	2016
Revenues	**₱2,400**	₱1,400	₱–
Taxes and licenses	**281**	60	1,358
Interest expense	**2,177**	1,414	350
Net loss	**(1,699)**	(1,067)	(2,005)
Total comprehensive loss	**(1,699)**	(1,067)	(2,005)

	2018	2017
Net assets	**₱30,515**	₱32,213
Proportion of the Jollibee Group's ownership	**30%**	30%
	₱9,155	₱9,664

Advances to Co-venturers

Advances to VTI Group. The details of the Jollibee Group's advances to VTI Group as at December 31, 2018 and 2017 are as follows:

	2018	2017
Balance at beginning of year	**₱1,535,590**	₱2,652,748
Accrual of interest	**55,523**	38,952
Converted to equity during the year	–	(2,253,870)
Additions during the year	–	1,059,786
Translation adjustments and others	**81,748**	37,974
Balance at end of year	**₱1,672,861**	₱1,535,590

Loan to VTI Group amounting to USD35.0 million (₱1,523.9 million), extended on June 9, 2011, is payable in December 2016. In accordance with the Fourth Supplement to the Loan Agreement signed on March 28, 2017, the due date of the loan was further extended to May 31, 2017. This loan is secured by a mortgage by the VTI Group of all their shares in SuperFoods Group.

The loan bears interest of 5% per annum payable in lump sum on the due date. The loan was agreed to be used for general corporate purposes. Total interest from this loan, recognized as interest income, amounted to USD0.6 million (₱31.6 million), USD1.8 million (₱88.5 million) and USD1.8 million (₱88.2 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

The Third Supplement to the Loan Agreement signed on December 29, 2016 provides the assignment of the USD35.0 million (₱1,735.3 million) loan receivable including accrued interests as at December 31, 2016 from JSF to JWPL. With the completion of the Settlement Transaction Documents and upon the approval of certain legal and regulatory requirements in Vietnam on

May 10, 2017, the loan, including interests as at the same day, was contributed as additional capital to the SuperFoods Group.

On December 14, 2016, a loan of USD9.0 million (₱447.5 million) was extended to the VTI Group with an interest rate of 3.5% per annum. The loan was agreed to be used for SuperFoods Group's capital needs. The loan is part of the total agreed loan of USD30.0 million payable in eight (8) years from the first utilization date. On June 2, 2017, the additional loan of USD21.0 million (₱1,060.0 million) was granted to the VTI Group. 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. Total interest from this loan recognized as interest income, amounted to USD1.1 million (₱55.4 million), USD0.8 million (₱37.6 million) and USD0.01 million (₱0.8 million) for the years ended December 31, 2018, 2017 and 2016.

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.

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 statement of comprehensive income in 2016 (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 collectible in five tranches, as follows:

Tranche	Date	Amount (in millions)
1	December 19, 2016	RMB25.0
2	December 28, 2016	25.0
3	January 20, 2017	20.0
4	October 30, 2017	10.0
5	October 30, 2018	10.0
		RMB90.0

The first tranche was collected on December 31, 2016. The second and third tranches were collected in January 2017 and the fourth tranche on October 27, 2017. As at December 31, 2017, the fifth tranche is shown as part of "Other current assets" in the consolidated statements of financial position amounting to RMB10.0 million (₱76.4 million) (see Note 9). This was collected on October 25, 2018.

ChowFun. On March 31, 2011, the Jollibee Group, through its wholly-owned subsidiary, JWPL, acquired from Aspen Partners, LLC 2,400 shares of ChowFun Holdings, LLC (Chowfun) for USD3.4 million (₱139.6 million), bringing its equity share to ChowFun to 80.55%. ChowFun 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 ChowFun for a consideration of USD1.6 million (₱79.6 million). The divestment was completed on December 23, 2016. ChowFun 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 statement of comprehensive income in 2016 (see Note 23). The divestment is part of Jollibee Group's intention to concentrate its resources in building its larger businesses.

F. Cessation of Operations

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.

On October 31, 2017, WJ ceased the operations of the 16 stores of the 12 Hotpot brand in the People's Republic of China to focus in building the Jollibee Group's larger and fast-growing business in China and other parts of the world. With this, WJ will be dissolved and liquidated. The Jollibee Group recognized a loss of ₱116.2 million in the consolidated statement of comprehensive income in 2017 (see Note 23).

The details of Jollibee Group's interest in WJ as at December 31, 2017 are as follows:

Interest in a joint venture - cost	₱414,872
Cumulative equity in net losses:	
Balance at beginning of year	(263,243)
Equity in net loss during the year	(35,422)
Balance at end of year	(298,665)
Loss on cessation of operations	(116,207)
	₱–

Summarized financial information of WJ based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2017 are set out below:

Current assets	₱245,850
Noncurrent assets	77,700
Total assets	₱323,550
Current liabilities	₱43,060
Noncurrent liabilities	548
	₱43,608

The amounts of assets and liabilities above included cash and cash equivalents amounted to ₱235.0 million as at December 31, 2017.

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

Revenues	₱328,479
Depreciation and amortization	30,380
Interest income - net	357
Net loss	(73,796)
Total comprehensive loss	(73,796)
Net assets	₱279,942
Proportion of the Jollibee Group's ownership	48%
	134,372
Cumulative translation adjustments	(18,165)
	116,207
Loss on cessation of operations	(116,207)
	₱–

12. Property, Plant and Equipment

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

	2018							
	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**
Cost								
Balance at beginning of year	**₱673,514**	**₱3,345,527**	**₱20,461,846**	**₱18,177,531**	**₱1,441,786**	**₱672,266**	**₱2,370,853**	**₱47,143,323**
Additions	**–**	**402,275**	**1,085,299**	**1,314,825**	**138,374**	**51,950**	**6,527,958**	**9,520,681**
Acquisition of a business (see Note 11)	**–**	**–**	**625,204**	**1,250,499**	**677,733**	**676**	**11,876**	**2,565,988**
Retirements and disposals	**–**	**(15,538)**	**(1,367,825)**	**(946,935)**	**(66,916)**	**(17,557)**	**(197,580)**	**(2,612,351)**
Reclassifications	**–**	**335,133**	**1,768,001**	**1,708,279**	**118,208**	**2,171**	**(3,411,360)**	**520,432**
Translation adjustments	**3,516**	**10,748**	**118,658**	**98,417**	**16,609**	**787**	**4,862**	**253,597**
Balance at end of year	**677,030**	**4,078,145**	**22,691,183**	**21,602,616**	**2,325,794**	**710,293**	**5,306,609**	**57,391,670**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**7,564**	**1,409,213**	**11,246,146**	**11,699,317**	**978,883**	**465,693**	**–**	**25,806,816**
Depreciation and amortization (see Notes 21 and 22)	**–**	**291,598**	**2,134,454**	**2,882,908**	**362,787**	**80,666**	**–**	**5,752,413**
Retirements and disposals	**–**	**(11,619)**	**(857,636)**	**(696,510)**	**(52,035)**	**(16,728)**	**–**	**(1,634,528)**
Reclassifications	**–**	**189,732**	**154,058**	**174,575**	**(272)**	**2,340**	**–**	**520,433**
Translation adjustments	**–**	**8,295**	**113,534**	**83,465**	**12,093**	**592**	**–**	**217,979**
Balance at end of year	**7,564**	**1,887,219**	**12,790,556**	**14,143,755**	**1,301,456**	**532,563**	**–**	**30,663,113**
Accumulated Impairment Losses								
Balance at beginning of year	**–**	**–**	**–**	**442,693**	**–**	**–**	**–**	**442,693**
Reversals (see Note 22)	**–**	**–**	**–**	**(408,184)**	**–**	**–**	**–**	**(408,184)**
Translation adjustments	**–**	**–**	**–**	**57**	**–**	**–**	**–**	**57**
Balance at end of year	**–**	**–**	**–**	**34,566**	**–**	**–**	**–**	**34,566**
Net Book Value	**₱669,466**	**₱2,190,926**	**₱9,900,627**	**₱7,424,295**	**₱1,024,338**	**₱177,730**	**₱5,306,609**	**₱26,693,991**

	2017							
	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
Cost								
Balance at beginning of year	₱673,250	₱2,743,294	₱17,177,082	₱15,529,426	₱1,230,895	₱611,648	₱902,457	₱38,868,052
Additions	–	125,603	1,378,159	1,357,891	120,455	62,795	5,859,893	8,904,796
Acquisition of a business (see Note 11)	–	345,548	18,615	447,010	–	54	35,100	846,327
Retirements and disposals	–	(32,056)	(855,947)	(645,084)	(52,011)	(6,276)	(266,498)	(1,857,872)
Reclassifications	–	146,073	2,497,428	1,383,419	141,582	2,008	(4,170,510)	–
Translation adjustments	264	17,065	246,509	104,869	865	2,037	10,411	382,020
Balance at end of year	673,514	3,345,527	20,461,846	18,177,531	1,441,786	672,266	2,370,853	47,143,323

(Forward)

	2017							
	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
Accumulated Depreciation and Amortization								
Balance at beginning of year	₱7,564	₱1,246,145	₱9,737,843	₱9,978,599	₱802,982	₱396,621	₱–	₱22,169,754
Depreciation and amortization (see (see Notes 21 and 22)	–	192,164	1,938,143	2,236,415	220,570	73,631	–	4,660,923
Retirements and disposals	–	(32,047)	(628,037)	(583,365)	(40,843)	(6,177)	–	(1,290,469)
Reclassifications	–	–	5,686	(263)	(5,423)	–	–	–
Translation adjustments	–	2,951	192,511	67,931	1,597	1,618	–	266,608
Balance at end of year	7,564	1,409,213	11,246,146	11,699,317	978,883	465,693	–	25,806,816
Accumulated Impairment Losses								
Balance at beginning of year	–	–	–	42,731	–	–	–	42,731
Additions (see Note 22)	–	–	–	431,939	–	–	–	431,939
Write-offs	–	–	–	(30,605)	–	–	–	(30,605)
Reversals (see Note 22)	–	–	–	(2,111)	–	–	–	(2,111)
Translation adjustments	–	–	–	739	–	–	–	739
Balance at end of year	–	–	–	442,693	–	–	–	442,693
Net Book Value	₱665,950	₱1,936,314	₱9,215,700	₱6,035,521	₱462,903	₱206,573	₱2,370,853	₱20,893,814

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores and commissaries. The borrowing cost that has been capitalized for the construction of commissaries amounted to ₱19.6 million and nil as at December 31, 2018 and 2017, respectively.

Loss on retirements and disposals of property, plant and equipment amounted to ₱45.5 million, ₱174.5 million and ₱236.8 million in 2018, 2017 and 2016, respectively (see Note 22).

The Jollibee Group performed impairment assessments of fixed assets considering that there are observable indications that the assets' values have significantly declined resulting to recognition of provision for impairment amounting to ₱431.9 million in 2017 (see Note 22).

In 2018, management reassessed the recoverable amount of the Jollibee Group's office, store and food processing equipment and recognized reversal of provision amounting to ₱408.2 million (see Note 22). Consequently, allowance for impairment loss on office, store and food processing equipment amounted to ₱34.6 million and ₱442.7 million as at December 31, 2018 and 2017, respectively.

No property, plant and equipment as at December 31, 2018 and 2017 have been pledged as security or collateral.

13. Investment Properties

The rollforward analysis of this account follows:

	2018		
	Land	**Buildings and Building Improvements**	**Total**
Cost			
Balance at beginning and end of year	**₱848,974**	**₱179,377**	**₱1,028,351**
Accumulated Depreciation and Amortization			
Balance at beginning and end of year	**–**	**179,377**	**179,377**
Net Book Value	**₱848,974**	**₱–**	**₱848,974**

	2017		
	Land	Buildings and Building Improvements	Total
Cost			
Balance at beginning of year	₱983,428	₱182,901	₱1,166,329
Retirements and disposals	(134,454)	(3,524)	(137,978)
Balance at end of year	848,974	179,377	1,028,351
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	182,901	182,901
Retirements and disposals	–	(3,524)	(3,524)
Balance at end of year	–	179,377	179,377
Net Book Value	₱848,974	₱–	₱848,974

The Jollibee Group's investment properties have an aggregate fair value of ₱1,747.3 million as at December 31, 2017 as determined by independent appraisers who holds a recognized and relevant professional qualification. Management does not expect a significant change in the aggregate fair value of the Jollibee Group's investment properties in 2018. 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 ₱25.0 million, ₱27.8 million and ₱31.6 million in 2018, 2017 and 2016, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱12.5 million, ₱28.9 million and ₱15.1 million in 2018, 2017 and 2016, respectively.

In 2017, the Parent Company sold its land located at Sta. Rosa Laguna and Luisita Industrial Park in Tarlac for a total consideration of ₱365.5 million. Net gain arising from the disposals of these investment properties amounted to ₱231.0 million (see Note 22).

In 2015, the Parent Company entered into an agreement to develop a commercial and office condominium building (the "Project") in a parcel of its land in consideration for cash and assigned units in the Project. The completion of the transaction is conditional upon fifty percent (50%) completion of the Project, as certified by the general contractor of the Project, and when all of the assigned units are fully constructed. As at December 31, 2018 and 2017, the Project is still under development.

No investment properties as at December 31, 2018 and 2017 have been pledged as security or collateral for the Jollibee Group's debts.

14. Trademarks, Goodwill and Other Intangible Assets

This account consists of:

	2018	2017
Trademarks (Note 11)	**₱16,563,269**	₱6,149,269
Goodwill (Note 11)	**14,395,717**	9,050,223
Computer software, net of accumulated amortization	**516,975**	512,589
Other intangible assets, net of accumulated amortization	**354,096**	18,158
	₱31,830,057	₱15,730,239

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

	2018	2017
Trademarks:		
Smashburger (see Note 11)	**₱10,414,000**	₱–
SuperFoods Group (see Note 11):		
Highlands Coffee	**3,681,912**	3,681,912
Pho 24	**463,101**	463,101
Mang Inasal	**2,004,256**	2,004,256
	16,563,269	6,149,269
Goodwill:		
Smashburger (see Note 11)	**5,345,494**	–
SuperFoods Group (see Note 11)	**2,507,801**	2,507,801
Hong Zhuang Yuan	**2,497,253**	2,497,253
Mang Inasal	**1,781,267**	1,781,267
Red Ribbon Bakeshop:		
Philippine operations	**737,939**	737,939
US operations	**434,651**	434,651
Yong He King	**535,281**	535,281
Chowking US operations	**383,855**	383,855
GSC	**166,931**	166,931
Burger King	**5,245**	5,245
	14,395,717	9,050,223
Trademarks and goodwill	**₱30,958,986**	₱15,199,492

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:

	2018	2017
Cost		
Balance at beginning of year	**₱740,260**	₱670,762
Additions	**83,246**	69,498
Balance at end of year	**823,506**	740,260
Accumulated Amortization		
Balance at beginning of year	**227,671**	157,425
Amortizations (see Note 22)	**78,860**	70,246
Balance at end of year	**306,531**	227,671
Net Book Value	**₱516,975**	₱512,589

Other Intangible Assets
The Jollibee Group's other intangible assets include other trademarks and patents, favourable leases, liquor licenses and customer list amortized over a useful life of five years.

The rollforward analysis of other intangible assets as at December 31 are as follows:

	2018	2017
Cost		
Balance at beginning of year	**₱57,119**	₱56,983
Additions	**27,970**	136
Acquisition of a subsidiary (see Note 11)	**368,418**	–
Balance at end of year	**453,507**	57,119
Accumulated Amortization		
Balance at beginning of year	**38,961**	30,256
Amortizations (see Note 22)	**60,529**	8,705
Balance at end of year	**99,490**	38,961
Translation adjustment	**79**	–
Net Book Value	**₱354,096**	₱18,158

Impairment Testing of Trademarks and Goodwill
Goodwill acquired through business combinations have been allocated to ten (10) 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 trademarks of Smashburger, SuperFoods Group and Mang Inasal are allocated to the CGU of Smashburger, SuperFoods Group and Mang Inasal, respectively.

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	9.4%	6.1%
Mang Inasal	Philippines	12.0%	6.8%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	12.0%	6.8%
US operations	USA	9.0%	2.0%
Yong He King	PRC	9.4%	6.1%
Chowking US operations	USA	9.0%	2.0%

CGUs	Geographical Location	Pre-tax Discount Rate	Long-term Revenue Growth Rate
Burger King	Philippines	12.0%	6.8%
GSC	Vietnam	12.4%	6.7%
SuperFoods Group	Vietnam	12.4%	6.7%
Smashburger	USA	9.0%	2.0%

Key assumptions with respect to the calculation of value in use of the groups of CGUs as at December 31, 2018 and 2017 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

a) 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.

b) 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.

c) 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 CGUs to exceed its recoverable amount.

No impairment losses were recognized for trademarks and goodwill for the years ended December 31, 2018, 2017 and 2016.

15. **Other Noncurrent Assets**

This account consists of:

	2018	2017
Security and other deposits (see Notes 9, 30 and 31)	**₱2,474,748**	₱2,277,091
Noncurrent portion of:		
Rent and other long-term prepayments	**505,797**	494,363
Employee car plan receivables (see Notes 7, 30 and 31)	**169,109**	186,000
Prepaid market entry fee - net of accumulated amortization of ₱15.4 million and ₱9.9 million in 2018 and 2017, respectively (see Note 22)	**94,315**	94,786

(Forward)

	2018	2017
Franchise rights - net of accumulated amortization of ₱49.4 million and ₱37.0 million in 2018 and 2017, respectively (see Note 22)	**₱80,903**	₱68,401
Deferred rent expense	**78,652**	72,338
Deferred compensation	**27,367**	26,319
Returnable containers and others	**38,644**	71,910
Tools and other assets	**281,509**	219,310
	₱3,751,044	₱3,510,518

Terms and conditions of other noncurrent assets are as follows:

- 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%-7.51% and 2.44%-5.71% in 2018 and 2017, 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.

  Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱46.6 million, ₱33.1 million and ₱25.2 million in 2018, 2017 and 2016, respectively (see Note 23).

- Prepaid market entry fee represents upfront fee paid to the franchisor prior to the operations of Dunkin' Donuts restaurants in the PRC. 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 are as follows:

	2018	2017
Market Entry Fee		
Balance at beginning and end of year	**₱93,870**	₱93,870
Accumulated Amortization		
Balance at beginning of year	**9,863**	4,571
Amortizations (see Note 22)	**5,529**	5,292
Balance at end of year	**15,392**	9,863
Translation adjustment	**15,837**	10,779
	₱94,315	₱94,786

- Franchise rights pertain to franchise fees paid by PERF entities to Burger King Asia Pacific for the license to operate Burger King stores in the Philippines. Franchise rights are amortized over ten (10) years.

The rollforward analysis of franchise rights as at December 31 are as follows:

	2018	2017
Franchise Rights		
Balance at beginning of year	**₱105,386**	₱85,848
Additions	**24,931**	19,538
Balance at end of year	**130,317**	105,386
Accumulated Amortization		
Balance at beginning of year	**36,985**	34,156
Amortizations (see Note 22)	**12,429**	2,829
Balance at end of year	**49,414**	36,985
	₱80,903	₱68,401

- Tools and other assets represent tools for repairs and maintenance of office and store equipment which were still unused as at December 31, 2018 and 2017.

16. Trade Payables and Other Current Liabilities and Contract Liabilities

This account consists of:

	2018	2017
Trade	**₱13,094,676**	₱10,877,674
Accruals for:		
Salaries, wages and employee benefits	**2,127,743**	1,864,278
Local taxes	**2,005,187**	1,939,187
Store operations	**1,699,887**	1,887,316
Advertising and promotions	**1,585,517**	1,571,660
Rent	**1,156,140**	1,053,952
Freight	**795,271**	388,992
Utilities	**484,693**	423,596
Repairs and maintenance	**393,278**	482,739
Operating supplies	**255,229**	280,753
Interest (Note 18)	**239,663**	83,117
Professional fees	**195,681**	212,739
Security	**169,245**	161,304
Transportation and travel	**101,363**	49,247
Communication	**78,974**	78,095
Corporate events	**78,932**	274,086
Trainings and seminars	**29,531**	95,045
Insurance	**18,267**	21,833
Service fees and others	**1,241,733**	1,345,958
Customers' deposits	**898,248**	798,352
Unearned revenue from gift certificates	**628,070**	171,891
Dividends payable	**80,780**	56,053
Other current liabilities	**1,208,583**	1,134,096
	28,566,691	25,251,963
Contract liabilities	**150,078**	2,650
	₱28,716,769	₱25,254,613

The terms and conditions of the above liabilities are as follows:

- 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 presented under “Service fees and others” consist of charges related to representations and other miscellaneous expenses.

- Customers’ deposits pertain to security deposits from operating leases with franchisees, which are refundable at the end of the lease term, deposits for kiddie party packages and deposits from franchisees for the sale of store assets.

  Accretion of interest on customer’s deposits amounted to ₱0.6 million, ₱13.2 million and ₱20.4 million in 2018, 2017 and 2016, respectively (see Note 23).

- 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.

- Contract liabilities pertains to deferred revenue and unearned revenue from gift certificates from international operations.

  Movements of contract liabilities arising from deferred revenue and unearned revenue from gift certificates from international operations are as follows:

	2018	2017
Effect of adoption of PFRS 15	**₱2,650**	₱2,262
Additions	**36,506**	2,650
Acquisition of a subsidiary	**113,572**	–
Utilized gift certificates	**(2,650)**	(2,262)
Balance at end of year	**₱150,078**	₱2,650

  The amount of contract liabilities arising from deferred revenue and unearned revenue from gift certificates is expected to be earned within one year.

17. **Provisions**

In 2017, Jollibee Group recognized provision amounting to ₱794.6 million (see Note 23). Consequently, the Jollibee Group has outstanding provisions amounting to ₱825.1 million as at December 31, 2018 and 2017, consisting mainly of provisions for asserted claims which are normal to its business.

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. **Long-term Debts**

The long-term debt consists of the following:

	2018	2017
Principal	**₱26,363,627**	₱16,149,740
Unamortized debt issue cost	**(99,274)**	(32,469)
	₱26,264,353	₱16,117,271

The details of long-term debt follow:

	2018	2017
USD-denominated:		
Loan 1	**₱4,498,511**	₱4,881,067
Loan 2	**–**	124,800
Loan 3	**1,545,852**	1,482,624
Loan 4	**412,227**	395,367
Loan 5	**–**	199,680
Loan 6	**310,222**	294,528
VND-denominated (see Note 11):		
Loan 7	**79,296**	142,293
Loan 8	**88,128**	122,998
Loan 9	**137,088**	151,383
Loan 10	**260,352**	–
Loan 11	**41,951**	–
PHP-denominated:		
Loan 12	**1,454,318**	1,467,955
Loan 13	**799,733**	798,933
Loan 14	**622,583**	871,583
Loan 15	**1,593,600**	1,592,000
Loan 16	**2,091,600**	2,089,500
Loan 17	**796,800**	796,000
Loan 18	**597,600**	597,000
Loan 19	**4,171,875**	–
Loan 20	**2,979,376**	–
Loan 21	**2,680,714**	–
Loan 22	**109,670**	109,560
Loan 23	**992,857**	–
	26,264,353	16,117,271
Less current portion - net of debt issue costs of ₱7.0 million and ₱2.4 million in 2018 and 2017, respectively	**4,892,102**	1,216,219
	₱21,372,251	₱14,901,052

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, 2018 and 2017, the carrying value of the loan amounted to ₱4,498.5 million and ₱4,881.1 million, respectively.

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 sixteen (16) quarterly installments commencing on May 26, 2014. The loan was paid in full on February 26, 2018, the maturity date. As at December 31, 2018 and 2017, the carrying value of the loan amounted to nil and ₱124.8 million, respectively.

Under the loan agreements above (Loans 1 and 2), 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, 2018 and 2017, the Parent Company is in compliance with the terms of the loan covenants.

Loan 3 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 six (6) yearly installments 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, 2018 and 2017, the carrying value of the loan amounted to ₱1,545.9 million and ₱1,482.6 million, respectively.

The loan agreement provides certain restrictions and requirements to the Parent Company as the guarantor with respect to maintaining financial ratios, which include maintaining a Debt-to-Equity ratio of 3.0 or below and Debt Service Coverage ratio of at least 1.3. As at December 31, 2018 and 2017, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

Loan 4 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 five (5) yearly installments 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, 2018 and 2017, the carrying value of the loan amounted to ₱412.2 million and ₱395.4 million, respectively.

USD-denominated loans of HBFPPL. Loan 5 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% subject to repricing every quarter. The loan was paid in full on May 8, 2018, the maturity date. As at December 31, 2018 and 2017, the carrying value of the loan amounted to nil and ₱199.7 million, respectively.

Loan 6 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, 2018 and 2017, the carrying value of the loan amounted to ₱310.2 million and ₱294.5 million, respectively.

Under the loan agreements above (Loans 4 to 6), the Parent Company as the guarantor is subject to 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, 2018 and 2017, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

VND-denominated loans of SuperFoods Group. Loan 7 consists of a 5-year loan acquired from a local bank in Vietnam on February 19, 2015 amounting to VND118.0 billion (₱250.2 million). The loan is subject to a variable interest rate based on thirty (30) day Vietnam Interbank Offered Rates plus spread of 1.5%. The principal is payable in monthly installments commencing on the 13th month after the first utilization date until February 2020, the maturity date. As at December 31, 2018 and 2017, the carrying value of the loan amounted to ₱79.3 million and ₱142.3 million, respectively.

Loan 8 consists of a 5-year loan acquired on December 30, 2015 from a local bank in Vietnam amounting to VND68.0 billion (₱146.7 million). The loan is subject to a variable interest rate based on three-month VND COF plus spread of 1.5%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month after the first utilization. As at December 31, 2018 and 2017, the carrying value of the loan amounted to ₱88.1 million and ₱123.0 million, respectively.

Loan 9 consists of a 5-year loan acquired on April 3, 2017 from a local bank in Vietnam amounting to VND68.0 billion (₱151.2 million) with variable interest rate based on three-month VND COF plus spread of 1.5%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from the first drawdown date. As at December 31, 2018 and 2017, the carrying value of the loan amounted to ₱137.1 million and ₱151.4 million, respectively.

Loan 10 consists of a 5-year loan acquired from a local bank in Vietnam amounting to VND113.0 billion (₱262.7 million) available in tranches within eighteen (18) months from February 13, 2018, the date of loan agreement. The loan is subject to a variable interest rate based on three-month VND COF plus spread of 1.3%. The principal is payable in fourteen (14) quarterly installments commencing on the 21st month from the initial drawdown date on March 20, 2018 amounting to VND7.5 billion (₱17.4 million). As at December 31, 2018, the carrying value of the loan amounted to ₱260.4 million.

Loan 11 consists of a 5-year loan acquired from a local bank in Vietnam amounting to VND185.0 billion (₱426.2 million) available in tranches within twenty-four (24) months from November 15, 2018, the date of loan agreement. The loan is subject to a variable interest rate based on the Bank's three-month COF plus spread of 1.35%. The principal is payable in twelve (12) quarterly installments commencing on the 27th month from the initial drawdown date on December 25, 2018 amounting to VND18.2 billion (₱42.0 million). As at December 31, 2018, the carrying value of the loan amounted to ₱42.0 million.

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 12). The 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. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any interest payment date based on the PDST-F rate for the remaining term of the loan and the spread of 1.0%. The Parent Company also has an option to prepay the loan in full or in multiples of ₱10.0 million on any interest payment date.

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, 2018 and 2017.

Loan 13 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 1.0%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the BSP Special Deposit Account (SDA) Rate plus spread of 1.0% 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. The Parent Company has an option to convert the variable interest rate into a fixed interest rate based on a five-year treasury securities benchmark yield plus spread of 1.0% on the date the option to convert is exercised, subject to an annual interest rate floor of 4.75%. The Parent Company also has an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions.

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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018 and 2017.

Loan 14 consists of 5-year unsecured loan acquired from a local bank on April 22, 2016 amounting to ₱1,000.0 million. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury - Reference Rate Two (PDST-R2) 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 not later than 730 days from drawdown date. The conversion to fixed interest rate is based on the applicable PDST-R2 rate plus spread of 2% if the option is exercised from day 1 to day 365 from drawdown date and based on the applicable PDST-R2 rate plus spread of 2.75% if the option is exercised from day 366 to day 730 from drawdown date. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month 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. The Parent Company has an option to prepay the loan in part or in full on any interest payment date.

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, 2018 and 2017.

Loan 15 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱1,600.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 plus spread of 0.50%, which is payable and repriced on a quarterly basis, and to an interest rate floor of 2.70%. Provided, however that on any interest payment date, but in no case later than 365 days from the initial drawdown 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 based on the applicable three-month PDST-R2 rate plus spread of 0.60%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱100.0 million. The Parent Company incurred debt issue cost of ₱8.0 million, representing documentary stamp tax, for this loan. The Parent Company also has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

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, 2018 and 2017.

Loan 16 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱2,100.0 million. The loan is subject to a variable interest rate based on the simple average of the five (5) trading days of the three-month Treasury Securities Benchmark Yield, as published in the PDST-R2 page of the PDEX preceding and inclusive of the Interest Rate Setting Date plus spread of 0.50%. The principal is payable on December 22, 2022, the date of maturity with an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions. On July 16, 2018, the loan agreement was amended to pay the principal in sixteen (16) quarterly installments commencing on the end of the 4th quarter from the drawdown date. The Parent Company incurred debt issue cost of ₱10.5 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018 and 2017.

Loan 17 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱800.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱50.0 million. The Parent Company incurred debt issue cost of ₱4.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

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, 2018 and 2017.

Loan 18 consists of 5-year unsecured loan acquired from a local bank on December 27, 2017 amounting to ₱600.0 million. The loan is subject to a variable interest equal to the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate plus 0.50%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱37.5 million. The Parent Company incurred debt issue cost of ₱3.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any interest payment date but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on a five year PDST-R2 rate plus spread of 0.75%. The Parent Company also has an option to prepay the loan in part of in full on any interest payment date subject to certain conditions.

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 and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018 and 2017.

Loan 19 consists of 7-year unsecured loan acquired from a local bank on March 27, 2018 amounting to ₱4,200.0 million. The loan is subject to a variable interest equal to the simple average of the preceding five (5) days of the three-month PDST-R2 rate plus spread of 0.40% and to an interest rate floor of 3.0%. The principal is payable in equal quarterly installments commencing on the 27th month from drawdown date amounting to ₱210.0 million. The Parent Company incurred debt issue cost of ₱31.5 million, representing documentary stamp tax, for this loan. The Parent Company has an option to convert the variable interest rate into a fixed interest rate but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on simple average of the applicable/interpolated "Done" PDST-R2 rates within the preceding five (5) consecutive business days plus spread of 0.60%. In the event, that there is no "Done" PDST-R2 rates, it shall be determined by interpolating the "Done" PDST-R2 of other tenors or mutually agreed computation based on the available bids/interpolation. The Parent Company also has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

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, 2018.

Loan 20 consists of 7-year unsecured loan acquired from a local bank on May 11, 2018 amounting to ₱3,000.0 million. The loan is subject to a variable interest rate equal to simple average of the five (5) trading days of the three-month Treasury Securities Benchmark Yield, as published in the PDST-R2 page of the PDEX preceding and inclusive of the Interest Rate Setting Date plus spread of 0.50%. The Parent Company has a one-time option to convert the variable interest rate into a fixed interest rate until the 4th interest rate setting date subject to certain conditions. The conversion to fixed interest rate is equal to the interpolated Treasury Securities Benchmark Yield based on the remaining tenor of the Loan, as published in the PDST-R2 on the interest setting date plus spread of 0.50%. The principal is payable in twenty (20) quarterly installments commencing on the end of the 8th quarter from the drawdown date. The Parent Company incurred debt issue cost of ₱22.5 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018.

Loan 21 consists of 7-year unsecured loan acquired from a local bank on August 15, 2018 amounting to ₱2,700.0 million. The loan is subject to a variable interest rate equal to simple average of the five (5) trading days of the three-month Treasury Securities Benchmark Yield, as published in the PDST-R2 page of the PDEX preceding and inclusive of the Interest Rate Setting Date plus spread of 0.50%. The Parent Company has a one-time option to convert the variable interest rate into a fixed interest rate until the 4th interest rate setting date subject to certain conditions. The conversion to fixed interest rate is equal to the interpolated Treasury Securities Benchmark Yield based on the remaining tenor of the Loan, as published in the PDST-R2 on the interest setting date plus spread of 0.50%. The principal is payable in twenty (20) quarterly installments commencing on the end of the 8th quarter from the drawdown date. The Parent Company incurred debt issue cost of ₱20.3 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018.

The Parent Company's PHP denominated long-term debt (Loans 12 to 21) amounts to ₱17,788.2 million and ₱8,213.0 million, net of unamortized debt issue cost of ₱91.8 million and ₱32.0 million as at December 31, 2018 and 2017, respectively. The current portion amounted to ₱3,773.0 million and ₱261.8 million, net of debt issue costs of ₱7.0 million and ₱2.4 million as at December 31, 2018 and 2017, respectively.

PHP-denominated loan of PERF Restaurants, Inc. (PERF). Loan 22 is a 5-year unsecured loan acquired from local a bank on December 21, 2016 amounting to ₱110.0 million with an interest rate based on three-month PDST-R2 plus spread of 1.0% with interest rate floor computed at BSP Overnight Deposit Facility Rate plus spread of 0.5%. The loan is payable on December 21, 2021, the maturity date. PERF incurred debt issue cost of ₱0.6 million, representing documentary stamp tax, in relation to this loan in 2016. The carrying amount of the loan is ₱109.7 million and ₱109.6 million, net of unamortized debt issue cost of ₱0.3 million and ₱0.4 million as at December 31, 2018 and 2017, respectively.

The 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2018 and 2017, respectively.

PHP-denominated loan of Zenith. Loan 23 is a 7-year unsecured loan acquired from a local bank on August 24, 2018 amounting to ₱1,000.0 million. The loan is subject to a variable interest equal to the simple average of the preceding five (5) days of the three-month PDST-R2 on the interest setting date plus spread of 0.48% and to an interest rate floor equal to the BSP Overnight Reverse Repurchase Rate. Zenith has an option to convert the variable interest rate into a fixed interest rate but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on simple average of the applicable/interpolated "Done" PDST-R2 rates within the preceding five (5) consecutive business days plus spread of 0.60%. Zenith incurred debt issue cost of ₱7.5 million, representing documentary stamp tax, in relation to this loan. The principal is payable in equal quarterly installments commencing on the 27th month from the drawdown date and every quarter thereafter until maturity. The carrying amount of the loan is ₱992.9 million, net of unamortized debt issue cost of ₱7.1 million as at December 31, 2018.

The 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 and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at December 31, 2018.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱888.2 million, ₱392.6 million and ₱247.0 million in 2018, 2017 and 2016, respectively (see Note 23).

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

	2018	2017
2018	**₱–**	₱1,218,583
2019	**4,899,151**	4,320,923
2020	**3,510,235**	1,752,102
2021	**4,391,793**	1,612,649
2022 to 2025	**13,562,448**	7,245,483
	26,363,627	16,149,740
Less debt issue costs	**(99,274)**	(32,469)
	₱26,264,353	₱16,117,271

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, 2018 and 2017.

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 ₱82.9 million and ₱11.9 million as at December 31, 2018 and 2017, respectively, which were presented as a derivative asset 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 income of ₱70.9 million, ₱45.5 million and ₱2.4 million were recognized in other comprehensive income in 2018, 2017 and 2016, respectively.

In 2012, PERF converted a loan 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 received variable interest based on 3-month US Dollar LIBOR plus spread and paid fix-interest rate. At maturity date, PERF received USD notional amount of USD3.4 million and paid PHP notional amount of ₱149.2 million. The USD receipts from the cross-currency swap corresponded to the expected interest fixed principal amount due on the hedged loan. Similar to the hedged loan, the cross-currency swap was non-amortizing and it matured on December 20, 2016.

Effectively, the cross-currency swap transformed the floating rate USD loan into fixed rate PHP loan. The foreign exchange revaluation of the hedged loan, amounting to ₱10.9 million was recognized in other comprehensive income in 2016.

19. **Equity**

a. Capital Stock

The movements in the account are as follows:

	2018	2017
Authorized - ₱1 par value 1,450,000,000 shares	**₱1,450,000**	₱1,450,000
Issued and subscribed:		
Balance at beginning of year	**₱1,101,656**	₱1,091,301
Issuances during the year	**3,558**	10,355
Balance at end of year	**1,105,214**	1,101,656
Subscriptions receivable	**(17,178)**	(17,178)
	₱1,088,036	₱1,084,478

The total number of shareholders of the Parent Company is 3,023 and 3,042 as at December 31, 2018 and 2017, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid in-capital pertain to the difference between the exercise prices of stock options exercised and the par value of Parent Company's shares. For the years ended December 31, 2018 and 2017, stock options totaling 3,558,182 shares and 10,354,270 shares, respectively, were exercised (see Note 26). These resulted to an additional paid-in capital amounting to ₱472.0 million and ₱850.8 million in 2018 and 2017, respectively.

Stock options expense, amounting to ₱312.0 million, ₱227.5 million and ₱241.3 million in 2018, 2017 and 2016, respectively, were also recognized as part of additional paid-in capital (see Notes 22 and 26).

The Parent Company recognized deferred tax assets on MSOP and ELTIP, resulting to additional paid-in capital of ₱334.1 million and ₱782.0 million in 2018 and 2017.

As at December 31, 2018 and 2017, total additional paid-in capital amounted to ₱8,638.4 million and ₱7,520.4 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, 2018 and 2017.

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, 2018 and 2017, 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:

	2018	2017
20% of Greenwich in 2006	**₱168,257**	₱168,257
15% of Belmont in 2007	**375,721**	375,721
40% of Adgraphix in 2010	**(1,214)**	(1,214)
30% of Mang Inasal in 2016	**1,217,615**	1,217,615
30% of HBFPPL in 2016	**391,782**	391,782
15% of SJBF in 2018 (see Note11)	**(347,395)**	–
	₱1,804,766	₱2,152,161

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%, 33.1% and 32.4% in 2018, 2017 and 2016, 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 ₱12,538.8 million, ₱10,876.0 million and ₱6,046.3 million as at December 31, 2018, 2017 and 2016, respectively.

The Parent Company's cash dividend declarations for 2018, 2017 and 2016 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
			(In Thousands, except dividend per share)	
2018				
April 6	April 24	May 9	**₱1.14**	**₱1,236,518**
November 9	November 26	December 10	**1.34**	**1,455,269**
			₱2.48	**₱2,691,787**
2017				
April 5	April 21	May 5	₱1.00	₱1,077,527
November 10	November 27	December 11	1.18	1,277,984
			₱2.18	₱2,355,511
2016				
April 6	April 21	May 6	₱0.86	₱919,435
November 11	November 28	December 12	1.00	1,072,808
			₱1.86	₱1,992,243

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 in 2012 (₱98.0 million), 40% of SJBF 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 HBFPPL (₱514.9 million), acquisition of GSC (₱8.6 million) in 2016, the acquisition of additional 10% share in SuperFoods Group (₱2,712.7 million) in 2017 and acquisition of remaining 60% share in SJBF LLC (₱5,735.8 million) in 2018.

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.

On November 9, 2018, the BOD approved the following:

- Release of previously appropriated retained earnings amounting to ₱18,200.0 million as at September 30, 2018 related to the completed projects in 2013 to 2018.

- Appropriation of retained earnings amounting to ₱20,000.0 million. Details are as follows:

Projects	Timeline	Amount
Capital Expenditures	2019 - 2024	₱12,000,000
Acquisition of Businesses	2019 - 2024	8,000,000
		₱20,000,000

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 as well as the undistributed retained earnings of its subsidiaries which amounted to ₱3,063.9 million, ₱3,525.2 million and ₱3,664.8 as at December 31, 2018, 2017 and 2016, 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.

	Number of Shares registered	Initial issue/offer price	Listing Date	Number of holders of securities as at December 31	
				2018	2017
Common shares	75,000,000	₱9	July 14, 1993	**3,023**	3,042

20. **Royalty, Set-up Fees and Others**

This account consists of:

	2018	2017	2016
Royalty fees	**₱7,043,891**	₱5,614,447	₱4,959,568
Set-up fees	**546,909**	424,217	309,354
Service fees	**489,359**	380,149	119,262
Scrap sales	**109,658**	199,077	154,628
Rent income			
(see Notes 13 and 29)	**53,322**	57,234	91,387
Other revenues	**231,931**	237,879	252,817
	₱8,475,070	₱6,913,003	₱5,887,016

The Jollibee Group has existing Royalty and Service 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", "Hong Zhuang Yuan", "Highlands Coffee", "Pho 24" and "Smashburger" concepts and trade names. In consideration thereof, the franchisees agree to pay set-up fees and monthly royalty fees equivalent to a certain percentage of the franchisees' net sales.

The Jollibee Group's franchisees pay service fees for various services, including repairs and maintenance services, rendered by the Jollibee Group's personnel.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the Jollibee Group.

21. Direct Costs

This account consists of:

	2018	2017 (As Restated)	2016 (As Restated)
Cost of Sales			
Cost of inventories	**₱74,995,446**	₱62,725,504	₱54,475,007
Personnel costs:			
Salaries, wages and other employee benefits	**14,878,078**	11,021,803	10,472,700
Pension expense (see Note 25)	**190,272**	168,059	171,515
Rent (see Note 29)	**12,151,194**	9,719,896	8,234,530
Contracted services	**8,847,468**	7,305,046	4,875,092
Depreciation and amortization (see Note 12)	**5,366,987**	4,307,821	3,542,624
Electricity and other utilities	**5,247,450**	4,587,166	4,022,779
Supplies	**3,150,090**	2,570,007	2,155,033
Repairs and maintenance	**1,578,608**	1,218,581	1,327,943
Security and janitorial	**983,306**	795,773	638,303
Communication	**289,677**	227,195	190,811
Professional fees	**169,531**	57,575	34,972
Representation and entertainment	**131,853**	39,191	33,181
Others	**3,391,257**	2,914,523	2,640,998
	131,371,217	107,658,140	92,815,488
Cost of Services			
Advertising expense (see Note 2)	**2,523,492**	2,036,535	1,802,072
	₱133,894,709	₱109,694,675	₱94,617,560

Others consist of delivery costs, insurance and other miscellaneous expenses.

22. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Personnel costs:			
Salaries, wages and other employee benefits	**₱8,027,163**	₱6,850,398	₱5,543,159
Stock options expense (see Notes 19 and 26)	**311,964**	227,483	241,324
Pension expense (see Note 25)	**208,533**	194,781	192,266
Taxes and licenses	**1,561,687**	1,394,412	1,271,104
Professional fees	**1,018,320**	825,264	608,586
Transportation and travel	**748,856**	577,374	504,469
Rent (see Note 29)	**586,982**	516,717	470,004
Contracted services	**565,260**	474,622	499,533
Depreciation and amortization (see Notes 12, 14 and 15)	**542,773**	437,345	453,244
Reversals of provision for impairment on:			
Property, plant and equipment (see Note 12)	**(408,184)**	(2,111)	(2,000)
Receivables (see Note 7)	**(23,675)**	(20,705)	(3,188)
Inventories (see Note 8)	**(6,148)**	(53,819)	(18,129)
Repairs and maintenance	**279,891**	157,495	191,253
Corporate events	**234,865**	192,187	161,628
Membership and subscriptions	**160,414**	139,552	112,110
Communication	**158,430**	116,101	98,769
Training	**151,753**	134,448	161,683
Representation and entertainment	**121,306**	70,282	53,781
Donations	**101,118**	93,294	82,642
Supplies	**96,224**	89,641	78,769
Electricity and other utilities	**72,095**	55,806	52,596
Association dues	**69,569**	51,994	50,517
Loss (gain) on retirements and disposals of:			
Property, plant and equipment (see Note 12)	**45,540**	174,510	236,809
Investment properties (see Note 13)	**–**	(231,036)	–
Insurance	**41,179**	21,182	16,782
Security and janitorial	**26,053**	24,408	22,464
Impairment in value of:			
Receivables (see Note 7)	**10,188**	143,772	91,415
Inventories (see Note 8)	**8,278**	7,443	78,621
Property, plant and equipment (see Note 12)	**–**	431,939	42,731
Other assets	**–**	122,759	–
Others	**751,040**	688,307	568,498
	₱15,461,474	₱13,905,845	₱11,861,440

23. **Interest Income (Expense) and Other Income (Expense)**

	2018	2017	2016
Interest income:			
Cash and cash equivalents and short-term investments (see Note 6)	**₱313,273**	₱149,298	₱136,671
Loans and advances* (see Note 11)	**55,523**	77,120	125,070
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	**46,589**	33,149	25,172
	₱415,385	₱259,567	₱286,913

**Including interest income of other subsidiaries other than those mentioned in Note 11.*

	2018	2017	2016
Interest expense:			
Long-term debt (see Note 18)	**(₱888,216)**	(₱392,589)	(₱247,036)
Accretion of customers' deposits (see Note 16)	**(627)**	(13,231)	(20,354)
Short-term debt (see Note 18)	**–**	–	(228)
	(₱888,843)	(₱405,820)	(₱267,618)

	2018	2017	2016
Other income (expense):			
Write-off of liabilities	**₱2,343,295**	₱1,547,166	₱1,111,924
Gain from the re-measurement of previously held interest (see Note 11)	**754,804**	1,328,733	–
Bank charges	**(317,791)**	(165,348)	(118,627)
Rebates and suppliers' incentives	**194,927**	189,452	206,712
Pre-termination of operating leases	**85,898**	15,884	9,528
Penalties and charges	**62,467**	69,610	53,274
Marked-to-market gain (loss) on derivatives (see Note 11)	**(49,791)**	(129,371)	3,298
Foreign exchange gain (loss) - net	**(34,597)**	(63,535)	41,485
Charges to franchisees	**24,679**	18,979	19,858
Reversal of impairment loss on interest in an associate (see Note 11)	**16,660**	–	–
Net unrealized gain on financial assets at FVTPL (see Note 10)	**9,980**	–	–
Other rentals	**8,662**	17,484	16,392
Provisions (see Note 17)	**–**	(794,609)	–
Divestment of subsidiaries and interest in a joint venture (see Note 11)	**–**	(116,207)	66,695
Insurance claims and others	**136,003**	180,515	172,384
	₱3,235,196	₱2,098,753	₱1,582,923

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:

	2018	2017	2016
Final tax withheld on:			
Royalty income	**₱1,512,611**	₱1,260,352	₱1,120,247
Interest income	**39,153**	16,349	16,135
RCIT:			
With itemized deduction	**511,077**	306,010	805,092
With Optional Standard Deduction (OSD)	**473,240**	369,839	214,249
MCIT	**286,011**	336,152	179,132
Capital gains	–	21,928	–
	₱2,822,092	₱2,310,630	₱2,334,855

RCIT consists of corporate income taxes from the Jollibee Group's operations in the Philippines, PRC, USA and Vietnam.

For the years ended December 31, 2018 and 2017, Grandworth and RRBH wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. In 2018 and 2017, Zenith elected to use itemized deduction and OSD, respectively, in computing its taxable income. The net tax benefit (loss) from the availment of OSD amounted to ₱4.7 million and (₱15.3 million) in 2018 and 2017, respectively.

The components of the Jollibee Group's recognized net deferred tax assets as at December 31 follow:

	2018	2017
Deferred tax assets:		
MSOP and ELTIP	**₱1,312,022**	₱1,033,184
Accrued expenses of USA-based entities	**749,663**	497,590
Operating lease payables	**663,074**	566,066
Excess of MCIT over RCIT	**614,580**	513,072
NOLCO:		
Philippine-based entities	**311,331**	553,035
PRC-based entities	**190,154**	250,973
USA-based entities	**45,976**	7,218
Pension liability and other benefits	**504,790**	551,921
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	**108,432**	105,190
Unrealized foreign exchange loss	**85,708**	62,395

(Forward)

	2018	2017
Unaccreted discount on security deposits and employee car plan receivables	**₱36,978**	₱53,992
Unamortized past service costs	**15,408**	9,689
Others	**9,634**	15,136
	4,647,750	4,219,461
Deferred tax liabilities:		
Unrealized foreign exchange gain	**93,995**	57,342
Excess of fair value over book value of identifiable assets of acquired businesses	**80,243**	69,281
State income taxes	**49,157**	82,383
Prepaid rent	**36,953**	46,768
Unaccreted discount on employee car plan receivables and security deposits	**25,811**	23,172
Deferred rent expense	**19,316**	13,461
Operating lease receivables	**18,087**	17,049
Unrealized gain on change in fair value of financial assets at FVTPL/AFS financial assets	**1,192**	1,192
	324,754	310,648
Deferred tax assets – net	**₱4,322,996**	₱3,908,813

The components of the Jollibee Group's recognized net deferred tax liabilities as at December 31 follow:

	2018	2017
Deferred tax assets:		
Allowance for impairment loss on receivables and inventories	**₱85,494**	₱85,041
Pension liability and other benefits	**57,494**	40,905
MSOP and ELTIP	**27,639**	–
Operating lease payables	**16,474**	7,142
Unamortized past service costs	**3,436**	–
Unaccreted discount on security deposits and employee car plan receivables	**3,180**	1,790
Unrealized foreign exchange loss	**1,377**	14
Excess of MCIT over RCIT	**–**	18,359
	195,094	153,251
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	**3,703,679**	1,340,894
Unrealized foreign exchange gain	**2,028**	14
Unaccreted discount on employee car plan receivables, security and product security deposits	**1,640**	1,338
	3,707,347	1,342,246
Deferred tax liabilities – net	**₱3,512,253**	₱1,188,995

The rollforward analysis of the net deferred tax assets and liabilities of the Jollibee Group follows:

	2018	2017
Balance at beginning of year	**₱2,719,818**	₱2,078,918
Additions - net assets (liabilities)	**(1,880,459)**	685,089
Income tax effect of other remeasurements of net defined benefit plan	**(54,831)**	(59,440)
Translation adjustments	**26,215**	15,251
	₱810,743	₱2,719,818

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:

	2018	2017
Deferred tax assets:		
Allowance for impairment losses on receivables and nonfinancial assets	**₱6,429**	₱30,421
Operating lease payables	**3,361**	13,429
Unaccredited discount on financial instruments and others	**504**	458
Pension liability and other benefits	**–**	23,121
Unamortized past service cost	**–**	139
	10,294	67,568
Deferred tax liabilities:		
Operating lease receivables	**4,963**	5,437
Others	**359**	551
	5,322	5,988
Deferred tax assets - net	**₱4,972**	₱61,580

As at December 31, 2018, 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
2018	December 31, 2021	₱–	₱244,814
2017	December 31, 2020	–	190,633
2016	December 31, 2019	1,037,769	179,133
2015	December 31, 2018	895,999	161,665
		1,933,768	776,245
Utilized during the year		(829,757)	–
Write-off during the year		(66,242)	(161,665)
		₱1,037,769	₱614,580

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at December 31, 2018, 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%
2018	December 31, 2023	₱47,388	₱11,847
2017	December 31, 2022	39,200	9,800
2016	December 31, 2021	216,036	54,009
2015	December 31, 2020	235,992	58,998
2014	December 31, 2019	223,724	55,931
2013	December 31, 2018	288,944	72,236
		1,051,284	262,821
Write-off during the year		(169,740)	(42,435)
Utilized during the year		(126,184)	(31,546)
Translation adjustments		5,256	1,314
		₱760,616	₱190,154

As at December 31, 2018, NOLCO of the USA-based entities that can be claimed as deductions from taxable income are as follows:

Year Incurred	Tax Losses	Deferred Tax at 21%
2018	₱182,732	₱38,374
2017	34,370	7,218
Translation adjustments	1,830	384
	₱218,932	₱45,976

The following are the movements in deferred tax assets on NOLCO of the Jollibee Group:

	2018	2017	2016
Balance at beginning of year	**₱811,226**	₱1,083,447	₱782,610
Additions	**50,221**	172,041	355,025
Utilized during the year	**(253,376)**	(447,324)	(51,416)
Write-offs and expirations	**(62,308)**	(12,189)	–
Translation adjustments	**1,698**	15,251	(2,772)
	₱547,461	₱811,226	₱1,083,447

The following are the movements in deferred tax assets on Excess of MCIT over RCIT of the Jollibee Group:

	2018	2017	2016
Balance at beginning of year	**₱531,431**	₱484,930	₱318,340
Additions	**244,814**	190,633	179,224
Write-offs and expirations	**(161,665)**	(144,132)	(4,387)
Utilized during the year	**–**	–	(8,247)
	₱614,580	₱531,431	₱484,930

The net change in deferred tax liabilities recognized in equity amounted to (₱54.8 million), (₱59.4 million) and ₱29.6 million in 2018, 2017 and 2016, respectively.

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:

	2018	2017	2016
Provision for income tax at various statutory income tax rates	**₱3,147,175**	₱2,501,853	₱2,388,798
Income tax effects of:			
Effect of different tax rate for royalty and interest income	**(772,111)**	(638,351)	(567,363)
Nontaxable income	**(556,487)**	(313,827)	–
Income tax effects of:			
Net movement in unrecognized DTA	**251,680**	(28,325)	34,549
Expired/written off NOLCO and excess of MCIT over RCIT	**198,101**	156,321	4,387
Intrinsic value of stock options exercised	**(156,848)**	(323,503)	(208,494)
Nondeductible expenses	**102,617**	35,754	74,371
Tax effect of MSOP and ELTIP	**(88,326)**	(175,401)	–
Difference between OSD and itemized deductions	**(5,004)**	12,621	(57,925)
Effect of different tax rates for capital gains tax	**(1,497)**	(47,382)	–
Others	**599,949**	487,168	8,288
	₱2,719,249	₱1,666,928	₱1,676,611

Provision for current income tax of foreign entities operating in United States, PRC and Singapore amounted to ₱41.0 million, ₱147.4 million and ₱1.2 million, respectively, in 2018, ₱55.1 million, ₱119.3 million and ₱2.3 million , respectively, in 2017, and ₱67.6 million, ₱99.7 million and ₱1.3 million , respectively, in 2016.

For Philippine-based entities, Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect on January 1, 2018. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same did not have any significant impact on the consolidated financial statement balances as of the reporting date.

For US-based entities, Tax Cuts and Jobs Act (the US Tax Reform) was signed into law on December 22, 2017, making the new law enacted by that date under Philippine Financial Reporting Standards (PFRSs) and therefore applicable as of the reporting date. The US Tax Reform resulted in the re-measurement of deferred tax assets and liabilities as a result of the change in the corporate income tax rate from 35% to 21%. The US-based entities recognized net deferred tax liabilities amounting to ₱1,650.9 million and net deferred tax assets amounting to ₱452.4 million as at December 31, 2018 and 2017, respectively.

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 2018 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Liability**
At January 1, 2018	**₱3,574,277**	**₱2,084,731**	**₱1,489,546**
Pension expense (see Notes 21 and 22):			
Current service cost	**290,935**	**–**	**290,935**
Net interest	**211,958**	**123,693**	**88,265**
Past service cost	**15,851**	**–**	**15,851**
Settlement loss	**3,754**	**–**	**3,754**
	522,498	**123,693**	**398,805**
Benefits paid	**(150,925)**	**(150,925)**	**–**
Settlement paid	**(28,400)**	**(28,400)**	**–**
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**(223,899)**	**223,899**
Actuarial changes arising from changes in financial assumptions	**(485,586)**	**–**	**(485,586)**
Actuarial changes due to experience adjustment	**68,003**	**–**	**68,003**
Actuarial changes due to demographic adjustment	**(14,921)**	**–**	**(14,921)**
	(432,504)	**(223,899)**	**(208,605)**
Contributions	**–**	**359,100**	**(359,100)**
At December 31, 2018	**₱3,484,946**	**₱2,164,300**	**₱1,320,646**

Changes in pension liability of the Jollibee Group in 2017 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2017	₱3,378,892	₱1,720,714	₱1,658,178
Pension expense (see Notes 21 and 22):			
Current service cost	279,419	–	279,419
Net interest	176,704	90,072	86,632
Past service cost	(3,211)	–	(3,211)
	452,912	90,072	362,840
Benefits paid	(103,553)	(103,553)	–

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	₱–	₱52,498	(₱52,498)
Actuarial changes arising from changes in financial assumptions	(235,902)	–	(235,902)
Actuarial changes due to experience adjustment	81,928	–	81,928
	(153,974)	52,498	(206,472)
Contributions	–	325,000	(325,000)
At December 31, 2017	₱3,574,277	₱2,084,731	₱1,489,546

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:

	2018	2017
Cash and cash equivalents	**₱638,046**	₱487,772
Investments in government and corporate debt securities	**1,043,573**	1,123,443
Investments in quoted equity securities:		
Holding firms	**186,312**	203,216
Property	**110,603**	117,714
Banks	**105,906**	115,258
Food and beverage	**51,292**	55,978
Electricity, energy, power and water	**26,223**	24,976
Telecommunications	**25,688**	32,531
Others	**35,772**	42,119
Interest and dividends receivable	**15,851**	15,478
Fund liabilities (Note 27)	**(74,966)**	(133,754)
	₱2,164,300	₱2,084,731

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 2.13%-11.70% and have maturities from June 2019 to October 2037.
- Investments in debt securities consist of long-term corporate bonds in the property sector, which bear interest ranging from 5.17%-5.35% maturing from March to May 2024.
- 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).

- 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, 2018	December 31, 2017	December 31, 2016
Discount rate	**7.40%–7.80%**	5.90%–6.30%	5.20%–5.70%
Salary increase rate	**6.00%**	6.00%	6.00%

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:

	Increase (Decrease)	Philippine Plan		
		2018	2017	2016
Discount rates	+0.50%	**(₱196,313)**	(₱142,506)	(₱156,602)
	-0.50%	**111,323**	195,703	169,836
Future salary increases	+0.50%	**112,745**	194,789	167,757
	-0.50%	**(198,792)**	(143,116)	(156,240)

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	2018	2017
Less than 1 year	**₱797,550**	₱705,649
More than 1 year to 5 years	**1,078,936**	1,000,883
More than 5 years to 10 years	**2,408,837**	2,328,122
More than 10 years to 15 years	**2,880,848**	2,533,937
More than 15 years to 20 years	**2,956,666**	2,638,048
More than 20 years	**10,074,315**	8,531,203

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 plans is based on the client suitability assessment, as provided by trustee banks, in compliance with the BSP 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 plans.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk. Liquidity risk pertains to the plans' ability to meet 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 ₱798.8 million to the defined benefit pension plans in 2019.

The average duration of the defined benefit obligation is 10 years as at December 31, 2018 and 2017.

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 ₱595.5 million, ₱569.8 million and ₱603.7 million in 2018, 2017 and 2016, respectively.

26. Stock Options Plan

Senior Management Stock Option and Incentive Plan
On January 10, 2017 and December 17, 2002, the SEC approved the exemption requested by the Jollibee Group on the registration requirements of 31,500,000 and 101,500,000 options, respectively, 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 and designated affiliated entities.

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.

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. For instance, under the 1st MSOP cycle, the Compensation Committee of the Jollibee Group granted 2,385,000 options to eligible participants on July 1, 2004. One-third of the options granted, or 795,000 options, vested and may be exercised starting July 1, 2005. The exercise period for the 1st MSOP cycle was until June 30, 2012. From July 1, 2005 to July 3, 2017, the Compensation Committee granted series of MSOP grants under the 2nd to 14th MSOP cycle to eligible participants. Under the most recent grant (July 9, 2018), the 15th MSOP cycle, the Compensation Committee granted 3,308,050 options. These options vest similar to the 1st MSOP cycle.

The options under MSOP expire eight years after grant date. The 1st, 2nd, 3rd 4th, 5th, 6th and 7th MSOP cycles expired on June 30, 2012, 2013, 2014, 2015, 2016, 2017 and 2018, respectively.

The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding under MSOP and related weighted average exercise prices (WAEP) for the years ended December 31, 2018, 2017 and 2016 follow:

	2018		2017		2016	
	Number of Options	**WAEP**	Number of Options	WAEP	Number of Options	WAEP
Total options granted at beginning of year	**47,184,794**	**₱102.59**	42,986,294	₱92.47	40,120,794	₱82.22
Options granted during the year	**3,308,050**	**245.00**	4,198,500	206.20	2,865,500	236.00
Total options granted at end of year	**50,492,844**	**₱111.92**	47,184,794	₱102.59	42,986,294	₱92.47
Outstanding at beginning of year	**16,780,550**	**₱176.63**	15,256,198	₱159.46	14,868,437	₱133.32
Options granted during the year	**3,308,050**	**245.00**	4,198,500	206.20	2,865,500	236.00
Options exercised during the year	**(2,234,849)**	**145.31**	(2,672,040)	110.35	(2,259,125)	87.40
Options forfeited during the year	**(240,498)**	**204.03**	(2,108)	213.28	(218,614)	129.31
Outstanding at end of year	**17,613,253**	**₱193.07**	16,780,550	₱176.63	15,256,198	₱159.46
Exercisable at end of year	**10,612,036**	**₱169.70**	9,688,683	₱151.94	9,141,965	₱128.20

The weighted average share price of the Parent Company common shares is ₱278.16, ₱222.86 and ₱227.53 in 2018, 2017 and 2016, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2018, 2017 and 2016 is 4.48 years, 5.21 years and 5.17 years, respectively.

The weighted average fair value of stock options granted in 2018, 2017 and 2016 is ₱58.42, ₱29.88, and ₱31.16, 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
1st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00
13th	2016	2.00%	17.76%	2.63%	3-4 years	236.00	236.00
14th	2017	2.00%	16.70%	3.92%	3-4 years	206.20	206.20
15th	2018	2.00%	28.98%	4.95%	3-4 years	245.00	245.00

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 at 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 are 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 were exercised starting July 1, 2007 until June 30, 2012. On July 1, 2008, October 19, 2012, August 25, 2015 and January 3, 2018, entitlement to 20,399,999, 24,350,000, 11,470,000 and 9,290,000 options were given to eligible participants under the 2nd, 3rd, 4th and 5th ELTIP cycles, respectively. The 1st and 2nd ELTIP cycles expired on June 30, 2012 and April 30, 2017, respectively. The stock options granted under the 3rd, 4th and 5th ELTIP cycles will expire in 2020, 2023 and 2026, 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, 2018, 2017 and 2016 follow:

	2018		2017		2016	
	Number of Options	**WAEP**	Number of Options	WAEP	Number of Options	WAEP
Total options granted at beginning and end of year	**78,969,999**	**₱74.58**	78,969,999	₱74.58	78,969,999	₱74.58
Outstanding at beginning of year	**27,436,666**	**₱136.35**	35,118,896	₱122.65	38,344,999	₱117.74
Options exercised during the year	**(1,323,333)**	**111.99**	(7,682,230)	73.69	(2,892,770)	59.59
Options forfeited during the year	**(7,483,333)**	**180.00**	–	–	(333,333)	105.00
Outstanding at end of year	**18,630,000**	**₱120.55**	27,436,666	₱136.35	35,118,896	₱122.65
Exercisable at end of year	**15,683,333**	**₱109.38**	15,966,666	₱105.00	15,615,420	₱89.60

The weighted average remaining contractual life for the stock options outstanding as at 2018, 2017 and 2016 is 2.07 years, 3.59 years and 4.00 years, respectively.

The fair value of stock options granted is ₱26.13 in 2015. There were no additional stock option grants under ELTIP in 2018, 2017 and 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 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
1st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4th	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 ₱312.0 million, ₱227.5 million and ₱241.3 million in 2018, 2017 and 2016, respectively (see Notes 19 and 22). Correspondingly, a credit was made to additional paid-in-capital (see Note 19).

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 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Salaries and short-term benefits	**₱1,221,283**	₱1,107,515	₱1,001,048
Stock options expense (see Notes 22 and 26)	**311,964**	227,483	241,324
Net pension expense	**106,756**	65,075	59,701
Employee car plan and other long-term benefits	**58,859**	48,948	47,673
	₱1,698,862	₱1,449,021	₱1,349,746

Transactions with the Retirement Plans
As at December 31, 2018 and 2017, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	2018	2017
Number of shares	**144,740**	163,150
Market value	**₱42,694**	₱41,277
Cost	**9,860**	9,417
Unrealized gain	**₱32,834**	₱31,860

The Jollibee Group's receivable from the retirement fund amounted to ₱72.8 million and ₱131.7 million as at December 31, 2018 and 2017, respectively (see Note 25). The receivable arose from benefit payments made by the Jollibee Group for and in behalf of the retirement plans. The receivable is noninterest-bearing.

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.

28. Earnings Per Share

Basic and diluted EPS are computed as follows:

	2018	2017	2016
	(In Thousand pesos, except for shares data and EPS)		
(a) Net income attributable to the equity holders of the Parent Company	**₱8,329,884**	₱7,109,120	₱6,164,735
(b) Weighted average number of shares - basic	**1,087,093,411**	1,080,488,873	1,072,616,009
Weighted average number of shares outstanding under the stock options plan	**34,865,233**	32,366,508	38,387,061
Weighted average number of shares that would have been purchased at fair market value	**(18,607,619)**	(18,180,717)	(18,545,923)
(c) Adjusted weighted average shares - diluted	**1,103,351,025**	1,094,674,664	1,092,457,147
EPS:			
Basic (a/b)	**₱7.663**	₱6.580	₱5.747
Diluted (a/c)	**7.550**	6.494	5.643

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2017 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 2017.

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 ₱2,425.8 million, ₱2,057.8 million and ₱1,703.3 million in 2018, 2017 and 2016, respectively (see Notes 21 and 22).

The future minimum lease payments for the noncancellable periods of the operating leases follow:

	2018	2017	2016
Within one year	**₱2,764,434**	₱2,229,282	₱1,546,661
After one year but not more than five years	**10,052,706**	8,405,865	5,916,716
More than five years	**11,890,105**	9,942,645	8,093,585
	₱24,707,245	₱20,577,792	₱15,556,962

Rent expense recognized on a straight-line basis amounted to ₱12,738.2 million, ₱10,236.6 million and ₱8,704.5 million in 2018, 2017 and 2016, 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 ₱3,016.9 million and ₱2,051.6 million as at December 31, 2018 and 2017, 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:

	2018	2017	2016
Within one year	**₱63,062**	₱174,333	₱142,011
After one year but not more than five years	**253,908**	500,520	393,154
More than five years	**33,271**	163,067	184,930
	₱350,241	₱837,920	₱720,095

Rent income recognized on a straight-line basis amounted to ₱53.3 million, ₱57.2 million and ₱91.4 million in 2018, 2017 and 2016, 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 ₱31.6 million and ₱28.0 million as at December 31, 2018 and 2017, 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, receivables and long-term debts. 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 receivable from sale of business, security and other deposits, operating lease receivables and payables and trade payables and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificates) which arise directly from its operations.

The main risks arising from these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The risk management policies reviewed regularly by the Parent Company's BOD and management for managing each of these risks are summarized as follows:

<u>Interest Rate Risk</u>
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 debts 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 Jollibee Group'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 debts, the Jollibee Group used a derivative instrument to fix the interest rate over the term of one 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 banks, 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 Jollibee Group's income before income tax as at December 31, 2018 and 2017. The impact on the Jollibee Group's income before income tax 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 2018	2017
PHP	+100	**(188,907)**	(80,599)
	-100	**188,907**	80,599
USD	+100	**(67,688)**	(64,245)
	-100	**67,688**	64,245
VND	+100	**(6,068)**	(4,167)
	-100	**6,068**	4,167

The assumed movement in basis point for interest rate sensitivity analysis is based on the currently observable market environment.

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 6.06% and 2.55% of the consolidated net assets of the Jollibee Group as at December 31, 2018 and 2017, 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 liabilities and their peso equivalents as at December 31:

	2018			2017		
	USD	**RMB**	**PHP Equivalent**	USD	RMB	PHP Equivalent
Foreign currency denominated assets:						
Cash and cash equivalents	**71,661**	–	**3,767,938**	441	6	22,105
Receivables	**9,014**	–	**473,955**	6,841	–	341,590
Foreign currency denominated liability -	**80,675**	–	**4,241,893**	7,282	6	363,695
Accounts payable - trade	**(4,929)**	–	**(259,177)**	(1,155)	–	(57,669)
Foreign currency denominated assets - net	**75,746**	–	**3,982,716**	6,127	6	306,026

Foreign Currency Risk Sensitivity Analysis
The Jollibee Group has recognized in profit or loss, a net foreign exchange loss of ₱34.6 million and ₱63.5 million in 2018 and 2017, respectively, and net foreign exchange gain of ₱41.5 million in 2016 (see Note 23), included under "Other income" account. 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, 2018	**52.58**	**7.68**
December 31, 2017	49.93	7.64

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, 2018 and 2017:

		2018		2017	
Appreciation (Depreciation) of ₱ against Foreign Currency		**Effect on Income before Income Tax**	**Effect on Equity before Income Tax**	Effect on Income before Income Tax	Effect on Equity before Income Tax
USD	1.50	**(₱113,619)**	**(₱113,619)**	(₱9,191)	(₱9,191)
	(1.50)	**113,619**	**113,619**	9,191	9,191
	1.00	**(75,746)**	**(75,746)**	(6,127)	(6,127)
	(1.00)	**75,746**	**75,746**	6,127	6,127
RMB	0.95	–	–	(5.3)	(5.3)
	(0.95)	–	–	5.3	5.3
	0.63	–	–	(3.5)	(3.5)
	(0.63)	–	–	3.5	3.5

<u>Credit Risk</u>
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 services 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 financial assets as at December 31, 2018 and 2017 are as follows:

	2018						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days) 1-30	31-60	61-120	Over 120	Impaired
Financial Assets at Amortized Cost			*(In Millions)*				
Cash and cash equivalents*	**₱22,805.0**	**₱22,805.0**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Short-term investments	**883.2**	**883.2**	–	–	–	–	–
Receivables:							
Trade	**4,680.6**	**2,869.9**	**267.2**	**107.6**	**167.4**	**591.6**	**676.9**
Employee car plan receivables**	**260.3**	**260.3**	–	–	–	–	–
Advances to employees	**167.4**	**167.4**	–	–	–	–	–
Other receivables***	**151.6**	**93.1**	**0.7**	**1.7**	**2.1**	**54.0**	–
Security and other deposits**	**2,713.8**	**2,713.8**					
Other noncurrent assets -							
Operating lease receivables	**31.6**	**31.6**	–	–	–	–	–
	31,693.5	**29,824.3**	**267.9**	**109.3**	**169.5**	**645.6**	**676.9**
Financial Assets at FVTPL	**39.8**	**39.8**	–	–	–	–	–
	₱31,733.3	**₱29,864.1**	**₱267.9**	**₱109.3**	**₱169.5**	**₱645.6**	**₱676.9**

	2017						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days) 1-30	31-60	61-120	Over 120	Impaired
Loans and Receivables			*(In Millions)*				
Cash and cash equivalents*	₱20,762.5	₱20,762.5	₱–	₱–	₱–	₱–	₱–
Short-term investments	1,413.4	1,413.4	–	–	–	–	–
Receivables:							
Trade	4,077.5	2,380.2	488.8	150.1	134.7	233.6	690.1
Employee car plan receivables**	275.0	275.0	–	–	–	–	–
Advances to employees	144.8	144.8	–	–	–	–	–
Other receivables***	145.2	89.2	0.7	1.6	2.0	51.7	–
Security and other deposits**	2,465.0	2,465.0	–	–	–	–	–
Other noncurrent assets:							
Operating lease receivables	28.0	28.0	–	–	–	–	–
Receivable from sale of business	76.4	76.4	–	–	–	–	–
	29,387.8	27,634.5	489.5	151.7	136.7	285.3	690.1
AFS Financial Assets	29.9	29.9	–	–	–	–	–
	₱29,417.7	₱27,664.4	₱489.5	₱151.7	₱136.7	₱285.3	₱690.1

**Excluding cash on hand amounting to ₱480.9 million and ₱345.0 million in 2018 and 2017, respectively.*
***Including noncurrent portion of employee car plan receivables and security and other deposits.*
****Including interest receivable and excluding receivables from government agencies amounting to ₱41.6 million and ₱27.2 million in 2018 and 2017, respectively.*

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2018 and 2017 without considering the effects of collaterals and other credit risk mitigation techniques:

	2018		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Millions)	
Financial Assets at Amortized Cost			
Cash and cash equivalents*	**₱22,805.0**	**₱31.6**	**₱22,773.4****
Short-term investments	**883.2**	–	**883.2**
Receivables:			
Trade	**4,680.6**	**216.3**	**4,464.3*****
Employee car plan receivables	**260.3**	–	**260.3**
Advances to employees	**167.4**	–	**167.4**
Other receivables****	**151.6**	–	**151.6**

(Forward)

	2018		
	Gross Maximum Exposure (a)	**Fair Value and Financial Effect of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) - (b)**
Other noncurrent assets:			
Security and other deposits	**₱2,713.8**	**₱–**	**₱2,713.8**
Operating lease receivables	**31.6**	**–**	**31.6**
Financial assets at FVTPL	**39.8**	**–**	**39.8**
	₱31,733.3	**₱247.9**	**₱31,485.4**

	2017		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Millions)	
Loans and Receivables			
Cash and cash equivalents*	₱20,762.5	₱150.1	₱20,612.4**
Short-term investments	1,413.4	–	1,413.4
Receivables:			
Trade	4,077.5	42.1	4,035.4***
Employee car plan receivables	275.0	–	275.0
Advances to employees	144.8	–	144.8
Other receivables****	145.2	–	145.2
Security and other deposits	2,465.0	–	2,465.0
Other noncurrent assets -			
Operating lease receivables	28.0	–	28.0
Receivable from sale of business			
(including current portion)	76.4	–	76.4
AFS financial asset	29.9	–	29.9
	₱29,417.7	₱192.2	₱29,225.5

** Excluding cash on hand amounting to ₱480.9 million and ₱345.0 million in 2018 and 2017, 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 ₱41.6 million and ₱27.2 million in 2018 and 2017, 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 (Applicable as at December 31, 2018). The financial assets of the Jollibee Group are grouped according to stage whose description is explained as follows:

Stage 1 - Those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - Those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The table below shows determination of ECL stage of the Jollibee Group's financial assets:

	2018			
		Stage 1	Stage 2	Stage 3
	Total	12-month ECL	Lifetime ECL	Lifetime ECL
Financial Assets at Amortized Cost		*(in Millions)*		
Receivables				
Trade	**₱4,680.6**	**₱3,137.1**	**₱866.6**	**₱676.9**
Employee car plan receivables*	**260.3**	**260.3**	**–**	**–**
Advances to employees	**167.4**	**167.4**	**–**	**–**
Other receivables**	**151.6**	**93.8**	**57.8**	**–**
Financial Assets at FVTPL	**39.8**	**39.8**	**–**	**–**
	₱5,299.7	**₱3,698.4**	**₱924.4**	**₱676.9**

**Including noncurrent portion of employee car plan receivables.*
***Including interest receivable and excluding receivables from government agencies amounting to ₱41.6 million in 2018.*

Credit Quality (Applicable as at December 31, 2017). 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, 2017.

	2017				
		Neither Past Due nor Impaired			Past Due or
	Total	A	B	C	Impaired
Loans and Receivables		*(in Millions)*			
Receivables					
Trade	₱4,077.5	₱962.7	₱1,298.9	₱118.6	₱1,697.3
Employee car plan receivables*	275.0	275.0	–	–	–
Advances to employees	144.8	144.8	–	–	–
Other receivables**	145.2	89.2	–	–	56.0
Receivable from sale of business	76.4	76.4	–	–	–
AFS Financial Asset	29.9	29.9	–	–	–
	₱4,748.8	₱1,578.0	₱1,298.9	₱118.6	₱1,753.3

**Including noncurrent portion of employee car plan receivables.*
***Including interest receivable and excluding receivables from government agencies amounting to ₱27.2 million in 2017.*

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 obligations, 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.

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, 2018 and 2017.

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 ₱23,285.9 million, ₱883.2 million and ₱4,411.0 million, respectively, as at December 31, 2018 and ₱21,107.5 million, ₱1,413.4 million and ₱3,534.9 million, respectively, as at December 31, 2017.

The tables below summarize the maturity profile of the Jollibee Group's other financial liabilities based on the contractual undiscounted cash flows as at December 31, 2018 and 2017:

	2018				
	Due and Demandable	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
			(in Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	**₱7,174.5**	**₱18,808.7**	**₱–**	**₱–**	**₱25,983.2**
Long-term debt (including current portion)	**22.5**	**4,857.9**	**19,681.5**	**1,702.5**	**26,264.4**
Operating lease payables (including current portion)	**–**	**408.4**	**1,930.8**	**677.7**	**3,016.9**
Liability for acquisition of a business (including current portion)	**–**	**11.2**	**2.9**	**–**	**14.1**
Total Financial Liabilities	**₱7,197.0**	**₱24,086.2**	**₱21,615.2**	**₱2,380.2**	**₱55,278.6**

	2017				
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
			(in Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	₱6,372.5	₱16,698.8	₱–	₱–	₱23,071.3
Long-term debt (including current portion)	73.9	1,801.6	12,897.7	1,344.1	16,117.3
Operating lease payables	–	277.7	1,313.0	460.9	2,051.6
Total Financial Liabilities	₱6,446.4	₱18,778.1	₱14,210.7	₱1,805.0	₱41,240.2

**Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱2,733.6 million and ₱2,183.3 million as at December 31, 2018 and 2017, respectively.*

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.

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, 2018 and 2017, the Jollibee Group's debt ratio and net debt ratio are as follows:

Debt Ratio

	2018	2017
Total debt (a)	**₱63,933,671**	₱47,201,916
Total equity attributable to equity holders of the Parent Company	**48,363,550**	40,782,635
Total debt and equity attributable to equity holders of the Parent Company (b)	**₱112,297,221**	₱87,984,551
Debt ratio (a/b)	**57%**	54%

Net Debt Ratio

	2018	2017
Total debt	**₱63,933,671**	₱47,201,916
Less cash and cash equivalents and short-term investments	**24,169,115**	22,520,874
Net debt (a)	**39,764,556**	24,681,042
Total equity attributable to equity holders of the Parent Company	**48,363,550**	40,782,635
Net debt and equity attributable to equity holders of the Parent Company (b)	**₱88,128,106**	₱65,463,677
Net debt ratio (a/b)	**45%**	38%

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 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.

Financial Assets at FVTPL/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:

	2018	2017
Security and other deposits	**2.36%–8.20%**	2.44%–5.71%
Employee car plan receivables	**2.51%–8.23%**	2.50%–4.92%
Derivative assets	**2.50%–2.83%**	2.08%–4.09%
Long-term debt	**2.50%–4.07%**	2.56%–4.92%
Derivative liability	**–**	0.95%–1.05%

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, 2018:

		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:					
Financial assets at FVTPL	**₱39,842**	**₱39,842**	**₱–**	**₱39,842**	**₱–**
Derivative asset - interest rate swap	**82,852**	**82,852**	**–**	**82,852**	**–**
Assets for which fair values are disclosed:					
Investment properties	**848,974**	**3,038,347**	**–**	**3,038,347**	**–**
Land	**848,974**	**2,083,920**	**–**	**2,083,920**	**–**
Buildings	**–**	**954,427**	**–**	**954,427**	**–**
Other noncurrent assets:					
Security and other deposits	**2,713,844**	**2,506,400**	**–**	**2,506,400**	**–**
Employee car plan receivables	**260,281**	**251,492**	**–**	**251,492**	**–**

Quantitative fair value measurement hierarchy for assets as at December 31, 2017:

		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	₱29,862	₱29,862	₱–	₱29,862	₱–
Derivative asset - interest rate swap	11,949	11,949	–	11,949	–
Assets for which fair values are disclosed:					
Investment properties:	848,974	3,038,347	–	3,038,347	–
Land	848,974	2,083,920	–	2,083,920	–
Buildings	–	954,427	–	954,427	–
Other noncurrent assets:					
Security and other deposits	2,464,995	2,506,400	–	2,506,400	–
Employee car plan receivables	186,000	251,492	–	251,492	–

Quantitative fair value measurement hierarchy for liabilities as at December 31, 2018:

			Fair Value Measurement Using		
	Date of Valuation	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities disclosed at fair value:					
Tenants' deposit	**December 31, 2018**	**₱5,907**	**₱–**	**₱5,907**	**₱–**
Long-term debt	**December 31, 2018**	**16,421,331**	**–**	**16,421,331**	**–**

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2017:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability - put/call rights	December 31, 2017	₱51,042	₱–	₱51,042	₱–
Liabilities disclosed at fair value:					
Product security deposit	December 31, 2017	221,973	–	221,973	–
Tenants' deposit	December 31, 2017	8,339	–	8,339	–
Long-term debt	December 31, 2017	15,749,921	–	15,749,921	–

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 liability – put/call rights as at December 31, 2017 is as follows:

	Valuation Technique	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value
Derivative liability - 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. Reclassification

The current portion of security and other deposits and operating lease payables taken up as other noncurrent assets and noncurrent operating lease payables, respectively, in the 2017 statement of financial position and supporting note disclosures have been reclassified to other current assets and current portion of operating lease payables, respectively, to conform with the presentation used in the statement of financial position in 2018.

The reclassification did not affect the total assets, total liabilities and total equity in the statement of financial position as at December 31, 2017 and the net income and total comprehensive income in the statement of comprehensive income in 2017.

The effects of the reclassification in the 2017 statement of financial position are as follows:

Account	As Previously Reported	Reclassification	As Reclassified
Other current assets	₱3,843,555	₱187,904	₱4,031,459
Other noncurrent assets	3,698,422	(187,904)	3,510,518
Current portion of operating lease payables	–	252,235	252,235
Operating lease payables - net of current portion	2,051,567	(252,235)	1,799,332

33. Notes to the Statements of Cash Flows

In 2018 and 2017, movements in the Jollibee Group's liabilities and equity arising from financing activities follow:

2018

	January 1, 2018	Cash flows	Dividends declared (Note 19)	Acquisition of a subsidiary (Note 11)	Granted stock options to employees and subsidiaries	Deferred tax assets (Note 24)	Interest expense (Note 23)	Amortization of debt issue cost (Note 18)	Cumulative translation adjustments	Share in net losses of Non-controlling interest (Note 11)	Share in cumulative translation adjustments of Non-controlling interest (Note 11)	December 31, 2018
						(in Millions)						
Dividends payable (Note 16)	**₱56.0**	**(₱2,667.0)**	**₱2,691.8**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱80.8**
Long-term debt (Note 18)	**16,117.3**	**5,601.7**	**–**	**4,119.3**	**–**	**–**	**–**	**14.9**	**411.2**	**–**	**–**	**26,264.4**
Interest payable (Note 16)	**83.1**	**(731.7)**	**–**	**–**	**–**	**–**	**888.2**	**–**	**–**	**–**	**–**	**239.6**
Capital stock (Note 19)	**1,101.7**	**3.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,105.2**
Additional paid-in capital (Note 19)	**7,520.4**	**472.0**	**–**	**–**	**312.0**	**334.1**	**–**	**–**	**–**	**–**	**–**	**8,638.5**
Non-controlling interest (Note 11)	**1,799.3**	**11.4**	**–**	**263.3**	**–**	**–**	**–**	**–**	**–**	**(555.5)**	**36.1**	**1,554.6**
Total liabilities and equity on financing activities	**₱26,677.8**	**₱2,689.9**	**₱2,691.8**	**₱4,382.6**	**₱312.0**	**₱334.1**	**₱888.2**	**₱14.9**	**₱411.2**	**(₱555.5)**	**₱36.1**	**₱37,883.1**

2017

	January 1, 2017	Cash Flows	Dividends declared (Note 19)	Granted stock options to employees and Subsidiaries	Deferred tax assets (Note 24)	Interest expense (Note 23)	Amortization of debt issue cost (Note 18)	Foreign exchange loss	Acquisition of a subsidiary (Note 11)	Share in Net Losses of Non-controlling interest (Note 11)	Share in cumulative translation adjustments of Non-controlling interest (Note 11)	December 31, 2017
						(in Millions)						
Dividends payable (Note 16)	₱47.7	(₱2,347.2)	₱2,355.5	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱56.0
Long-term debt (Note 18)	12,155.4	3,909.7	–	–	–	–	3.2	49.0	–	–	–	16,117.3
Interest payable (Note 16)	51.4	(360.9)	–	–	–	392.6	–	–	–	–	–	83.1
Capital stock (Note 19)	1,091.3	10.4	–	–	–	–	–	–	–	–	–	1,101.7
Additional paid-in capital (Note 19)	5,660.1	850.8	–	227.5	782.0	–	–	–	–	–	–	7,520.4
Non-controlling interest (Note 11)	679.2	14.5	–	–	–	–	–	–	1,536.4	(436.5)	5.7	1,799.3
Total liabilities and equity on financing activities	₱19,685.1	₱2,077.3	₱2,355.5	₱227.5	₱782.0	₱392.6	₱3.2	₱49.0	₱1,536.4	(₱436.5)	₱5.7	₱26,677.8

34. **Event after the Reporting Period**

Dividend Declaration
On April 8, 2019, the BOD of the Parent Company approved a cash dividend of ₱1.23 per share of common stock to all stockholders of record as at April 26, 2019. Consequently, the cash dividend is expected to be paid out on May 9, 2019. The cash dividend is 7.9% higher than the ₱1.14 cash dividend per share declared on April 6, 2018.

Jollibee Foods Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017,
2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 Jollibee 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.

Accounting for Business Combination – Acquisition of Controlling Interest in SuperFoods Group

In May 2017, the Jollibee Group, through its 99% owned subsidiary JSF Investments Pte. Ltd., obtained 10% additional interest resulting to 60% controlling interest over SF Vung Tau Joint Stock Company and Blue Sky Holdings Ltd. (collectively SuperFoods Group). The Jollibee Group recognized provisional goodwill of ₱2,507.8 million and trademarks of ₱4,145.0 million based on the preliminary purchase price allocation performed. We considered the accounting for this acquisition to be a key audit matter because it required a significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired property and equipment and trademarks.

The disclosures in relation to the acquisition of SuperFoods Group are included in Notes 4 and 11 to the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report for the property and equipment and the external valuation specialist who valued the trademarks by considering their qualifications, relevant experience and reporting responsibilities. We involved our internal specialist in the review of the methodologies and assumptions used in arriving at the fair values of the property and equipment and trademarks. We compared the key assumptions used such as the list prices and adjustment factors by reference to relevant market data for the valuation of property and equipment. We also compared the key assumptions in the valuation of trademarks such as revenue growth rate, long-term growth rate and royalty rate by reference to existing contractual terms, historical trends and relevant external information. We tested the parameters used in determining the discount rate against market data. We reviewed the presentation and disclosures in the consolidated financial statements.

Recoverability of Goodwill and Intangible Assets with Indefinite Life

Goodwill and intangible assets with indefinite life account for 16.9% of the Jollibee Group’s consolidated total assets as of December 31, 2017. They relate to several cash generating units (CGUs) mainly from Jollibee Group’s acquisitions in the Philippines, the People’s Republic of China, the United States of America and Vietnam. 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 assets 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 assets 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 Notes 4 and 14 to the consolidated financial statements for the details on goodwill and intangible assets with indefinite life and the assumptions used in the forecasts.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverable amounts of the CGUs. These assumptions include the long-term revenue growth rates, EBITDA 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.

Recoverability of Interest in a Joint Venture

The Jollibee Group has an interest in a joint venture domiciled in a foreign country which accounts for 6.0% of the Jollibee Group's consolidated total assets as of December 31, 2017. Under PAS 36, *Impairment of Assets*, the Jollibee Group is required to assess whether there are facts and circumstances indicating that the carrying amount of an interest in a joint venture exceed the recoverable amount. Should there be indicators, the Jollibee Group is required to perform an impairment test on the amount of interest. This impairment test is 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 interest in a joint venture involves significant assumptions about the future results of the joint venture's 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 interest in a joint venture and Note 4 for the discussion of management's judgments and estimates.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverable amount of the interest in a joint venture. These assumptions include long-term revenue growth rate, EBITDA and discount rate. We compared these assumptions against the historical data of the joint venture 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 region where this joint venture operates.

We also reviewed the 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 an interest in a joint venture.

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.

Refer to Note 17 for the disclosures about provisions and Note 29 for the disclosures about contingencies of the Jollibee Group.

Audit Response

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 read correspondences with the relevant government agencies, obtained replies from third party legal counsels, and any relevant laws and rulings on similar matters.

Recoverability of Deferred Income Tax Assets

The Parent Company and certain subsidiaries (foreign and local) have recognized deferred tax assets amounting to ₱4,372.7 million as at December 31, 2017. Of that amount, around 30.7% 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, the People's Republic of China and the United States of America. 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 Philippine Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, 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, 2017 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 Company'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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Mariecris N. Barbaso.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621229, January 9, 2018, Makati City

April 6, 2018

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousand Pesos)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 30 and 31)	**₱21,107,474**	₱16,733,346
Short-term investments (Notes 6, 30 and 31)	**1,413,400**	726,002
Receivables (Notes 7, 30 and 31)	**3,941,073**	3,376,702
Inventories (Note 8)	**6,835,514**	5,987,346
Other current assets (Note 9)	**3,843,555**	3,545,339
Total Current Assets	**37,141,016**	30,368,735
Noncurrent Assets		
Available-for-sale financial assets (Notes 10, 30 and 31)	**29,862**	26,212
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	**7,492,771**	9,873,297
Property, plant and equipment (Note 12)	**20,893,814**	16,655,567
Investment properties (Note 13)	**848,974**	983,428
Goodwill and other intangible assets (Note 14)	**15,730,239**	9,086,742
Operating lease receivables (Notes 29, 30 and 31)	**28,035**	25,995
Derivative asset (Notes 11, 18, 30 and 31)	**11,948**	78,329
Deferred tax assets - net (Note 24)	**3,908,813**	2,585,495
Other noncurrent assets (Notes 15, 30 and 31)	**3,698,423**	3,044,552
Total Noncurrent Assets	**52,642,879**	42,359,617
	₱89,783,895	₱72,728,352
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 16, 30 and 31)	**₱25,254,613**	₱21,960,567
Income tax payable	**223,773**	309,331
Current portion of long-term debt (Notes 18, 30 and 31)	**1,216,219**	1,561,516
Total Current Liabilities	**26,694,605**	23,831,414
Noncurrent Liabilities		
Noncurrent portion of long-term debt (Notes 18, 30 and 31)	**14,901,052**	10,593,850
Pension liability (Note 25)	**1,489,546**	1,658,178
Operating lease payables (Notes 29, 30 and 31)	**2,051,567**	1,792,897
Derivative liability (Notes 18, 30 and 31)	**51,042**	33,531
Provisions (Note 17)	**825,109**	30,501
Deferred tax liabilities - net (Note 24)	**1,188,995**	506,577
Total Noncurrent Liabilities	**20,507,311**	14,615,534
Total Liabilities	**47,201,916**	38,446,948
Equity Attributable to Equity Holders of the Parent Company (Note 30)		
Capital stock - net of subscription receivable (Note 19)	**1,084,478**	1,074,123
Additional paid-in capital (Note 19)	**7,520,383**	5,660,085
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and an associate (Note 11)	**340,368**	(20,811)
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	**(461,769)**	(608,801)
Unrealized gain on change in fair value of available-for-sale financial assets (Note 10)	**6,758**	4,291
Comprehensive income (loss) on derivative liability (Note 18)	**11,949**	(33,530)
Excess of cost over the carrying value of non-controlling interests acquired (Note 19)	**(2,152,161)**	(2,152,161)
Retained earnings (Note 19):		
Appropriated for future expansion	**18,200,000**	18,200,000
Unappropriated	**16,413,140**	11,659,531
	40,963,146	33,782,727
Less cost of common stock held in treasury (Note 19)	**180,511**	180,511
	40,782,635	33,602,216
Non-controlling Interests (Note 11)	**1,799,344**	679,188
Total Equity	**42,581,979**	34,281,404
	₱89,783,895	₱72,728,352

See accompanying Notes to Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Gross sales	**₱126,229,530**	₱108,992,341	₱96,471,243
Sales discount	**(1,565,982)**	(1,067,887)	(660,554)
Net sales	**124,663,548**	107,924,454	95,810,689
Royalty, set-up fees and others (Note 20)	**6,913,003**	5,887,016	4,969,029
	131,576,551	113,811,470	100,779,718
COST OF SALES (Note 21)	**107,658,140**	92,815,488	82,891,701
GROSS PROFIT	**23,918,411**	20,995,982	17,888,017
EXPENSES			
General and administrative expenses (Note 22)	**13,905,845**	11,861,440	10,288,043
Advertising and promotions	**3,342,911**	2,669,495	2,244,943
	17,248,756	14,530,935	12,532,986
INTEREST INCOME (EXPENSE) (Note 23)			
Interest income	**259,567**	286,913	257,783
Interest expense	**(405,820)**	(267,618)	(225,544)
	(146,253)	19,295	32,239
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net (Note 11)	**(282,645)**	(337,145)	(189,086)
OTHER INCOME (Note 23)	**2,098,753**	1,582,923	1,236,757
INCOME BEFORE INCOME TAX	**8,339,510**	7,730,120	6,434,941
PROVISION FOR INCOME TAX (Note 24)			
Current	**2,310,630**	2,334,855	1,926,078
Deferred	**(643,702)**	(658,244)	(537,470)
	1,666,928	1,676,611	1,388,608
NET INCOME	**6,672,582**	6,053,509	5,046,333
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Translation adjustments of foreign joint ventures and an associate (Note 11)	**269,119**	12,316	62,829
Translation adjustments of foreign subsidiaries	**97,735**	(137,728)	82,044
Comprehensive income (loss) on derivative liability (Note 18)	**45,479**	2,368	(31,464)
Net unrealized gain on change in fair value of available-for-sale financial assets – net of tax (Note 10)	**2,467**	4,291	–
	414,800	(118,753)	113,409
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on pension (Note 25)	**147,032**	(72,221)	(316,679)
	561,832	(190,974)	(203,270)
TOTAL COMPREHENSIVE INCOME	**₱7,234,414**	₱5,862,535	₱4,843,063
Net Income Attributable to:			
Equity holders of the Parent Company (Note 28)	**₱7,109,120**	₱6,164,735	₱4,928,236
Non-controlling interests	**(436,538)**	(111,226)	118,097
	₱6,672,582	₱6,053,509	₱5,046,333
Total Comprehensive Income Attributable to:			
Equity holders of the Parent Company	**₱7,665,277**	₱5,970,688	₱4,738,416
Non-controlling interests	**(430,863)**	(108,153)	104,647
	₱7,234,414	₱5,862,535	₱4,843,063
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 28)			
Basic	**₱6.580**	₱5.747	₱4.618
Diluted	**6.494**	5.643	4.528

See accompanying Notes to Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015

(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company													
									Retained Earnings (Note 19)					
	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and an Associate (Note 11)	Remeasurement Loss on Net Defined Benefit Plan - Net of tax (Note 25)	Unrealized Gain on Change in Fair Value of Available-for-Sale Financial Assets (Note 10)	Comprehensive Income (Loss) on Derivative Liability (Note 18)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Note 19)	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
Balance at January 1, 2017	**₱1,091,301**	**(₱17,178)**	**₱5,660,085**	**(₱20,811)**	**(₱608,801)**	**₱4,291**	**(₱33,530)**	**(₱2,152,161)**	**₱18,200,000**	**₱11,659,531**	**(₱180,511)**	**₱33,602,216**	**₱679,188**	**₱34,281,404**
Net income	–	–	–	–	–	–	–	–	–	**7,109,120**	–	**7,109,120**	**(436,538)**	**6,672,582**
Other comprehensive income (loss)	–	–	–	**361,179**	**147,032**	**2,467**	**45,479**	–	–	–	–	**556,157**	**5,675**	**561,832**
Total comprehensive income (loss)	–	–	–	**361,179**	**147,032**	**2,467**	**45,479**	–	–	**7,109,120**	–	**7,665,277**	**(430,863)**	**7,234,414**
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	**10,355**	–	**850,770**	–	–	–	–	–	–	–	–	**861,125**	–	**861,125**
Cost of stock options granted (Note 26)	–	–	**1,009,528**	–	–	–	–	–	–	–	–	**1,009,528**	–	**1,009,528**
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	–	**(2,355,511)**	–	**(2,355,511)**	–	**(2,355,511)**
Acquisition of minority interests (Note 11)	–	–	–	–	–	–	–	–	–	–	–	–	**1,536,441**	**1,536,441**
Arising from incorporation of a subsidiary (Note 11)	–	–	–	–	–	–	–	–	–	–	–	–	**14,578**	**14,578**
	10,355	–	**1,860,298**	–	–	–	–	–	–	**(2,355,511)**	–	**(484,858)**	**1,551,019**	**1,066,161**
Balances at December 31, 2017	**₱1,101,656**	**(₱17,178)**	**₱7,520,383**	**₱340,368**	**(₱461,769)**	**₱6,758**	**₱11,949**	**(₱2,152,161)**	**₱18,200,000**	**₱16,413,140**	**(₱180,511)**	**₱40,782,635**	**₱1,799,344**	**₱42,581,979**
Balance at January 1, 2016	₱1,086,149	(₱17,178)	₱5,055,293	₱107,225	(₱536,580)	₱–	(₱35,449)	(₱542,764)	₱10,200,000	₱15,487,039	(₱180,511)	₱30,623,224	₱1,133,366	₱31,756,590
Net income	–	–	–	–	–	–	–	–	–	6,164,735	–	6,164,735	(111,226)	6,053,509
Other comprehensive income (loss)	–	–	–	(128,036)	(72,221)	4,291	1,919	–	–	–	–	(194,047)	3,073	(190,974)
Total comprehensive income (loss)	–	–	–	(128,036)	(72,221)	4,291	1,919	–	–	6,164,735	–	5,970,688	(108,153)	5,862,535
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	5,152	–	363,468	–	–	–	–	–	–	–	–	368,620	–	368,620
Cost of stock options granted (Note 26)	–	–	241,324	–	–	–	–	–	–	–	–	241,324	–	241,324
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	–	(1,992,243)	–	(1,992,243)	–	(1,992,243)
Acquisition of minority interests (Note 11)	–	–	–	–	–	–	–	(1,609,397)	–		–	(1,609,397)	(905,536)	(2,514,933)
Appropriation during the period (Note 19)	–	–	–	–	–	–	–	–	8,000,000	(8,000,000)	–	–	–	–
Arising from incorporation of a subsidiary (Note 11)	–	–	–	–	–	–	–	–	–	–	–	–	715,608	715,608
Arising from divestment of subsidiaries (Note 11)	–	–	–	–	–	–	–	–	–	–	–	–	(156,097)	(156,097)
	5,152	–	604,792	–	–	–	–	(1,609,397)	8,000,000	(9,992,243)	–	(2,991,696)	(346,025)	(3,337,721)
Balances at December 31, 2016	₱1,091,301	(₱17,178)	₱5,660,085	(₱20,811)	(₱608,801)	₱4,291	(₱33,530)	(₱2,152,161)	₱18,200,000	₱11,659,531	(₱180,511)	₱33,602,216	₱679,188	₱34,281,404

	Equity Attributable to Equity Holders of the Parent Company													
									Retained Earnings (Note 19)					
	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and an Associate (Note 11)	Remeasurement Loss on Net Defined Benefit 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)	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
Balance at January 1, 2015	₱1,081,040	(₱17,178)	₱4,452,162	(₱25,789)	(₱219,900)	₱–	(₱2,395)	(₱542,764)	₱10,200,000	₱12,445,662	(₱180,511)	₱27,190,327	₱887,694	₱28,078,021
Net income	–	–	–	–	–	–	–	–	–	4,928,236	–	4,928,236	118,097	5,046,333
Other comprehensive income (loss)	–	–	–	133,014	(316,680)	–	(33,054)	–	–	–	–	(216,720)	13,450	(203,270)
Total comprehensive income (loss)	–	–	–	133,014	(316,680)	–	(33,054)	–	–	4,928,236	–	4,711,516	131,547	4,843,063
Movements in other equity accounts:						–								
Issuances of and subscriptions to capital stock (Note 19)	5,109	–	429,919	–	–	–	–	–	–	–	–	435,028	–	435,028
Cost of stock options granted (Note 26)	–	–	173,212	–	–	–	–	–	–	–	–	173,212	–	173,212
Cash dividends (Note 19)	–	–	–	–	–	–	–	–	–	(1,886,859)	–	(1,886,859)	–	(1,886,859)
Cash dividends received by non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	(63,503)	(63,503)
Arising from incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	177,628	177,628
	5,109	–	603,131	–	–	–	–	–	–	(1,886,859)	–	(1,278,619)	114,125	(1,164,494)
Balances at December 31, 2015	₱1,086,149	(₱17,178)	₱5,055,293	₱107,225	(₱536,580)	₱–	(₱35,449)	(₱542,764)	₱10,200,000	₱15,487,039	(₱180,511)	₱30,623,224	₱1,133,366	₱31,756,590

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousand Pesos)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,339,510**	₱7,730,120	₱6,434,941
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	**4,745,166**	3,995,868	3,425,677
Gain from the re-measurement of the previously held interest (Notes 11 and 23)	**(1,328,733)**	–	–
Interest expense (Note 23)	**405,820**	267,618	225,544
Accretion of debt issue cost (Note 18)	**3,274**	–	–
Impairment losses on:			
Receivables (Notes 7 and 22)	**143,772**	91,415	325,908
Inventories (Notes 8 and 22)	**7,443**	78,621	11,049
Other assets (Note 15)	**122,759**	–	–
Property, plant and equipment (Note 22)	**431,939**	42,731	–
Equity in net losses of joint ventures and an associate (Note 11)	**282,645**	337,145	189,086
Interest income (Note 23)	**(259,567)**	(286,913)	(257,783)
Deferred rent amortization - net (Note 29)	**256,630**	193,237	79,366
Stock options expense (Notes 22 and 26)	**227,483**	241,324	173,212
Loss (gain) on divestment of subsidiaries and interest in joint venture (Notes 11 and 23)	**116,207**	(66,695)	–
Reversals of impairment losses on:			
Receivables (Notes 7 and 22)	**(20,705)**	(3,188)	(4,606)
Inventories (Notes 8 and 22)	**(53,819)**	(18,129)	(12,047)
Property, plant and equipment (Notes 12 and 22)	**(2,111)**	(2,000)	–
Loss (gain) on disposals and retirements of:			
Property and equipment (Notes 12 and 22)	**174,510**	236,809	136,747
Investment properties (Notes 13 and 22)	**(231,036)**	–	–
Movement in pension liability (Notes 21, 22 and 25)	**37,840**	89,781	212,636
Provisions (Notes 17 and 23)	**794,609**	–	–
Net unrealized foreign exchange gain	**(6,913)**	(79,314)	(31,603)
Loss (gain) on movement in derivative assets (Note 18)	**129,371**	(3,298)	–
Income before working capital changes	**14,316,094**	12,845,132	10,908,127
Decreases (increases) in:			
Receivables	**(532,690)**	2,299,070	2,269,040
Inventories	**(715,127)**	(593,238)	494,396
Other current assets	**(229,836)**	327,544	(1,510,843)
Increases in trade payables and other current liabilities	**2,176,062**	1,865,217	2,976,473
Net cash generated from operations	**15,014,503**	16,743,725	15,137,193
Income taxes paid	**(2,396,189)**	(2,261,503)	(1,871,927)
Interest received	**225,314**	278,099	219,846
Net cash provided by operating activities	**12,843,628**	14,760,321	13,485,112
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 12)	**(8,904,796)**	(6,694,133)	(4,596,787)
Interest in joint ventures (Note 11)	**(531,147)**	(1,617,092)	(5,057,543)
Cash from acquired business - net of cash paid (Note 11)	**105,251**	113,358	–
Intangible assets (Note 14)	**(69,634)**	(23,706)	(99,980)
Minority interests (Note 11)	–	(2,070,159)	–
Market entry fee (Notes 11 and 15)	**–**	–	(93,870)
Available-for-sale financial assets (Note 10)	**(450)**	–	–
Advances to a joint venture (Note 11)	**(1,059,786)**	–	–
Proceeds from disposals of:			
Property, plant and equipment	**362,288**	92,730	46,049
Investment properties (Note 13)	**365,490**	–	–
Subsidiaries - net (Note 11)	**–**	96,486	–
Decreases (increases) in:			
Short term-investments	**(687,398)**	196,315	(922,317)
Interests in and advances to joint ventures, co-venturers and associates	**337,960**	–	–
Other noncurrent assets	**(482,215)**	(170,598)	(89,369)
Dividends received from non-controlling interests (Note 11)	**20,037**	–	–
Net cash used in investing activities	**(10,544,400)**	(10,076,799)	(10,813,817)

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends (Note 19)	**(₱2,347,164)**	(₱1,988,082)	(₱1,899,666)
Long-term debt (Note 18)	**(1,607,623)**	(929,558)	(734,360)
Short-term debt (Note 18)	**–**	(282,360)	(9,191,000)
Liability for acquisition of businesses (Note 11)	**–**	(94,852)	(87,775)
Proceeds from:			
Long-term debt (Note 18)	**5,517,281**	2,993,810	5,176,600
Issuances of and subscriptions to capital stock (Note 19)	**861,125**	368,620	435,029
Short-term debt (Note 18)	–	–	7,594,200
Contributions from non-controlling interests	**14,578**	715,608	177,628
Interest paid	**(360,856)**	(232,646)	(188,648)
Dividends paid to non-controlling interests	–	–	(63,503)
Net cash provided by financing activities	**2,077,341**	550,540	1,218,505
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,376,569**	5,234,062	3,889,800
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,441)**	1,724	(10,713)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**16,733,346**	11,497,560	7,618,473
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱21,107,474**	₱16,733,346	₱11,497,560

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 11, 1978. 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", "Hard Rock Cafe", "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 corporate life of the Parent Company is fifty (50) years from the date of incorporation or until 2028.

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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 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 6, 2018.

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. All values are rounded to the nearest thousand pesos, except par values, per share amounts, number of shares and when otherwise indicated.

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

Changes in Accounting Policies
The Jollibee Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

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

  The amendments require entities to provide disclosure of 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).

  The Jollibee Group has provided the required information in Note 34 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Jollibee Group did not present comparative information for the year ended December 31, 2016.

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

  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 the deductible temporary difference related to unrealized losses. 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 Jollibee Group applied the amendments retrospectively. However, their application has no effect on the Jollibee Group's financial position and performance as the Jollibee Group has no deductible temporary differences or assets that are in the scope of the amendments.

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2017</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Jollibee Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Jollibee Group intends to adopt the following pronouncements when they become effective.

Effective January 1, 2018

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and 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.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The Jollibee Group is currently assessing the potential effect of the amendments on the consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Jollibee Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Jollibee Group's financial liabilities. The adoption will have an effect on the Jollibee Group's impairment of financial assets. The adoption will not have significant impact on the Jollibee Group's effective hedge since PFRS 9 does not change the general principles of how an entity accounts for effective hedges. The Jollibee Group is currently assessing the impact of adopting this standard.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. 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. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Jollibee Group since none of the entities within the Jollibee Group have activities that are predominantly connected with insurance or issue insurance contracts.

- 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.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted. The Jollibee Group is currently assessing the impact of the amendments on its consolidated financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

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

  Since the Jollibee Group's current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation International Financial Reporting Interpretations Committee (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 transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Jollibee Group's current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Jollibee Group is currently assessing the impact of adopting these amendments.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Jollibee Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Jollibee Group is currently assessing the impact of these amendments on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Jollibee Group is currently assessing the impact of adopting this interpretation.

Deferred Effectivity

- 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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and for each of the three years in the period ended December 31, 2017.

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 other comprehensive income 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 other comprehensive income 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 HBFPPL. 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.

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned and majority-owned subsidiaries as at December 31, 2017 and 2016:

			2017		2016	
	Country of Incorporation	Principal Activities	**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) (d)	Philippines	Food service	**100**	**–**	100	–
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)	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 Piatto Pte. Ltd. (c)	Singapore	Holding company	**–**	**75**	–	–
• Cibo Felice S.R.L. (a)	Italy	Food service	**–**	**100**	–	–
Golden Cup Pte.Ltd.	Singapore	Holding company	**–**	**60**	–	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	People's Republic of China (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
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	**–**	**100**	–	100
Happy Bee Foods Processing Pte. Ltd. (HBFPPL)(e)	Singapore	Holding company	**–**	**100**	–	100
- Happy Bee Foods Processing (Anhui) Co. Ltd. (e)	PRC	Food service	**–**	**100**	–	100
JSF Investments Pte. Ltd. (JSF):	Singapore	Holding company	**–**	**99**	–	99
- SF Vung Tau Joint Stock Company (b)	Vietnam	Holding company	**–**	**60**	–	–
• Highland Coffee Service Joint-stock Company (b)	Vietnam	Food service	**–**	**100**	–	–
• Quantum Corporation (b)	Vietnam	Food service	**–**	**100**	–	–
▪ Pho Viet Joint Stock Company (b)	Vietnam	Food service	**–**	**100**	–	–
▪ Pho 24 Service Trade Manufacture Corporation(b)	Vietnam	Food service	**–**	**100**	–	–
- Blue Sky Holdings Limited (b)	Hong Kong	Holding company	**–**	**60**	–	–
• Sino Ocean Limited (b)	Hong Kong	Food service	**–**	**100**	–	–
• Blue Sky Holdings (Macau) Limited (b)	Macau	Food service	**–**	**100**	–	–
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**	–	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. (BGI)	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	**–**	**99**	–	99
• PERF Restaurants, Inc.(g)	Philippines	Food service	**–**	**100**	–	100
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 July 31, 2017, the Jollibee Group, through Golden Piatto Pte. Ltd. incorporated Cibo Felice in Italy.
(b) On May 10, 2017, the Jollibee Group, through JSF increase its shareholding in SF Vung Tau Joint Stock Company (SFVT) and Blue Sky Holdings Limited (Blue Sky) to 60%.
(c) On April 12, 2017, the Jollibee Group, through GPPL, incorporated Golden Piatto Pte. Ltd. to own and operate Jollibee restaurants in Italy.
(d) On April 22, 2016, the Parent Company acquired the remaining 30% stake in Mang Inasal.
(e) 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 HBFPPL to make its ownership 100%.
(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, 2017.

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 and 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 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 HTM 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.

The Jollibee Group's financial assets include cash and cash equivalents, short-term investments, receivables, receivable from sale of business, security and other deposits and operating lease receivables.

Subsequent Measurement

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 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 effective interest rate. The effective interest rate 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 security and other deposits, operating lease receivables and employee 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 other comprehensive income 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.

This category generally applies to golf and leisure club shares.

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, and individually 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 effective interest rate.

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 and receivables, 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 to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

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 other comprehensive income 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 other comprehensive income.

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.

<u>Financial Liabilities</u>

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables 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 effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate 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 effective interest rate. The effective interest rate amortization is included as interest expense in the consolidated statement of comprehensive income.

This category generally applies to trade payables, and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificate) and long-term debts.

Debt Issue Costs. Debt issue costs are specific incremental costs, other than those paid to the lender, that are directly related to issuing a debt instrument. These are presented in the statements of financial position as a reduction from the related debt instrument and are amortized through the effective interest rate amortization process.

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 other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

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 interest rate swap is cash flow hedge. The Jollibee Group has no fair value hedge and hedge of a net investment in a foreign operation as at December 31, 2017 and 2016.

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. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of comprehensive income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Comprehensive income (loss) on derivative liability" in the consolidated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in profit or loss.

The Jollibee Group has an interest rate swap for its exposure to volatility in interest rates.

Amounts recognized as other comprehensive 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 other comprehensive income 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.

Borrowing Cost
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

Property, Plant and Equipment
Property, plant and equipment, except land and construction in progress, 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. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the asset. 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

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

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

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.

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 at each financial year-end and adjusted prospectively, if appropriate.

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.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Jollibee Group as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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 fair value of 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.

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.

<u>Intangible Assets</u>

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 Associates
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 in 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 associates 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 associates 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 associates or joint ventures, less any impairment in value. Goodwill relating to the associates 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 associates or joint ventures. The Jollibee Group’s share in profit or loss of the associates is shown on the face of the consolidated statement of comprehensive income as “Equity in net losses of joint ventures and associates - net”, which is the profit or loss attributable to equity holders of the joint ventures and associates.

When the Jollibee Group’s share of losses in the associates 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 associates 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 associates or joint ventures are eliminated to the extent of the Jollibee Group’s interests in the associates 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 the associates, 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 associates, property, plant and equipment, investment properties, goodwill and other intangible assets, and other noncurrent 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, joint ventures 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.

<u>Revenues</u>
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.

Set-up Fees. Revenue from set-up fees is recognized when all services or conditions relating to the payment of set-up 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.

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 other comprehensive income 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 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, at 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 in 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 interests in joint ventures and an associate". 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
- in respect of taxable temporary differences associated with investments in subsidiaries and interests 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 other comprehensive income 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 VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position. When VAT passed on from purchases of gods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of "Other current assets" account 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 ₱10,236.6 million, ₱8,704.5 million and ₱7,841.9 million in 2017, 2016 and 2015, 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 ₱57.2 million, ₱91.4 million and ₱92.4 million in 2017, 2016 and 2015, 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 entities 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 and joint ventures as those associates and joint ventures where the Jollibee Group's carrying amount of investment is greater than 5% of the total investments in an associate and interests 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.

Determination of Purchase Price Allocation. In 2017, the Jollibee Group, through JSF, increased its ownership interest in SF Vung Tau Joint Stock Company and Blue Sky Holdings Ltd. (collectively SuperFoods Group) from 50% to 60% ownership interest for a total consideration of ₱4,812.5 million (see Note 11). In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the trademarks of Highlands Coffee and Pho 24. Further, management has measured the trademarks and the property, plant and equipment that were acquired using the appraisal reports that were prepared by the external appraiser. The trademarks were valued using the relief-from-royalty method wherein fair value of trademarks is based on cost savings from owning the trademarks. Significant assumptions and estimates used include comparable royalty rates, long-term growth rates, discount rates based on available market data and revenue growth rate forecasts. The property, plant and equipment were valued using the replacement cost, specifically reproduction cost less depreciation for physical deterioration, functional and economic obsolescence. Adjustments were made to reproduction cost to reflect depreciation.

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 ₱15,730.2 million and ₱9,086.7 million as at December 31, 2017 and 2016, 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.

The gain (loss) from divestment of subsidiaries and interest in a joint venture recognized in 2017, 2016 and 2015 amounted to (₱116.2 million), ₱66.7 million and nil, respectively (see Notes 11 and 23). The carrying amount of interests in and advances to joint ventures, co-venturers and associates amounted to ₱7,492.8 million and ₱9,873.3 million as at December 31, 2017 and 2016, 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 ₱4,372.7 million and ₱2,894.1 million as at December 31, 2017 and 2016, 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 ₱825.1 million and ₱30.5 million as at December 31, 2017 and 2016, respectively (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.

Reversal of impairment loss amounted to ₱2.1 million, ₱2.0 million and nil in 2017, 2016 and 2015, respectively, while the provision for impairment loss amounted to ₱431.9 million, ₱42.7 million and nil in 2017, 2016 and 2015, respectively (see Notes 12 and 22).

The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱21,742.8 million and ₱17,639.0 million as at December 31, 2017 and 2016, 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 2017, 2016 and 2015 amounted to ₱143.8 million, ₱91.4 million and ₱325.9 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱20.7 million, ₱3.2 million and ₱4.6 million were recognized in 2017, 2016 and 2015, respectively (see Note 22). The carrying amount of receivables amounted to ₱3,941.1 million and ₱3,376.7 million as at December 31, 2017 and 2016, 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 ₱7.4 million, ₱78.6 million and ₱11.0 million in 2017, 2016 and 2015, respectively (see Note 22).

In addition, reversal of previously recognized provisions amounting to ₱53.8 million, ₱18.1 million and ₱12.0 million were recognized in 2017, 2016 and 2015, respectively (see Note 22). The carrying amount of inventories amounted to ₱6,835.5 million and ₱5,987.3 million as at December 31, 2017 and 2016, 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 ₱1,489.5 million and ₱1,658.2 million as at December 31, 2017 and 2016, 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 ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, 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 2017 and 2016.

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.

The Jollibee Group recognized a derivative liability amounting to ₱51.0 million as at December 31, 2017 and a derivative asset amounting to ₱78.3 million as at December 31, 2016 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, 2017, 2016 and 2015:

	2017				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Consolidated**
Revenues from external customers	**₱124,972,802**	**₱6,038,664**	**₱565,085**	**₱–**	**₱131,576,551**
Inter-segment revenues	**38,836,601**	**2,928,473**	**8,205,610**	**(49,970,684)**	**–**
Segment revenues	**163,809,403**	**8,967,137**	**8,770,695**	**(49,970,684)**	**131,576,551**
Segment expenses	**(162,923,487)**	**(2,928,473)**	**(8,396,342)**	**49,970,684**	**(124,277,618)**
Impairment losses on receivables, inventories, property, plant and equipment and other assets - net of reversals	**(629,278)**	**–**	**–**	**–**	**(629,278)**
Equity in net losses of joint ventures and associates - net	**(282,645)**	**–**	**–**	**–**	**(282,645)**
Other segment income	**2,072,932**	**–**	**25,821**	**–**	**2,098,753**
Segment result	**₱2,046,925**	**₱6,038,664**	**₱400,174**	**₱–**	**8,485,763**
Interest income					**259,567**
Interest expense					**(405,820)**
Income before income tax					**8,339,510**
Provision for income tax					**(1,666,928)**
Net income					**₱6,672,582**
Assets and Liabilities					
Segment assets	**₱85,523,719**	**₱–**	**₱351,363**	**₱–**	**₱85,875,082**
Deferred tax assets - net	**3,908,103**	**–**	**710**	**–**	**3,908,813**
Consolidated assets	**₱89,431,822**	**₱–**	**₱352,073**	**₱–**	**₱89,783,895**
Segment liabilities	**₱29,587,940**	**₱–**	**₱83,937**	**₱–**	**₱29,671,877**
Deferred tax liabilities - net	**1,188,995**	**–**	**–**	**–**	**1,188,995**
Long-term debt - including current portion	**16,117,271**	**–**	**–**	**–**	**16,117,271**
Income tax payable	**221,713**	**–**	**2,060**	**–**	**223,773**
Consolidated liabilities	**₱47,115,919**	**₱–**	**₱85,997**	**₱–**	**₱47,201,916**
Other Segment Information					
Capital expenditures	**₱8,974,430**	**₱–**	**₱–**	**₱–**	**₱8,974,430**
Depreciation and amortization	**4,739,924**	**–**	**5,242**	**–**	**4,745,166**

	2016				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱108,263,045	₱5,268,921	₱279,504	₱–	₱113,811,470
Inter-segment revenues	33,576,257	1,757,050	5,386,826	(40,720,133)	–
Segment revenues	141,839,302	7,025,971	5,666,330	(40,720,133)	113,811,470
Segment expenses	(140,568,751)	(1,757,050)	(5,551,305)	40,720,133	(107,156,973)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	(189,450)	–	–	–	(189,450)
Equity in net losses of joint ventures and associates - net	(337,145)	–	–	–	(337,145)
Other segment income	1,576,667	–	6,256	–	1,582,923
Segment result	₱2,320,623	₱5,268,921	₱121,281	₱–	7,710,825
Interest income					286,913
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	₱69,760,738	₱–	₱382,119	₱–	₱70,142,857
Deferred tax assets - net	2,582,785	–	2,710	–	2,585,495
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

	2015				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱96,052,831	₱4,518,123	₱208,764	₱–	₱100,779,718
Inter-segment revenues	31,188,088	1,493,169	4,284,181	(36,965,438)	–
Segment revenues	127,240,919	6,011,292	4,492,945	(36,965,438)	100,779,718
Segment expenses	(126,142,364)	(1,493,169)	(4,434,288)	36,965,438	(95,104,383)
Impairment losses on receivables and inventories - net of reversals	(320,304)	–	–	–	(320,304)
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	₱1,818,852	₱4,518,123	₱65,727	₱–	6,402,702
Interest income					257,783
Interest expense					(225,544)
Income before income tax					6,434,941
Provision for income tax					(1,388,608)
Net income					₱5,046,333
Other Segment Information					
Capital expenditures	₱4,696,767	₱–	₱–	₱–	₱4,696,767
Depreciation and amortization	3,431,249	–	4,428	–	3,435,677

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, Hongkong, 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:

	2017			
	Philippines	**International**	**Eliminations**	**Consolidated**
Segment revenues	**₱103,157,177**	**₱28,937,959**	**(₱518,585)**	**₱131,576,551**
Segment assets	**47,459,418**	**38,415,664**	**–**	**85,875,082**
Capital expenditures	**7,382,960**	**1,591,470**	**–**	**8,974,430**

	2016			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱90,625,295	₱23,594,721	(₱408,546)	₱113,811,470
Segment assets	42,562,829	27,580,028	–	70,142,857
Capital expenditures	5,493,783	1,224,056	–	6,717,839

	2015			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱78,421,701	₱22,675,693	(₱317,676)	₱100,779,718
Capital expenditures	3,547,641	1,149,126	–	4,696,767

6. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	2017	2016
Cash on hand	**₱344,976**	₱295,716
Cash in banks	**15,120,958**	9,672,006
Short-term deposits	**5,641,540**	6,765,624
	₱21,107,474	₱16,733,346

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 ₱1,413.4 million and ₱726.0 million as at December 31, 2017 and 2016, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱149.3 million, ₱136.7 million and ₱118.0 million in 2017, 2016 and 2017, respectively (see Note 23).

7. Receivables

This account consists of:

	2017	2016
Trade	**₱4,224,981**	₱3,608,583
Less allowance for impairment loss	**690,119**	579,792
	3,534,862	3,028,791
Advances to employees	**144,791**	112,652
Current portion of employee car plan receivables	**88,971**	83,383
Interest receivable	**11,911**	10,807
Others	**160,538**	141,069
	₱3,941,073	₱3,376,702

The terms and conditions of the receivables are as follows:

- 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, 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:

	2017	2016
Balance at beginning of year	**₱579,792**	₱520,055
Provisions (see Note 22)	**143,772**	91,415
Reversals (see Note 22)	**(20,705)**	(3,188)
Write-offs	**(12,797)**	(29,327)
Translation adjustments	**57**	837
Balance at end of year	**₱690,119**	₱579,792

The provisions in 2017 and 2016 resulted from specific and collective impairment assessments on trade receivables performed by the Jollibee Group.

8. Inventories

This account consists of:

	2017	2016
At cost:		
Food supplies and processed inventories	**₱6,377,956**	₱5,458,186
Packaging, store and other supplies	**434,999**	461,630
	6,812,955	5,919,816
At net realizable value -		
Novelty items	**22,559**	67,530
Total inventories at lower of cost and net realizable value	**₱6,835,514**	₱5,987,346

The cost of novelty items carried at net realizable value amounted to ₱55.1 million and ₱146.2 million as at December 31, 2017 and 2016, respectively.

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

	2017	2016
Balance at beginning of year	**₱78,647**	₱18,180
Reversals (see Note 22)	**(53,819)**	(18,129)
Provisions (see Note 22)	**7,443**	78,621
Translation adjustments	**294**	(25)
Balance at end of year	**₱32,565**	₱78,647

9. **Other Current Assets**

This account consists of:

	2017	2016
Deposits to suppliers and other third parties	**₱1,417,735**	₱1,278,972
Prepaid expenses:		
Taxes	**1,499,728**	1,019,538
Rent	**526,809**	625,560
Insurance and others	**211,505**	288,887
Receivable from sale of business (see Note 11)	**76,400**	214,836
Supplies	**111,378**	117,546
	₱3,843,555	₱3,545,339

Terms and conditions of other current assets are as follows:

- Deposits to suppliers and other third parties are generally applied to purchase of inventories and availment of services within the next financial year.
- 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.
- Prepaid rent pertains to the rent of store and office spaces that are paid in advance. Prepaid rent, insurance and others are normally utilized within the next financial period.
- 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).
- 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 as at December 31, 2017 and 2016.

The movements in this account are as follows:

	2017	2016
Balance at beginning of the year	**₱26,212**	₱21,462
Additions	**450**	–
Change in fair value	**3,200**	4,750
Balance at end of the year	**₱29,862**	₱26,212

The movement in unrealized gain on change in fair value of AFS financial assets account in 2017 and 2016 are as follows:

	2017	2016
Balance at beginning of the year	**₱4,750**	₱–
Unrealized gain due to change in fair value	**3,200**	4,750
Balance at end of the year	**₱7,950**	₱4,750

11. Business Combinations, Incorporation of New Subsidiaries, Interests in and Advances to Joint Ventures, Co-venturers and Associates, Divestments and Cessation of Operations

A. Business Combinations

Business Combination Achieved in Stages

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 (SFVT), Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holdings Limited Hongkong (Blue Sky), Sino Ocean Asia Limited Hongkong and Blue Sky Holdings Limited Macau) through formation of joint ventures. This consists of a 49% share in SFVT in Vietnam and a 60% share in Blue Sky in Hongkong (the SuperFoods Group 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) (collectively, VTI Group). 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 (₱1,079.6 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 (₱1,079.6 million) in 2011.

On October 22, 2015, JSF contributed additional investment in SuperFoods Group amounting to USD0.7 million (₱34.1 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 and Fourth Supplements to the Loan Agreement signed on December 29, 2016 and March 28, 2017, respectively.

Advances to SuperFoods Group

Advances to SFVT. 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 at 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 USD0.003 million (₱0.1 million), USD0.06 million (₱2.8 million) and USD0.05 million (₱2.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, 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 at 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. Total interest from this loan recognized as interest income amounted to USD0.003 million (₱0.1 million), USD0.06 million (₱2.8 million) and USD0.05 million (₱2.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

The loans granted on April 30, 2013 and August 22, 2013, including accrued interests as at May 10, 2017, were converted to additional equity on SFVT upon the completion of the Settlement Transaction Documents and the approval of certain legal and regulatory requirements in Vietnam on May 10, 2017 as provided in the Third Supplement to the Loan Agreement signed on December 29, 2016.

Advances to Blue Sky. On June 10, 2011, a loan was extended to Blue Sky, the Hong Kong-based holding company, amounting to USD5.0 million (₱216.0 million) payable in June 2014. As at 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 at June 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.01 million (₱0.7 million), USD0.3 million (₱15.4 million) and USD0.3 million (₱14.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, 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 at 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 recognized as interest income amounted to USD0.01 million (₱0.3 million), USD0.1 million (₱7.4 million) and USD0.1 million (₱7.1 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

With the Third Supplement to the Loan Agreement signed on December 29, 2016 and upon the completion of the Settlement Transaction Documents, the loans to Blue Sky including accrued interests as at May 10, 2017 were converted into equity except for the balance of USD2.9 million (₱145.8 million). The carrying value of the remaining loan of Blue Sky to the Parent Company is eliminated in the consolidation process as at December 31, 2017.

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

On May 10, 2017, a key step in the plan to list SuperFoods Group as a public company in the Vietnam Stock Exchange was completed by adjusting the ownership interest in the SuperFoods Group to 60% Jollibee Group and 40% VTI Group from its previous 50-50 ownership share. As a result, Jollibee Group obtained control over SuperFoods Group and started consolidating these companies as of acquisition date.

To help fund the SuperFoods Group's expansion plans, the Jollibee Group will henceforth take the lead in the former's capital raising activities and will work with various financial institutions in Vietnam and other part of Asia in this undertaking.

The details of the Jollibee Group's interests in the SuperFoods Group as at December 31 are as follows:

	2017	2016
Interest in a joint venture – cost	**₱1,120,659**	₱1,120,659
Cumulative equity in net losses:		
Balance at beginning of year	**(367,155)**	(323,331)
Equity in net earnings (loss) for the period	**17,484**	(43,824)
Balance at transfer date/end of year	**(349,671)**	(367,155)
Transferred to investment in a subsidiary in 2017	**(770,988)**	–
	–	753,504
Advances to SuperFoods Group:		
Balance at beginning of year	**604,638**	559,825
Converted to equity during the year	**(458,871)**	–
Accrual of interest	**–**	28,441
Transferred to advances to a subsidiary	**(145,767)**	–
Translation adjustments and others	**–**	16,372
Balance at end of year	**–**	604,638
	₱–	₱1,358,142

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	₱105,251
Receivables	99,746
Inventories	86,664
Other current assets	137,035
Property, plant and equipment (see Note 12)	846,327
Trademarks (see Note 14)	4,145,013
Other noncurrent assets	223,240
Total identifiable assets acquired	5,643,276
Less:	
Trade payables and other current liabilities	488,645
Loans and other noncurrent liabilities (see Note 18)	569,523
Deferred tax liability	744,006
Total identifiable liabilities assumed	1,802,174
Net identifiable assets acquired	₱3,841,102

The Jollibee Group's investment in SuperFoods Group was previously accounted for as investment in a joint venture. In accordance with PFRS 3, with the Jollibee Group's acquisition of control over SuperFoods Group in 2017, the fair value of the previously held interest amounted to ₱2,099.7 million and the resulting gain from the re-measurement of the 50% previously held interest amounted to ₱1,328.7 million. A total of ₱2,712.7 million loan to SuperFoods Group was also converted to equity which was included in the consideration transferred.

The non-controlling interest was recognized as a proportion of the net assets acquired.

The amount of provisional goodwill recorded at acquisition date amounted to ₱2,507.8 million determined as follows:

Fair value of consideration transferred:	
Fair value of previously held interest	₱2,099,721
Advances converted to equity:	
Advances to VTI Group (see Part D of this note)	2,253,870
Advances to SuperFoods Group	458,871
	2,712,741
Non-controlling interest's share in the net assets acquired	1,536,441
Aggregate amount	6,348,903
Less acquisition date - fair value of net assets acquired	3,841,102
Goodwill (see Note 14)	₱2,507,801

The net cash inflow from the acquisition is as follows:	
Cash acquired from subsidiary	₱105,251

The provisional goodwill of ₱2,507.8 million is attributable to synergies and other benefits from the acquisition of SuperFoods Group.

From the acquisition date, SuperFoods Group contributed ₱67.3 million net income to the Jollibee Group. If the business combination had taken place at the beginning of 2017, contribution to consolidated revenue and net income for the year would have been ₱3,715.0 million and ₱100.9 million, respectively.

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 for the year ended December 31, 2016 are as follows:

Current assets	₱564,801
Noncurrent assets	1,244,239
Total assets	₱1,809,040
Current liabilities	₱772,840
Noncurrent liabilities	1,032,085
Total liabilities	₱1,804,925
Cash and cash equivalents	₱69,880
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–
Noncurrent financial liabilities (excluding provisions)	1,032,085

The amounts of the income and expense accounts for the period ended May 10, 2017 and for the year ended December 31, 2016 include the following:

	May 2017	December 2016
Revenues	**₱1,467,717**	₱3,213,339
Depreciation and amortization	**67,865**	201,971
Interest income	**1,456**	6
Interest expense	**24,284**	74,645
Provision for income tax	**27,406**	38,727
Net income (loss)	**34,968**	(87,648)
Total comprehensive income (loss)	**34,968**	(87,648)

	2016
Net assets	₱4,115
Proportion of the Jollibee Group’s ownership	50%
	2,057
Goodwill	708,891
Cumulative translation adjustments	42,556
	₱753,504

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	₱121,959
Receivables	1,480
Inventories	15,886
Other current assets	80,447
Property, plant and equipment (see Note 12)	174,088
Other noncurrent assets	19,400
Total identifiable assets acquired	413,260
Less:	
Trade payables and other current liabilities	213,463
Short-term loans	358,127
Total identifiable liabilities assumed	571,590
Net identifiable liabilities assumed	₱158,330

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

Fair value of the consideration transferred:	
Cash consideration	₱8,601
Add acquisition date - net of the fair value of liabilities assumed	158,330
Goodwill (see Note 14)	₱166,931

The net cash inflow from the acquisition is as follows:	
Cash acquired from subsidiary	₱121,959
Less cash paid on acquisition	8,601
Total	₱113,358

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.

In 2016, GSC contributed ₱15.9 million net income to the Jollibee Group. If the acquisition had taken place at the beginning of 2016, revenues would have been ₱169.5 million and net income for the Jollibee Group would have been ₱49.2 million in 2016.

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

Golden Piatto Pte. Ltd. (Golden Piatto). On March 31, 2017, the Jollibee Group, through its wholly owned subsidiary, GPPL, entered into an agreement with Blackbird Holdings Pte. Ltd. (Blackbird) to own and operate Cibo Felice S. R. L. (Cibo Felice), the first Jollibee store in Italy. As at December 31, 2017, Cibo Felice has not yet started its commercial operations.

Golden Piatto incorporated on April 12, 2017, is 75% owned by GPPL and 25% owned by Blackbird. GPPL and Blackbird have committed to invest up to EUR1million (₱60.2 million) to Golden Piatto, of which EUR0.8 million (₱48.2 million) will be contributed by GPPL in proportion to its ownership in the business. As at December 31, 2017, capital contribution of GPPL to Golden Piatto amounted to USD0.9 million (₱43.7 million).

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, 2017, 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, 2017 and 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 Interest

The Jollibee Group has subsidiaries with material non-controlling interest as provided below.

Proportion of equity interest held by non-controlling interest:

	Country of incorporation and operation	**2017**	2016	2015
GCPL	Singapore	**40%**	40%	−
Mang Inasal	Philippines	−	−	30%
HBFPPL	Singapore	−	−	30%
San Ping Wang	PRC	−	−	45%

During 2016, the following non-controlling interest were derecognized either by acquisition of the minority interest or by divestment of interest 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.

The purchase price was USD10.3 million (₱514.9 million). The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition amounting to ₱391.8 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 on the divestment of San Pin Wang.

The summarized financial information of GCPL in 2017 and 2016 are provided below. These information are based on amounts before intercompany elimination.

Summarized Statements of Comprehensive Income

	2017	2016
Revenues	**₱318,082**	₱100,920
Net loss	**(674,982)**	(324,509)
Other comprehensive income	**8,109**	8,269
Total comprehensive loss	**(666,873)**	(316,240)
Total comprehensive loss attributable to non-controlling interests	**(266,749)**	(126,496)
Dividends paid to non-controlling interests	**–**	–

Summarized Statements of Financial Position

	2017	2016
Current assets	**₱1,513,179**	₱2,001,100
Noncurrent assets	**373,698**	439,532
Current liabilities	**709,617**	596,500
Noncurrent liabilities	**-**	-
Total equity	**1,177,260**	1,844,132
Equity attributable to non-controlling interests	**470,904**	737,653

Summarized Cash Flow Information

	2017	2016
Net cash used in operating activities	**(₱430,134)**	₱31,950
Net cash provided by investing activities	**57,512**	(237,729)
Net cash provided by financing activities	**–**	1,789,020
Net decrease in cash and cash equivalents	**(372,622)**	1,583,241

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

	2017	2016
Interests in joint ventures:		
SJBF LLC	**₱5,460,055**	₱5,258,923
Cargill Joy Poultry Meats Production, Inc.	**151,458**	229,481
Golden Bee Foods Restaurant LLC	**198,767**	100,163
WJ Investments Limited	**–**	151,629
SuperFoods Group	**–**	753,504
	5,810,280	6,493,700
Interests in associates:		
Entrek (B) SDN BHD	**137,237**	112,227
Cargill Joy Poultry Realty, Inc.	**9,664**	9,984
	146,901	122,211
Advances to:		
VTI Group	**1,535,590**	2,652,748
SuperFoods Group	**–**	604,638
	1,535,590	3,257,386
	₱7,492,771	₱9,873,297

Interests in Joint Ventures

Advances to VTI Group. The details of the Jollibee Group's advances to VTI Group as at December 31 are as follows:

	2017	2016
Balance at beginning of year	**₱2,652,748**	₱1,988,400
Converted to equity during the year	**(2,253,870)**	–
Additions during the year	**1,059,786**	447,480
Accrual of interest	**38,952**	89,200
Translation adjustments and others	**37,974**	127,668
Balance at end of year	**₱1,535,590**	₱2,652,748

Loan to VTI Group amounting to USD35.0 million (₱1,523.9 million), extended on June 9, 2011, is payable in December 2016. In accordance with the Fourth Supplement to the Loan Agreement signed on March 28, 2017, the due date of the loan was further extended to May 31, 2017. This loan is secured by a mortgage by the VTI Group of all their shares in SuperFoods Group.

The loan bears interest of 5% per annum payable in lump sum on the due date. The loan was agreed to be used for general corporate purposes. Total interest from this loan, recognized as interest income, amounted to USD0.6 million (₱31.6 million), USD1.8 million (₱88.5 million) and USD1.8 million (₱88.2 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

The Third Supplement to the Loan Agreement signed on December 29, 2016 provides the assignment of the USD35.0 million (₱1,735.3 million) loan receivable including accrued interests as at December 31, 2016 from JSF to JWPL. With the completion of the Settlement Transaction Documents and upon the approval of certain legal and regulatory requirements in Vietnam on May 10, 2017, the loan, including interests as at the same day, was contributed as additional capital to the SuperFoods Group.

On December 14, 2016, a loan of USD9.0 million (₱447.5 million) was extended to the VTI Group with an interest rate of 3.5% per annum. The loan was agreed to be used for SuperFoods Group's capital needs. The loan is part of the total agreed loan of USD30.0 million payable in eight (8) years from the first utilization date. On June 2, 2017, the additional loan of USD21.0 million (₱1,060.0 million) was granted to the VTI Group. 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. Total interest from this loan recognized as interest income amounted to USD0.8 million (₱37.6 million) and USD0.1 million (₱0.8 million) for the years ended December 31, 2017 and 2016.

SuperFoods Group. See Part A of this note for the discussion on the Interest and advances to SuperFoods Group.

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 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.

On September 7, 2017 and March 24, 2017, BGI made additional investments to SJBF amounting to USD2.5 million (₱128.5 million) and USD8.0 million (₱402.6 million), respectively. The additional investments did not change BGI's equity interest in SJBF.

The agreement between BGI and Master dated October 27, 2015 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.

On March 8, 2018, BGI executed the Purchase Agreement with Master for the acquisition of an additional 45% share of SJBF. This will increase BGI's ownership in SJBF from current 40% to 85%. The transaction, valued at USD100.0 million (₱5.2 billion), is expected to be completed in one to two months subject to government approvals in the USA and meeting certain closing conditions. JFC will pay Master through BGI in cash.

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. The Jollibee Group recognized a derivative liability amounting to ₱51.0 million as at December 31, 2017 and a derivative asset amounting to ₱78.3 million as at December 31, 2016 related to Put/Call Rights. The marked-to-market loss in 2017 amounted to ₱129.3 million and the marked-to-market gain in 2016 amounted to ₱3.3 million (see Note 23).

The details of Jollibee Group's interest in SJBF as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture - cost:		
Balance at beginning of year	**₱5,620,834**	₱4,812,854
Additions during the year	**531,147**	807,980
Balance at end of year	**6,151,981**	5,620,834
Cumulative equity in net losses:		
Balance at beginning of year	**(361,911)**	(70,122)
Equity in net loss during the year	**(330,015)**	(291,789)
Balance at end of year	**(691,926)**	(361,911)
	₱5,460,055	₱5,258,923

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:

	2017	2016
Current assets	**₱2,024,938**	₱1,910,435
Noncurrent assets	**4,792,879**	5,886,847
Total assets	**₱6,817,817**	₱7,797,282
Current liabilities	**₱5,164,688**	₱1,287,258
Noncurrent liabilities	**941,102**	5,439,780
Total liabilities	**₱6,105,790**	₱6,727,038

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	**₱1,459,318**	₱1,338,834
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**4,047,423**	–
Noncurrent financial liabilities (excluding provisions)	**20,613**	4,217,929

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

	2017	2016	2015
Revenues	**₱9,905,070**	₱10,318,671	₱1,590,617
Depreciation and amortization	**599,675**	576,811	85,023
Interest expense	**340,820**	332,618	45,588
Net loss	**(825,038)**	(729,474)	(175,304)
Total comprehensive loss	**(825,038)**	(729,474)	(175,304)

	2017	2016
Net assets	**₱712,027**	₱1,070,244
Proportion of the Jollibee Group's ownership	**40%**	40%
	284,811	428,098
Goodwill	**4,837,671**	4,837,671
Cumulative translation adjustments	**337,573**	(6,846)
	₱5,460,055	₱5,258,923

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 started its commercial operations on December 5, 2017.

The details of Jollibee Group's interest in Cargill Joy Poultry as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture – cost	**₱233,406**	₱233,406
Cumulative equity in net losses:		
Balance at beginning of year	**(3,925)**	–
Equity in net loss during the year	**(78,023)**	(3,925)
Balance at end of year	**(81,948)**	(3,925)
	₱151,458	₱229,481

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 are set out below:

	2017	2016
Current assets	**₱992,531**	₱769,608
Noncurrent assets	**1,600,832**	−
Total Assets	**₱2,593,363**	₱769,608
Current liabilities	**₱2,060,619**	₱4,672
Noncurrent liabilities	**27,884**	−
Total liabilities	**₱2,088,503**	₱4,672

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	**₱83,406**	₱631,739
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**375,116**	1,105
Noncurrent financial liabilities (excluding provisions)	**27,884**	−

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

	2017	2016
Revenues	**₱1,929,850**	₱−
Depreciation and amortization	**5,510**	−
Taxes and licenses	**6,890**	−
Interest income	**6,727**	8,643
Interest expense	**1,091**	−
Net loss	**(260,076)**	(13,083)
Total comprehensive loss	**(260,076)**	(13,083)

	2017	2016
Net assets	**₱504,860**	₱764,936
Proportion of the Jollibee Group's ownership	**30%**	30%
	₱151,458	₱229,481

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, 2017, 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, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture - cost	**₱33,926**	₱33,926
Cumulative equity in net earnings:		
Balance at beginning of year	**66,237**	14,017
Equity in net earnings during the year	**118,641**	52,220
Dividends received during the year	**(20,037)**	–
Balance at end of year	**164,841**	66,237
	₱198,767	₱100,163

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:

	2017	2016
Current assets	**₱371,611**	₱92,129
Noncurrent assets	**258,303**	209,806
Total assets	**₱629,914**	₱301,935
Current liabilities	**₱224,935**	₱96,606

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	**₱142,980**	₱30,527
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–	–

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

	2017	2016	2015
Revenues	**₱1,313,210**	₱689,150	₱203,010
Depreciation and amortization	**54,539**	14,652	2,531
Net income	**242,124**	106,571	28,607
Total comprehensive income	**242,124**	106,571	28,607

	2017	2016
Net assets	**₱404,979**	₱205,329
Proportion of the Jollibee Group's ownership	**49%**	49%
	198,440	100,611
Cumulative translation adjustments	**327**	(448)
	₱198,767	₱100,163

WJ Investments Limited (WJ)
See Part F of this note for the discussion on the cessation of WJ's operations.

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, 2017 and 2016 are as follows:

	2017	2016
Interest in an associate - cost	**₱16,660**	₱16,660
Cumulative equity in net earnings:		
Balance at beginning of year	**95,567**	75,612
Equity in net earnings during the year	**25,010**	19,955
Balance at end of year	**120,577**	95,567
	₱137,237	₱112,227

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:

	2017	2016
Current assets	**₱631,739**	₱523,344
Noncurrent assets	**199,488**	141,509
Total assets	**₱831,227**	₱664,853
Current liabilities	**₱330,429**	₱270,199
Noncurrent liabilities	**5,427**	4,505
Total liabilities	**₱335,856**	₱274,704

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

	2017	2016	2015
Revenues	**₱733,217**	₱629,123	₱507,255
Depreciation	**38,381**	32,177	21,016
Net income	**75,031**	59,865	40,694
Total comprehensive income	**75,031**	59,865	40,694

	2017	2016
Net assets	**₱495,371**	₱390,149
Proportion of the Jollibee Group's ownership	**33.33%**	33.33%
	165,124	130,050
Impairment loss recognized in 2011	**(16,660)**	(16,660)
Cumulative translation adjustments	**(11,227)**	(1,163)
	₱137,237	₱112,227

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 Realty, which lease the land where the Cargill Joy Poultry plant is located.

The details of the Jollibee Group's interest in Cargill Joy Realty as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in an associate – cost	**₱10,586**	₱10,586
Cumulative equity in net losses:		
Balance at beginning of year	**(602)**	–
Equity in net loss during the year	**(320)**	(602)
Balance at end of year	**(922)**	(602)
	₱9,664	₱9,984

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 are set out below:

	2017	2016
Current assets	**₱6,035**	₱25,724
Noncurrent assets	**62,152**	61,440
Total assets	**₱68,187**	₱87,164
Current liabilities	**₱689**	₱18,338
Noncurrent liabilities	**35,285**	35,546
Total liabilities	**₱35,974**	₱53,884

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	**₱5,746**	₱25,548
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**185**	2
Noncurrent financial liabilities	**35,285**	35,546

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

	2017	2016
Revenues	**₱1,400**	₱–
Taxes and licenses	**60**	1,358
Interest expense	**1,414**	350
Net loss	**(1,067)**	(2,005)
Total comprehensive loss	**(1,067)**	(2,005)

	2017	2016
Net assets	**₱32,213**	₱33,280
Proportion of the Jollibee Group's ownership	**30%**	30%
	₱9,664	₱9,984

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
2	December 28, 2016	25,000
3	January 20, 2017	20,000
4	October 30, 2017	10,000
5	October 30, 2018	10,000
		RMB90,000

The first tranche was collected on December 31, 2016. 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).

The second and third tranches were collected in January 2017 and the fourth tranche on October 27, 2017. Consequently, the fifth tranche is shown as part of "Other current assets" in the consolidated statements of financial position as at December 31, 2017 (see Note 9).

ChowFun. On March 31, 2011, the Jollibee Group, through its wholly-owned subsidiary, JWPL, acquired from Aspen Partners, LLC 2,400 shares of ChowFun Holdings, LLC (Chowfun) for USD3.4 million (PHP139.6 million), bringing its equity share to ChowFun to 80.55%. ChowFun 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 ChowFun for a consideration of USD1.6 million (₱79.6 million). The divestment was completed on December 23, 2016. ChowFun 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.

F. Cessation of Operations

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.

On October 31, 2017, WJ ceased the operations of the 16 stores of the 12 Hotpot brand in the People's Republic of China to focus in building the Jollibee Group's larger and fast-growing business in China and other parts of the world. With this, WJ will be dissolved and liquidated. The Jollibee Group recognized a loss of ₱116.2 million in the statements of comprehensive income in 2017 (see Note 23).

The details of Jollibee Group's interest in WJ as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture – cost	**₱414,872**	₱414,872
Cumulative equity in net losses:		
Balance at beginning of year	**(263,243)**	(194,063)
Equity in net loss during the year	**(35,422)**	(69,180)
Balance at end of year	**(298,665)**	(263,243)
Loss on cessation of operations (see Note 23)	**(116,207)**	–
	₱–	₱151,629

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:

	2017	2016
Current assets	**₱245,850**	₱282,556
Noncurrent assets	**77,700**	107,872
Total assets	**₱323,550**	₱390,428
Current liabilities	**₱43,060**	₱54,592
Noncurrent liabilities	**548**	–
	₱43,608	₱54,592

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	**₱235,008**	₱238,079
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	**–**	–

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

	2017	2016	2015
Revenues	**₱328,479**	₱411,844	₱411,197
Depreciation and amortization	**30,380**	43,268	46,811
Interest income - net	**357**	6,673	3,309
Net loss	**(73,796)**	(144,126)	(172,407)
Total comprehensive loss	**(73,796)**	(144,126)	(172,407)

	2017	2016
Net assets	**₱279,942**	₱335,836
Proportion of the Jollibee Group's ownership	**48%**	48%
	134,372	161,201
Cumulative translation adjustments	**(18,165)**	(9,572)
	116,207	151,629
Loss on cessation of operations	**(116,207)**	–
	₱–	₱151,629

12. Property, Plant and Equipment

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

	2017							
	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**
Cost								
Balance at beginning of year	**₱673,250**	**₱2,743,294**	**₱17,177,082**	**₱15,529,426**	**₱1,230,895**	**₱611,648**	**₱902,457**	**₱38,868,052**
Additions	**–**	**125,603**	**1,378,159**	**1,357,891**	**120,455**	**62,795**	**5,859,893**	**8,904,796**
Acquisition of a subsidiary (see Note 11)	**–**	**345,548**	**18,615**	**447,010**	**–**	**54**	**35,100**	**846,327**
Retirements and disposals	**–**	**(32,056)**	**(855,947)**	**(645,084)**	**(52,011)**	**(6,276)**	**(266,498)**	**(1,857,872)**
Reclassifications	**–**	**146,073**	**2,497,428**	**1,383,419**	**141,582**	**2,008**	**(4,170,510)**	**–**
Translation adjustments	**264**	**17,065**	**246,509**	**104,869**	**865**	**2,037**	**10,411**	**382,020**
Balance at end of year	**673,514**	**3,345,527**	**20,461,846**	**18,177,531**	**1,441,786**	**672,266**	**2,370,853**	**47,143,323**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**7,564**	**1,246,145**	**9,737,843**	**9,978,599**	**802,982**	**396,621**	**–**	**22,169,754**
Depreciation and amortization (see Notes 21 and 22)	**–**	**192,164**	**1,938,143**	**2,236,415**	**220,570**	**73,631**	**–**	**4,660,923**
Retirements and disposals	**–**	**(32,047)**	**(628,037)**	**(583,365)**	**(40,843)**	**(6,177)**	**–**	**(1,290,469)**
Reclassifications	**–**	**–**	**5,686**	**(263)**	**(5,423)**	**–**	**–**	**–**
Translation adjustments	**–**	**2,951**	**192,511**	**67,931**	**1,597**	**1,618**	**–**	**266,608**
Balance at end of year	**7,564**	**1,409,213**	**11,246,146**	**11,699,317**	**978,883**	**465,693**	**–**	**25,806,816**
Accumulated Impairment Losses								
Balance at beginning of year	**–**	**–**	**–**	**42,731**	**–**	**–**	**–**	**42,731**
Additions (see Note 22)	**–**	**–**	**–**	**431,939**	**–**	**–**	**–**	**431,939**
Write-offs	**–**	**–**	**–**	**(30,605)**	**–**	**–**	**–**	**(30,605)**
Reversals (see Note 22)	**–**	**–**	**–**	**(2,111)**	**–**	**–**	**–**	**(2,111)**
Translation adjustments	**–**	**–**	**–**	**739**	**–**	**–**	**–**	**739**
Balance at end of year	**–**	**–**	**–**	**442,693**	**–**	**–**	**–**	**442,693**
Net Book Value	**₱665,950**	**₱1,936,314**	**₱9,215,700**	**₱6,035,521**	**₱462,903**	**₱206,573**	**₱2,370,853**	**₱20,893,814**

	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
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 a 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

(Forward)

	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
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 a 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

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores. As at December 31, 2017 and 2016, no borrowing cost has been capitalized.

Loss on disposals and retirements of property, plant and equipment amounted to ₱174.5 million, ₱236.8 million and ₱136.7 million in 2017, 2016 and 2015, respectively (see Note 22).

The cost of fully depreciated property, plant and equipment still in use amounted to ₱12,935.4 million and ₱9,929.9 million as at December 31, 2017 and 2016, respectively.

The Jollibee Group performed impairment assessments of its 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, allowance for impairment loss on office, store and food processing equipment amounted to ₱442.7 million and ₱42.7 million as at December 31, 2017 and 2016, respectively.

No property, plant and equipment as at December 31, 2017 and 2016 have been pledged as security or collateral.

13. Investment Properties

The rollforward analysis of this account follows:

	2017		
	Land	**Buildings and Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱983,428**	**₱182,901**	**₱1,166,329**
Retirements and disposals	**(134,454)**	**(3,524)**	**(137,978)**
Balance at end of year	**848,974**	**179,377**	**1,028,351**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**–**	**182,901**	**182,901**
Retirements and disposals	**–**	**(3,524)**	**(3,524)**
Balance at end of year	**–**	**179,377**	**179,377**
Net Book Value	**₱848,974**	**₱–**	**₱848,974**

	2016		
	Land	Buildings and Building Improvements	Total
Cost			
Balance at beginning 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

In 2016, the Jollibee Group transferred cost of fully depreciated units of a building 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 ₱178.1 million and ₱182.0 million as at December 31, 2017 and 2016, respectively.

The Jollibee Group's investment properties have an aggregate fair value of ₱1,747.3 million as at December 31, 2017 as determined by independent appraisers who holds a recognized and relevant professional qualification. 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 ₱27.8 million, ₱31.6 million and ₱31.6 million in 2017, 2016 and 2015, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱28.9 million, ₱15.1 million and ₱24.8 million in 2017, 2016 and 2015, respectively.

In 2017, the Parent Company sold its land located at Sta. Rosa Laguna and Luisita Industrial Park in Tarlac for a total consideration of ₱365.5 million. Net gain arising from the disposals of these investment properties amounted to ₱231.0 million (see Note 22).

In 2015, the Parent Company entered into an agreement to develop a commercial and office condominium building (the "Project") in a parcel of its land in consideration for cash and assigned units in the Project. The completion of the transaction is conditional upon fifty percent (50%) completion of the Project, as certified by the general contractor of the Project, and when all of the assigned units are fully constructed.

No investment properties as at December 31, 2017 and 2016 have been pledged as security or collateral for the Jollibee Group's debts.

14. **Goodwill and Other Intangible Assets**

This account consists of:

	2017	2016
Goodwill (Note 11)	**₱9,050,223**	₱6,542,422
Trademarks (Note 11)	**6,149,269**	2,004,256
Computer software, net of accumulated amortization	**512,589**	513,337
Other intangible assets, net of accumulated amortization	**18,158**	26,727
	₱15,730,239	₱9,086,742

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

	2017	2016
Goodwill:		
SuperFoods Group (see Note 11)	**₱2,507,801**	₱–
Hong Zhuang Yuan	**2,497,253**	2,497,253
Mang Inasal	**1,781,267**	1,781,267
Red Ribbon Bakeshop:		
Philippine operations	**737,939**	737,939
US operations	**434,651**	434,651
Yong He King	**535,281**	535,281
Chowking US operations	**383,855**	383,855
GSC (see Note 11)	**166,931**	166,931
Burger King	**5,245**	5,245
	9,050,223	6,542,422
Trademarks:		
SuperFoods Group (see Note 11)		
Highlands Coffee	**3,681,912**	–
Pho 24	**463,101**	–
Mang Inasal	**2,004,256**	2,004,256
	6,149,269	2,004,256
Goodwill and trademarks	**₱15,199,492**	₱8,546,678

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:

	2017	2016
Cost		
Balance at beginning of year	**₱670,762**	₱656,177
Additions	**69,498**	14,585
Balance at end of year	**740,260**	670,762
Accumulated Amortization		
Balance at beginning of year	**157,425**	96,935
Amortizations (see Note 22)	**70,246**	60,490
Balance at end of year	**227,671**	157,425
Net Book Value	**₱512,589**	₱513,337

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 are as follows:

	2017	2016
Cost		
Balance at beginning of year	**₱56,983**	₱47,863
Additions	**136**	9,120
Balance at end of year	**57,119**	56,983
Accumulated Amortization		
Balance at beginning of year	**30,256**	21,753
Amortizations (see Note 22)	**8,705**	8,503
Balance at end of year	**38,961**	30,256
Net Book Value	**₱18,158**	₱26,727

Impairment Testing of Goodwill and Trademark
Goodwill acquired through business combinations have been allocated to nine (9) 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 and SuperFoods Group are allocated to the CGU of Mang Inasal and SuperFoods Group, respectively.

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	10.2%	6.4%
Mang Inasal	Philippines	12.5%	6.8%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	12.5%	6.8%
US operations	USA	10.5%	2.1%
Yong He King	PRC	10.6%	6.4%
Chowking US operations	USA	10.2%	2.1%
Burger King	Philippines	14.9%	6.8%
Goldstar	Vietnam	13.3%	6.2%
SuperFoods Group	Vietnam	13.8%	6.2%

Key assumptions with respect to the calculation of value in use of the groups of CGUs as at December 31, 2017 and 2016 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

a) 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.

b) 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.

c) 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 CGUs to exceed its recoverable amount.

No impairment losses were recognized for goodwill and trademarks for the year ended December 31, 2017 and 2016.

15. Other Noncurrent Assets

This account consists of:

	2017	2016
Security and other deposits (see Notes 30 and 31)	**₱2,464,995**	₱2,103,707
Noncurrent portion of:		
Rent and other long-term prepayments	**494,363**	379,393
Employee car plan receivables (see Notes 30 and 31)	**186,000**	130,584
Prepaid market entry fee - net of accumulated amortization of ₱9.9 million and ₱4.6 million in 2017 and 2016, respectively (see Notes 11 and 22)	**94,786**	99,626
Returnable containers and others	**71,910**	21,121
Deferred rent expense	**72,338**	49,196
Deferred compensation	**26,319**	17,710
Receivable from sale of business (see Note 11)	**–**	71,612
Other assets	**287,712**	171,603
	₱3,698,423	₱3,044,552

Terms and conditions of other noncurrent assets are as follows:

- 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 2.44%-5.71% and 2.36%-5.38% in 2017 and 2016, 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.

  Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱33.1 million, ₱25.2 million and ₱19.8 million in 2017, 2016 and 2015, respectively (see Note 23).

- 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:

	2017	2016
Market Entry Fee		
Balance at beginning and end of year	**₱93,870**	₱93,870
Accumulated Amortization		
Balance at beginning of year	**4,571**	–
Amortizations (see Note 22)	**5,292**	4,571
Balance at end of year	**9,863**	4,571
Translation adjustment	**10,779**	10,327
	₱94,786	₱99,626

- 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).

- Other assets represent tools for repairs and maintenance of office and store equipment which were still unused as at December 31, 2017 and 2016.

16. **Trade Payables and Other Current Liabilities**

This account consists of:

	2017	2016
Trade	**₱10,877,674**	₱9,944,749
Accruals for:		
Salaries, wages and employee benefits	**1,864,278**	1,406,605
Store operations	**1,887,316**	1,397,179
Advertising and promotions	**1,571,660**	1,206,902
Rent	**1,053,952**	923,430
Repairs and maintenance	**482,739**	300,594
Utilities	**423,596**	393,389
Freight	**388,992**	374,225
Corporate events	**274,086**	250,673
Operating supplies	**280,753**	326,017
Professional fees	**212,739**	203,089
Security	**161,304**	140,547
Trainings and seminars	**95,045**	124,801
Interest (Note 18)	**83,117**	51,384
Communication	**78,095**	76,569
Transportation and travel	**49,247**	54,131
Insurance	**21,833**	20,207
Service fees and others	**1,348,608**	1,455,559
Local and other taxes payable	**1,939,187**	1,599,791
Customers' deposits	**798,352**	617,218
Unearned revenue from gift certificates	**171,891**	147,098
Dividends payable	**56,053**	47,705
Other current liabilities	**1,134,096**	898,705
	₱25,254,613	₱21,960,567

The terms and conditions of the above liabilities are as follows:

- 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 consist of charges related to representations and other miscellaneous expenses.

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

  Accretion of interest on customer's deposits amounted to ₱13.2 million, ₱20.4 million and ₱19.9 million in 2017, 2016 and 2015, respectively (see Note 23).

- 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.

17. Provisions

In 2017, the Jollibee Group recognized provision amounting to ₱794.6 million. Consequently, the Jollibee Group has outstanding provisions amounting to ₱825.1 million and ₱30.5 million as at December 31, 2017 and 2016, respectively, consisting mainly of provisions for asserted claims which are normal to its business.

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.

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

Long-term Debt

The long-term debt consists of the following:

	2017	2016
Principal	**₱16,149,740**	₱12,165,608
Unamortized debt issue cost	**(32,469)**	(10,242)
	₱16,117,271	₱12,155,366

The details of long-term debt follow:

	2017	2016
USD-denominated:		
Loan 1	**₱4,881,067**	₱5,469,200
Loan 2	**124,800**	621,500
Loan 3	**–**	298,320
Loan 4	**1,482,624**	1,491,600
Loan 5	**395,367**	397,760
Loan 6	**199,680**	198,880
Loan 7	**294,528**	293,348
VND-denominated (see Note 11):		
Loan 8	**142,293**	–
Loan 9	**122,998**	–
Loan 10	**151,383**	–
PHP-denominated:		
Loan 11	**1,467,955**	1,481,591
Loan 12	**798,933**	798,133
Loan 13	**871,583**	995,584
Loan 14	**1,592,000**	–
Loan 15	**2,089,500**	–

	2017	2016
PHP-denominated:		
Loan 16	**₱796,000**	₱–
Loan 17	**597,000**	–
Loan 18	**109,560**	109,450
	16,117,271	12,155,366
Less current portion - net of debt issue costs of ₱2.4 million and ₱0.6 million in 2017 and 2016, respectively	**1,216,219**	1,561,516
	₱14,901,052	₱10,593,850

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, 2017 and 2016, the carrying value of the loan amounted to ₱4,881.1 million and ₱5,469.2 million, respectively.

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 sixteen (16) quarterly installments commencing on May 26, 2014 up to February 26, 2018, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱124.8 million and ₱621.5 million, respectively.

Under the loan agreements above (Loans 1 and 2), 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, 2017 and 2016, the Parent Company is in compliance with the terms of the loan covenants.

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 twelve (12) quarterly installments commencing on January 25, 2015 up to October 25, 2017, the date of maturity. As at December 31, 2017 and 2016, the carrying value of the loan amounted to nil and ₱298.3 million, respectively. The loan was fully settled on October 25, 2017.

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 six (6) yearly installments 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, 2017 and 2016, the carrying value of the loan amounted to ₱1,482.6 million and ₱1,491.6 million, respectively.

The loan agreements above (Loans 3 and 4), provide certain restrictions and requirements with respect to maintaining financial ratios, which include maintaining a Debt-to-Equity ratio of 3.0 or below and Debt Service Coverage ratio of at least 1.3. As at December 31, 2017 and 2016, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

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 five (5) yearly installments 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, 2017 and 2016, the carrying value of the loan amounted to ₱395.4 million and ₱397.8 million, respectively.

USD-denominated loans of HBFPPL. 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% subject to repricing every quarter. The principal is payable on May 7, 2018, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱199.7 million and ₱198.9 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, 2017 and 2016, the carrying value of the loan amounted to ₱294.5 million and ₱293.3 million, respectively.

Under the loan agreements above (Loans 5 to 7), the Parent Company as the guarantor is subject to 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, 2017 and 2016, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

VND-denominated loans of SuperFoods Group. Loan 8 consists of a 5-year loan acquired from a local bank in Vietnam on February 19, 2014 amounting to VND118.0 billion (₱250.2 million). The loan is subject to a variable interest rate based on thirty (30) day Vietnam Interbank Offered Rates plus spread of 1.5%. The principal is payable in monthly installments commencing on the 13th month after the first utilization date until the maturity date. As at December 31, 2017, the carrying value of the loan amounted to ₱142.3 million.

Loan 9 consists of a 5-year loan acquired on December 30, 2015 from a local bank in Vietnam amounting to VND68.0 billion (₱146.7 million). The loan is subject to a variable interest rate based on three-month VND COF plus spread of 1.5%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month after the first utilization. As at December 31, 2017, the carrying value of the loan amounted to ₱123.0 million.

Loan 10 consists of a 5-year loan acquired on April 3, 2017 from a local bank in Vietnam amounting to VND68.0 billion (₱151.2 million) with an interest rate of 6.10% subject to quarterly repricing. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from the first drawdown date. As at December 31, 2017, the carrying value of the loan amounted to ₱151.4 million.

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 11). The 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. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any interest payment date based on the PDST-F rate for the remaining term of the loan and the spread of 1.0%. The Parent Company also has an option to prepay the loan in full or in multiples of ₱10.0 million on any interest payment date.

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, 2017 and 2016.

Loan 12 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 1.0%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the BSP Special Deposit Account (SDA) Rate plus spread of 1.0% 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. The Parent Company has an option to convert the variable interest rate into a fixed interest rate based on a five-year treasury securities benchmark yield plus spread of 1.0% on the date the option to convert is exercised, subject to an annual interest rate floor of 4.75%. The Parent Company also has an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions.

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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016.

Loan 13 consists of 5-year unsecured loan acquired from a local bank on April 22, 2016 amounting to ₱1,000.0 million. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury - Reference Rate Two (PDST-R2) 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 not later than 730 days from drawdown date. The conversion to fixed interest rate is based on the applicable PDST-R2 rate plus spread of 2% if the option is exercised from day 1 to day 365 from drawdown date and based on the applicable PDST-R2 rate plus spread of 2.75% if the option is exercised from day 366 to day 730 from drawdown date. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month 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. The Parent Company has an option to prepay the loan in part or in full on any interest payment date.

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, 2017 and 2016.

Loan 14 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱1,600.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 plus spread of 0.50%, which is payable and repriced on a quarterly basis, and to an interest rate floor of 2.70%. Provided, however that on any interest payment date, but in no case later than 365 days from the initial drawdown 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 based on the applicable three-month PDST-R2 rate plus spread of 0.60%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱100.0 million. The Parent Company incurred debt issue cost of ₱8.0 million, representing documentary stamp tax, for this loan. The Parent Company also has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

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, 2017.

Loan 15 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱2,100.0 million. The loan is subject to a variable interest rate based on the simple average of the five (5) trading days of the three-month Treasury Securities Benchmark Yield, as published in the PDST-R2 page of the PDEX preceding and inclusive of the Interest Rate Setting Date plus spread of 0.50%. The principal is payable on December 22, 2022, the date of maturity with an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions. The Parent Company incurred debt issue cost of ₱10.5 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

Loan 16 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱800.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱50.0 million. The Parent Company incurred debt issue cost of ₱4.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

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, 2017.

Loan 17 consists of 5-year unsecured loan acquired from a local bank on December 27, 2017 amounting to ₱600.0 million. The loan is subject to a variable interest equal to the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate plus 0.50%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱37.5 million. The Parent Company incurred debt issue cost of ₱3.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any interest payment date but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on a five year PDST-R2 rate plus spread of 0.75%. The Parent Company also has an option to prepay the loan in part of in full on any interest payment date subject to certain conditions.

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 and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

The Parent Company's PHP denominated long-term debt (Loans 11 to 17) amounts to ₱8,213.0 million and ₱3,275.3 million, net of unamortized debt issue cost of ₱32.0 million and ₱9.7 million as at December 31, 2017 and 2016, respectively. The current portion amounted to ₱261.8 million and ₱139.4 million, net of debt issue costs of ₱3.2 million and ₱0.6 million as at December 31, 2017 and 2016, respectively.

PHP-denominated loan of PERF Restaurants, Inc. (PERF). Loan 18 is a 5-year unsecured loan acquired from local a bank on December 21, 2016 amounting to ₱110.0 million with an interest rate based on three-month PDST-R2 plus spread of 1.0% with interest rate floor computed as BSP Overnight Deposit Facility Rate plus spread of 0.5%. PERF incurred debt issue costs of ₱0.6 million, representing documentary stamp tax, in relation to this loan in 2016. The carrying amount of the loan is ₱109.6 million and ₱109.5 million, net of unamortized debt issue cost of ₱0.4 million and ₱0.6 million as at December 31, 2017 and 2016, respectively.

The 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 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016, respectively.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱392.6 million, ₱247.0 million and ₱153.2 million in 2017, 2016 and 2015, respectively (see Note 23).

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

	2017	2016
2017	**₱–**	₱1,562,102
2018	**1,218,583**	1,508,110
2019	**4,320,923**	3,131,582
2020	**1,752,102**	250,000
2021 to 2025	**8,858,132**	5,713,813
	16,149,740	12,165,607
Less debt issue costs	**(32,469)**	(10,242)
	₱16,117,271	₱12,155,365

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, 2017 and 2016.

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 ₱11.9 million and ₱33.5 million as at December 31, 2017 and 2016, respectively, which were presented as a derivative asset and derivative liability, respectively, 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 income (loss) of ₱45.5 million, ₱1.4 million and (₱34.9 million) were recognized in other comprehensive income in 2017, 2016 and 2015, respectively.

In 2012, PERF converted a loan 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 received variable interest based on 3-month US Dollar LIBOR plus spread and paid fix-interest rate. At maturity date, PERF received USD notional amount of USD3.4 million and paid PHP notional amount of ₱149.2 million. The USD receipts from the cross-currency swap corresponded to the expected interest fixed principal amount due on the hedged loan. Similar to the hedged loan, the cross-currency swap was non-amortizing and it matured on December 20, 2016.

Effectively, the cross-currency swap transformed the floating rate USD loan into fixed rate PHP loan. The foreign exchange revaluation of the hedged loan, amounting to ₱10.9 million was recognized in other comprehensive income in 2016.

19. Equity

a. Capital Stock

The movements in the account are as follows:

	2017	2016
Authorized - ₱1 par value	**₱1,450,000**	₱1,450,000
Issued and subscribed:		
Balance at beginning of year	**₱1,091,301**	₱1,086,149
Issuances during the year	**10,355**	5,152
Balance at end of year	**1,101,656**	1,091,301
Subscriptions receivable	**(17,178)**	(17,178)
	₱1,084,478	₱1,074,123

The total number of shareholders of the Parent Company is 3,042 and 3,075 as at December 31, 2017 and 2016, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid in-capital pertain to the difference between the exercise prices of stock options exercised and the par value of Parent Company's shares. In 2017 and 2016, stock options totaling 10,354,270 shares and 5,151,895 shares, respectively, were exercised (see Note 26). These resulted to an additional paid in capital amounting to ₱850.8 million and ₱363.5 million in 2017 and 2016, respectively.

Stock options expense, amounting to ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, respectively, were also recognized as part of additional paid in capital (see Notes 22 and 26).

In 2017, the Parent Company recognized deferred tax assets on MSOP and ELTIP, resulting to additional paid-in capital of ₱782.0 million.

As at December 31, 2017 and 2016, total additional-paid in capital amounted to ₱7,520.4 million and ₱5,660.1 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, 2017 and 2016.

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, 2017 and 2016, 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:

20% of Greenwich in 2006	₱168,257
15% of Belmont in 2007	375,721
40% of Adgraphix in 2010	(1,214)
30% of Mang Inasal in 2016 (see Note 11)	1,217,615
30% of HBFPPL in 2016 (see Note 11)	391,782
	₱2,152,161

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 33.1%, 32.4% and 38.3% in 2017, 2016 and 2015, 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 ₱10,876.0 million, ₱6,046.3 million and ₱11,409.3 million as at December 31, 2017, 2016 and 2015, respectively.

The Parent Company's cash dividend declarations for 2017, 2016 and 2015 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
			(In Thousands, except dividend per share)	
2017				
April 5	April 21	May 5	**₱1.00**	**₱1,077,527**
November 10	November 27	December 11	**1.18**	**1,277,984**
			₱2.18	**₱2,355,511**
2016				
April 6	April 21	May 6	₱0.86	₱919,435
November 11	November 28	December 12	1.00	1,072,808
			₱1.86	₱1,992,243
2015				
April 7	May 7	May 29	₱0.80	₱851,350
November 9	November 25	December 9	0.97	1,035,510
			₱1.77	₱1,886,860

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 in 2012 (₱98.0 million), 40% of SJBF 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 HBFPPL (₱514.9 million), acquisition of GSC (₱8.6 million) in 2016 and the acquisition of additional 10% share in SuperFoods Group (₱2,712.7 million) in 2017.

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 additional appropriations 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, 2017 and 2016 follow:

Projects	Timeline	Amount
Capital Expenditures	2013 - 2018	₱10,600,000
Acquisition of Businesses	2013 - 2018	7,600,000
		₱18,200,000

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 as well as the undistributed retained earnings of its subsidiaries which amounted to ₱3,525.2 million, ₱3,664.8 million and ₱2,718.1 million as at December 31, 2017, 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.

	Number of Shares registered	Initial issue/offer price	Listing Date	Number of holders of securities as at December 31	
				2017	2016
Common shares	75,000,000	₱9	July14, 1993	**3,042**	3,075

20. Royalty, Set-up Fees and Others

This account consists of:

	2017	2016	2015
Royalty fees	**₱5,614,447**	₱4,959,568	₱4,329,041
Set-up fees	**424,217**	309,354	189,083
Service fees	**380,149**	119,262	65,727
Scrap sales	**199,077**	154,628	146,660
Rent income (see Notes 13 and 29)	**57,234**	91,387	92,424
Other revenues	**237,879**	252,817	146,094
	₱6,913,003	₱5,887,016	₱4,969,029

The Jollibee Group has existing Royalty and Service 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", "Hong Zhuang Yuan", "Highlands Coffee" and "Pho 24" concepts and trade names. In consideration thereof, the franchisees agree to pay set-up fees and monthly royalty fees equivalent to a certain percentage of the franchisees' net sales.

The Jollibee Group's franchisees pay service fees for various services, including repairs and maintenance services, rendered by the Jollibee Group's personnel.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the Jollibee Group.

21. Cost of Sales

This account consists of:

	2017	2016	2015
Cost of inventories	**₱62,725,504**	₱54,475,007	₱49,202,290
Personnel costs:			
Salaries, wages and other employee benefits	**11,021,803**	10,472,700	9,870,706
Pension expense (see Note 25)	**168,059**	171,515	153,311
Rent (see Note 29)	**9,719,896**	8,234,530	7,450,952
Contracted services	**7,305,046**	4,875,092	3,194,297
Electricity and other utilities	**4,587,166**	4,022,779	3,808,056

(Forward)

	2017	2016	2015
Depreciation and amortization			
(see Notes 12 and 13)	**₱4,307,821**	₱3,542,624	₱3,084,155
Supplies	**2,570,007**	2,155,033	1,887,540
Repairs and maintenance	**1,218,581**	1,327,943	1,107,659
Security and janitorial	**795,773**	638,303	502,856
Communication	**227,195**	190,811	160,537
Professional fees	**57,575**	34,972	25,266
Representation and entertainment	**39,191**	33,181	33,039
Others	**2,914,523**	2,640,998	2,411,037
	₱107,658,140	₱92,815,488	₱82,891,701

Others consist of delivery costs, insurance and other miscellaneous expenses.

22. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel costs:			
Salaries, wages and other employee benefits	**₱6,850,398**	₱5,543,159	₱4,837,802
Stock options expense (see Notes 19 and 26)	**227,483**	241,324	173,212
Pension expense (see Note 25)	**194,781**	192,266	159,325
Taxes and licenses	**1,394,412**	1,271,104	1,143,765
Professional fees	**825,264**	608,586	418,556
Transportation and travel	**577,374**	504,469	438,990
Rent (see Note 29)	**516,717**	470,004	390,934
Contracted services	**474,622**	499,533	544,279
Depreciation and amortization			
(see Notes 12, 13, 14 and 15)	**437,345**	453,244	341,522
Impairment in value of:			
Property, plant and equipment (see Note 12)	**431,939**	42,731	–
Receivables (see Note 7)	**143,772**	91,415	325,908
Other assets	**122,759**	–	–
Inventories (see Note 8)	**7,443**	78,621	11,049
Corporate events	**192,187**	161,628	163,136
Repairs and maintenance	**157,495**	191,253	136,228
Membership and subscriptions	**139,552**	112,110	94,812
Training	**134,448**	161,683	101,565
Communication	**116,101**	98,769	113,654
Donations	**93,294**	82,642	105,831
Supplies	**89,641**	78,769	74,257
Representation and entertainment	**70,282**	53,781	64,585
Reversals of provision for impairment on:			
Inventories (see Note 8)	**(53,819)**	(18,129)	(12,047)
Receivables (see Note 7)	**(20,705)**	(3,188)	(4,606)
Property, plant and equipment (see Note 12)	**(2,111)**	(2,000)	–
Loss (gain) on retirement and disposals of:			
Investment properties (see Note 13)	**(231,036)**	–	–
Property, plant and equipment (see Note 12)	**174,510**	236,809	136,747

(Forward)

	2017	2016	2015
Electricity and other utilities	**₱55,806**	₱52,596	₱56,807
Association dues	**51,994**	50,517	52,509
Security and janitorial	**24,408**	22,464	19,606
Insurance	**21,182**	16,782	16,147
Others	**688,307**	568,498	383,470
	₱13,905,845	₱11,861,440	₱10,288,043

23. **Interest Income (Expense) and Other Income (Expense)**

	2017	2016	2015
Interest income:			
Cash and cash equivalents and short-term investments (see Note 6)	**₱149,298**	₱136,671	₱118,032
Loans and advances* (see Note 11)	**77,120**	125,070	119,977
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	**33,149**	25,172	19,774
	₱259,567	₱286,913	₱257,783

**Including interest income of other subsidiaries other than those mentioned in Note 11.*

	2017	2016	2015
Interest expense:			
Long-term debt (see Note 18)	**(₱392,589)**	(₱247,036)	(₱153,206)
Accretion of customers' deposits (see Note 16)	**(13,231)**	(20,354)	(19,894)
Short-term debt (see Note 18)	**–**	(228)	(52,444)
	(₱405,820)	(₱267,618)	(₱225,544)

	2017	2016	2015
Other income (expense):			
Gain from the re-measurement of the previously held interest (see Note 11)	**₱1,328,733**	₱–	₱–
Write-off of liabilities	**1,547,166**	1,111,924	905,088
Provisions (see Note 17)	**(794,609)**	–	–
Rebates and suppliers' incentives	**189,452**	206,712	228,961
Bank charges	**(165,348)**	(118,627)	(108,181)
Marked-to-market gain (loss) on derivatives (see Note 11)	**(129,371)**	3,298	–
Divestment of subsidiaries and interest in a joint venture (see Note 11)	**(116,207)**	66,695	–
Penalties and charges	**69,610**	53,274	45,336
Foreign exchange gain (loss) - net	**(63,535)**	41,485	36,823
Charges to franchisees	**18,979**	19,858	18,265
Other rentals	**17,484**	16,392	13,821
Pre-termination of operating leases	**15,884**	9,528	3,461
Insurance claims and others	**180,515**	172,384	93,183
	₱2,098,753	₱1,582,923	₱1,236,757

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:

	2017	2016	2015
Final tax withheld on:			
Royalty income	**₱1,260,352**	₱1,120,247	₱965,199
Interest income	**16,349**	16,135	10,891
RCIT:			
With Optional Standard Deduction (OSD)	**369,839**	214,249	229,912
With itemized deduction	**306,010**	805,092	552,757
MCIT	**336,152**	179,132	167,319
Capital gains	**21,928**	–	–
	₱2,310,630	₱2,334,855	₱1,926,078

RCIT consists of corporate income taxes from the Jollibee Group's operations in the Philippines, PRC, USA and Singapore.

For the years ended December 31, 2017 and 2016, Zenith, Grandworth and RRBHI, wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. The net tax benefit (loss) from the availment of OSD amounted to (₱15.3 million), ₱57.9 million and ₱40.4 million in 2017, 2016 and 2015, respectively.

The components of the Jollibee Group's recognized net deferred tax assets as at December 31 follow:

	2017	2016
Deferred tax assets:		
MSOP and ELTIP	**₱1,033,184**	₱–
NOLCO:		
Philippine-based entities	**553,035**	844,872
PRC-based entities	**250,973**	228,101
USA-based entities	**7,218**	–
Operating lease payables	**566,066**	470,202
Pension liability and other benefits	**551,921**	545,489
Excess of MCIT over RCIT	**513,072**	460,009
Accrued royalty fees of US based entities	**497,590**	–
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	**105,190**	109,328
Unrealized foreign exchange loss	**62,395**	17,918
Unaccreted discount on security deposits and employee car plan receivables	**53,992**	21,236
Unamortized past service costs	**9,689**	13,146
Others	**15,136**	8,390
	4,219,461	2,718,691

(Forward)

	2017	2016
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	**₱69,281**	₱711
State income taxes	**82,382**	–
Unrealized foreign exchange gain	**57,342**	43,292
Prepaid rent	**46,768**	60,796
Unaccreted discount on employee car plan receivables and security deposits	**23,172**	14,907
Operating lease receivables	**17,049**	3,708
Deferred rent expense	**13,461**	9,322
Unrealized gain on change in fair value of AFS financial assets	**1,193**	460
	310,648	133,196
Deferred tax assets - net	**₱3,908,813**	₱2,585,495

The components of the Jollibee Group's recognized net deferred tax liabilities as at December 31 follow:

	2017	2016
Deferred tax assets:		
Allowance for impairment loss on receivables and inventories	**₱85,041**	₱84,942
Pension liability and other benefits	**40,905**	41,605
Excess of MCIT over RCIT	**18,359**	24,921
Operating lease payables	**7,142**	8,371
Unaccreted discount on security deposits and employee car plan receivables	**1,790**	1,022
Unrealized foreign exchange loss	**14**	33
NOLCO - Philippine-based	–	10,474
Unamortized past service costs	–	3,997
	153,251	175,365
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	**1,340,894**	677,106
Unaccreted discount on employee car plan receivables, security and product security deposits	**1,338**	4,183
Unrealized foreign exchange gain	**14**	653
	1,342,246	681,942
Deferred tax liabilities - net	**₱1,188,995**	₱506,577

The rollforward analysis of the net deferred tax assets and liabilities of the Jollibee Group follows:

	2017	2016
Balance at beginning of year	**₱2,078,918**	₱1,408,489
Additions	**685,089**	643,506
Income tax effect of other remeasurements of net defined benefit plan	**(59,440)**	29,646
Translation adjustments	**15,251**	(2,723)
	₱2,719,818	₱2,078,918

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:

	2017	2016
Deferred tax assets:		
Allowance for impairment losses on receivables and nonfinancial assets	**₱30,421**	₱20,341
Pension liability and other benefits	**23,121**	17,932
Operating lease payables	**13,429**	18,917
Unaccredited discount on financial instruments and others	**458**	605
Unamortized past service cost	**139**	261
Excess of MCIT over RCIT	**–**	2,450
	67,568	60,506
Deferred tax liabilities:		
Operating lease receivables	**5,437**	4,496
Others	**551**	643
	5,988	5,139
Deferred tax assets - net	**₱61,580**	₱55,367

As at December 31, 2017, 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
2017	December 31, 2020	₱–	₱190,633
2016	December 31, 2019	1,033,062	179,224
2015	December 31, 2018	1,042,330	167,318
2014	December 31, 2017	1,269,524	138,388
		3,344,916	675,563
Utilized during the year		(1,370,518)	–
Write-offs and expirations		(40,630)	(144,132)
		₱1,933,768	₱531,431

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at December 31, 2017, 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%
2017	December 31, 2022	₱502,496	₱125,624
2016	December 31, 2021	240,988	60,247
2015	December 31, 2020	234,393	58,598
2014	December 31, 2019	157,498	39,375
2013	December 31, 2018	145,789	36,447
2012	December 31, 2017	133,737	33,434
		1,414,901	353,725
Utilized during the year		(411,008)	(102,752)
		₱1,003,893	₱250,973

The following are the movements in deferred tax assets on NOLCO of the Jollibee Group:

	2017	2016	2015
Balance at beginning of year	**₱1,083,447**	₱782,610	₱544,953
Additions	**172,041**	355,025	365,753
Utilized during the year	**(447,324)**	(51,416)	(126,174)
Write-offs and expirations	**(12,189)**	–	(4,221)
Translation adjustments	**15,251**	(2,772)	2,299
	₱811,226	₱1,083,447	₱782,610

The following are the movements in deferred tax assets on Excess of MCIT over RCIT of the Jollibee Group:

	2017	2016	2015
Balance at beginning of year	**₱484,930**	₱318,340	₱160,358
Additions	**190,633**	179,224	167,318
Write-offs and expirations	**(144,132)**	(4,387)	(9,336)
Utilized during the year	**–**	(8,247)	–
	₱531,431	₱484,930	₱318,340

The net change in deferred tax liabilities recognized in equity amounted to (₱59.4 million), ₱29.6 million and ₱104.8 million in 2017, 2016 and 2015, respectively.

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:

	2017	2016	2015
Provision for income tax at various statutory income tax rates	**₱2,501,853**	₱2,388,798	₱1,925,372
Income tax effects of:			
Effect of different tax rate for royalty and interest income	**(638,351)**	(567,363)	(485,655)
Nontaxable income	**(313,827)**	–	–

(Forward)

	2017	2016	2015
Income tax effects of:			
Intrinsic value of stock options exercised	**(₱323,503)**	(₱208,494)	(₱109,092)
Tax effect of MSOP and ELTIP	**(175,401)**	–	–
Expired/written off NOLCO and excess of MCIT over RCIT	**156,321**	4,387	13,557
Effect of different tax rates for capital gains tax	**(47,382)**	–	–
Nondeductible expenses	**35,754**	74,371	60,271
Difference between OSD and itemized deductions	**12,621**	(57,925)	(40,392)
Net movement in unrecognized DTA	**(28,325)**	34,549	6,882
Others	**487,168**	8,288	17,665
	₱1,666,928	₱1,676,611	₱1,388,608

Provision for current income tax of foreign entities operating in United States, PRC and Singapore amounted to ₱55.1 million, ₱119.3 million and ₱2.3 million, respectively, in 2017, ₱67.6 million, ₱99.7 million and ₱1.3 million, respectively, in 2016, and ₱36.1 million, ₱72.2 million and ₱2.4 million, respectively, in 2015.

For Philippine-based entities, Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

For US-based entities, Tax Cuts and Jobs Act (the US Tax Reform) was signed into law on December 22, 2017, making the new law enacted by that date under Philippine Financial Reporting Standards (PFRSs) and therefore applicable as of the reporting date. The US Tax Reform resulted in the re-measurement of deferred tax assets and liabilities as of December 31, 2017 as a result of the change in the corporate income tax rate from 35% to 21%. The recognized net deferred tax assets of US-based entities amounted to ₱452.4 million.

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 2017 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Liability**
At January 1, 2017	**₱3,378,892**	**₱1,720,714**	**₱1,658,178**
Pension expense (see Notes 21 and 22):			
Current service cost	**279,419**	**–**	**279,419**
Net interest	**176,704**	**90,072**	**86,632**
Past service cost	**(3,211)**	**–**	**(3,211)**
	452,912	**90,072**	**362,840**
Benefits paid	**(103,553)**	**(103,553)**	**–**
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**52,498**	**(52,498)**
Actuarial changes arising from changes in financial assumptions	**(235,902)**	**–**	**(235,902)**
Actuarial changes due to experience adjustment	**81,928**	**–**	**81,928**
	(153,974)	**52,498**	**(206,472)**
Contributions	**–**	**325,000**	**(325,000)**
At December 31, 2017	**₱3,574,277**	**₱2,084,731**	**₱1,489,546**

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	₱1,532,622	₱1,466,530
Pension expense (see Notes 21 and 22):			
Current service cost	252,342	–	252,342
Net interest	151,737	77,018	74,719
Past service cost	36,720	–	36,720
	440,799	77,018	363,781
Benefits paid	(100,874)	(100,874)	–

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	₱–	(₱62,052)	₱62,052
Actuarial changes arising from changes in financial assumptions	(73,382)	–	(73,382)
Actuarial changes due to experience adjustment	113,197	–	113,197
	39,815	(62,052)	101,867
Contributions	–	274,000	(274,000)
At December 31, 2016	₱3,378,892	₱1,720,714	₱1,658,178

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:

	2017	2016
Cash and cash equivalents	**₱487,772**	₱369,024
Investments in government and corporate debt securities	**1,123,443**	1,075,581
Investments in quoted equity securities:		
Holding firms	**203,216**	142,308
Property	**117,714**	73,507
Banks	**115,258**	53,375
Food and beverage	**55,978**	55,749
Telecommunications	**32,531**	17,038
Electricity, energy, power and water	**24,976**	27,107
Others	**42,119**	12,359
Interest and dividends receivable	**15,478**	17,545
Fund liabilities (Note 27)	**(133,754)**	(122,879)
	₱2,084,731	₱1,720,714

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 2.13%-11.70% and have maturities from May 2018 to October 2037.

- Investments in debt securities consist of long-term corporate bonds in the property sector, which bear interest ranging from 5.17%-5.35% maturing from March to May 2024.

- 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).

- 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, 2017	December 31, 2016	January 1, 2016
Discount rate	**5.90%–6.30%**	5.20%–5.70%	5.00%–5.10%
Salary increase rate	**6.00%**	6.00%	6.00%

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:

	Increase	Philippine Plan		
	(Decrease)	**2017**	2016	2015
Discount rates	+0.50%	**(₱142,506)**	(₱156,602)	(₱144,519)
	-0.50%	**195,703**	169,836	156,999
Future salary increases	+0.50%	**194,789**	167,757	154,738
	-0.50%	**(143,116)**	(156,240)	(143,898)

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	2017	2016
Less than 1 year	**₱705,649**	₱492,013
More than 1 year to 5 years	**1,000,883**	1,036,202
More than 5 years to 10 years	**2,328,122**	1,996,378
More than 10 years to 15 years	**2,533,937**	2,301,591
More than 15 years to 20 years	**2,638,048**	2,451,602
More than 20 years	**8,531,203**	7,615,074

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 plans is based on the client suitability assessment, as provided by trustee banks, in compliance with the BSP 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 plans.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk. Liquidity risk pertains to the plans' ability to meet 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 ₱636.0 million to the defined benefit pension plans in 2018.

The average duration of the defined benefit obligation is 10 years as at December 31, 2017 and 2016.

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 ₱569.8 million, ₱603.7 million and ₱637.2 million in 2017, 2016 and 2015, respectively.

26. Stock Options Plan

Senior Management Stock Option and Incentive Plan
On January 10, 2017 and December 17, 2002, the SEC approved the exemption requested by the Jollibee Group on the registration requirements of 31,500,000 and 101,500,000 options, respectively, 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.

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. For instance, under the 1st MSOP cycle, the Compensation Committee of the Jollibee Group granted 2,385,000 options to eligible participants on July 1, 2004. One-third of the options granted, or 795,000 options, vested and may be exercised starting July 1, 2005. The exercise period for the 1st MSOP cycle was until June 30, 2012. From July 1, 2005 to September 9, 2016, the Compensation Committee granted series of MSOP grants under the 2nd to 13th MSOP cycle to eligible participants. Under the most recent grant (July 3, 2017), the 14th MSOP cycle, the Compensation Committee granted 4,198,500 options. These options are similar to 1st MSOP cycle.

The options under MSOP expire eight years after grant date. The 1st, 2nd, 3rd 4th, 5th and 6th MSOP cycles expired on June 30, 2012, 2013, 2014, 2015, 2016 and 2017, respectively.

The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding under MSOP and related weighted average exercise prices (WAEP) are as follows:

	2017		2016		2015	
	Number of Options	**WAEP**	Number of Options	WAEP	Number of Options	WAEP
Total options granted at beginning of year	**42,986,294**	**₱92.47**	40,120,794	₱82.22	36,863,194	₱73.58
Options granted during the year	**4,198,500**	**206.20**	2,865,500	236.00	3,257,600	179.99
Total options granted at end of year	**47,184,794**	**₱102.59**	42,986,294	₱92.47	40,120,794	₱82.22
Outstanding at beginning of year	**15,256,198**	**₱159.46**	14,868,437	₱133.32	13,609,275	₱117.51
Options granted during the year	**4,198,500**	**206.20**	2,865,500	236.00	3,257,600	179.99
Options exercised during the year	**(2,672,040)**	**110.35**	(2,259,125)	87.40	(1,380,628)	100.42
Options forfeited during the year	**(2,108)**	**213.28**	(218,614)	129.31	(617,810)	104.73
Outstanding at end of year	**16,780,550**	**₱176.63**	15,256,198	₱159.46	14,868,437	₱133.32
Exercisable at end of year	**9,688,683**	**₱151.94**	9,141,965	₱128.20	8,262,670	₱100.95

The weighted average share price of the Parent Company common shares is ₱222.86, ₱227.53 and ₱206.05 in 2017, 2016 and 2015, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2017, 2016 and 2015 is 5.21 years, 5.17 years and 5.19 years, respectively.

The weighted average fair value of stock options granted in 2017, 2016 and 2015 is ₱29.88, ₱31.16 and ₱26.13, 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
1st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00
13th	2016	2.00%	17.76%	2.63%	3-4 years	236.00	236.00
14th	2017	2.00%	16.70%	3.92%	3-4 years	206.20	206.20

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 at 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 are 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 until 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 1st and 2nd ELTIP cycles expired on June 30, 2012 and April 30, 2017, respectively. The stock options granted under the 3rd and 4th ELTIP cycles will expire in 2020 and 2023, 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, 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Options	**WAEP**	Number of Options	WAEP	Number of Options	WAEP
Total options granted at end of year	**78,969,999**	**₱74.58**	78,969,999	₱74.58	67,499,999	₱56.66
Options granted during the year	**–**	**–**	–	–	11,470,000	180.00
Total options granted at end of year	**78,969,999**	**₱74.58**	78,969,999	₱74.58	78,969,999	₱74.58
Outstanding at beginning of year	**35,118,896**	**₱122.65**	38,344,999	₱117.74	31,270,560	₱90.06
Options granted during the year	**–**	**–**	–	–	11,470,000	180.00
Options exercised during the year	**(7,682,230)**	**73.69**	(2,892,770)	59.59	(3,728,468)	79.46
Options forfeited during the year	**–**	**–**	(333,333)	105.00	(667,093)	105.00
Outstanding at end of year	**27,436,666**	**₱136.35**	35,118,896	₱122.65	38,344,999	₱117.74
Exercisable at end of year	**15,966,666**	**₱105.00**	15,615,420	₱89.60	10,808,048	₱70.59

The weighted average remaining contractual life for the stock options outstanding as of 2017, 2016 and 2015 is 3.59 years, 4.00 years and 4.85 years, respectively.

The fair value of stock options granted is ₱26.13 in 2015. There were no additional stock option grants under ELTIP in 2017 and 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 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
1st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4th	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 ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, respectively (see Note 22). Correspondingly, a credit was made to additional paid-in-capital (see Note 19).

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 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Salaries and short-term benefits	**₱1,107,515**	₱1,001,048	₱798,882
Stock options expense (see Notes 22 and 26)	**227,483**	241,324	173,212
Net pension expense	**65,075**	59,701	47,584
Employee car plan and other long-term benefits	**48,948**	47,673	42,803
	₱1,449,021	₱1,349,746	₱1,062,481

Transactions with the Retirement Plans
As at December 31, 2017 and 2016, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	2017	2016
Number of shares	**163,150**	192,860
Market value	**₱41,277**	₱37,415
Cost	**9,417**	9,187
Unrealized gain	**₱31,860**	₱28,228

The Jollibee Group's receivable from retirement fund amounted to ₱131.7 million and ₱122.9 million as at December 31, 2017 and 2016, respectively (see Note 25). The receivable arose from benefit payments made by the Jollibee Group for and in behalf of the retirement plans. The receivable is noninterest-bearing.

Transaction with a Joint Venture
As at December 31, 2016 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.

28. **Earnings Per Share**

Basic and diluted EPS are computed as follows:

	2017	2016	2015
	(In Thousand pesos, except for EPS)		
(a) Net income attributable to the equity holders of the Parent Company	**₱7,109,120**	₱6,164,735	₱4,928,236
(b) Weighted average number of shares - basic	**1,080,488,873**	1,072,616,009	1,067,293,108
Weighted average number of shares outstanding under the stock options plan	**32,366,508**	38,387,061	42,717,799
Weighted average number of shares that would have been purchased at fair market value	**(18,180,717)**	(18,545,923)	(21,689,263)
(c) Adjusted weighted average shares - diluted	**1,094,674,664**	1,092,457,147	1,088,321,644
EPS:			
Basic (a/b)	**₱6.580**	₱5.747	₱4.618
Diluted (a/c)	**6.494**	5.643	4.528

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2017 and 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 2017 and 2016.

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 ₱2,057.8 million, ₱1,703.3 million and ₱1,428.2 million in 2017, 2016 and 2015, respectively (see Notes 21 and 22).

The future minimum lease payments for the noncancellable periods of the operating leases follow:

	2017	2016	2015
Within one year	**₱2,229,282**	₱1,546,661	₱1,532,583
After one year but not more than five years	**8,405,865**	5,916,716	5,581,731
More than five years	**9,942,645**	8,093,585	6,443,631
	₱20,577,792	₱15,556,962	₱13,557,945

Rent expense recognized on a straight-line basis amounted to ₱10,236.6 million, ₱8,704.5 million and ₱7,841.9 million in 2017, 2016 and 2015, 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 ₱2,051.6 million and ₱1,792.9 million as at December 31, 2017 and 2016, 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:

	2017	2016	2015
Within one year	**₱174,333**	₱142,011	₱63,359
After one year but not more than five years	**500,520**	393,154	244,123
More than five years	**163,067**	184,930	598,950
	₱837,920	₱720,095	₱906,432

Rent income recognized on a straight-line basis amounted to ₱57.2 million, ₱91.4 million and ₱92.4 million in 2017, 2016 and 2015, 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 ₱28.0 million and ₱26.0 million as at December 31, 2017 and 2016, 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, receivables and long-term debts. 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 receivable from sale of business, security and other deposits, operating lease receivables and trade payables and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificates) which arise directly from its operations.

The main risks arising from these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The risk management policies reviewed regularly by the Parent Company's BOD and management 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 debts 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 debts, the Jollibee Group used a derivative instrument to fix the interest rate over the term of one 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 banks, 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 Jollibee Group's income before income tax as at December 31, 2017 and 2016. The impact on the Jollibee Group's income before income tax 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 2017	2016
USD	+100	**(80,599)**	(87,706)
	-100	**80,599**	87,706
PHP	+100	**(64,245)**	(33,848)
	-100	**64,245**	33,848
VND	+100	**(4,167)**	–
	-100	**4,167**	–

The assumed movement in basis point for interest rate sensitivity analysis is based on the currently observable market environment.

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 2.55% and 5.74% of the consolidated net assets of the Jollibee Group as at December 31, 2017 and 2016, 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, 2017 and 2016:

	2017			2016		
	USD	**RMB**	**PHP Equivalent**	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	**407**	**6**	**20,364**	687	8	34,185
Receivables	**32**	**–**	**1,598**	4,991	–	248,164
Foreign currency denominated assets	**439**	**6**	**21,962**	5,678	8	282,349
Accounts payable - trade	**(1,155)**	**–**	**(57,669)**	–	–	–
Foreign currency denominated assets - net	**(716)**	**6**	**(35,707)**	5,678	8	282,349

Foreign Currency Risk Sensitivity Analysis
The Jollibee Group has recognized in profit or loss, foreign currency exchange gain or loss, included under "Other income" account, which amounted to a net foreign exchange loss of ₱63.5 million in 2017 and net foreign exchange gain of ₱41.5 million and ₱36.8 million in 2016 and 2015, respectively (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	Peso to RMB
December 31, 2017	**49.93**	**7.64**
December 31, 2016	49.72	7.16

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, 2017 and 2016:

	Appreciation (Depreciation) of ₱ against Foreign Currency	**2017** Effect on Income before Income Tax	**2017** Effect on Equity before Income Tax	2016 Effect on Income before Income Tax	2016 Effect on Equity before Income Tax
USD	1.50	**(₱1,074)**	**(₱1,074)**	(₱8,517)	(₱8,517)
	(1.50)	**1,074**	**1,074**	8,517	8,517
	1.00	**(716)**	**(716)**	(5,678)	(5,678)
	(1.00)	**716**	**716**	5,678	5,678
RMB	0.95	**(5.3)**	**(5.3)**	(7.6)	(7.6)
	(0.95)	**5.3**	**5.3**	7.6	7.6
	0.63	**(3.5)**	**(3.5)**	(5.0)	(5.0)
	(0.63)	**3.5**	**3.5**	5.0	5.0

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 services 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, 2017 and 2016 are as follows:

	2017						
			Past Due but not Impaired (Age in Days)				
	Total	**Neither Past Due nor Impaired**	**1-30**	**31-60**	**61-120**	**Over 120**	**Impaired**
				(In Millions)			
Cash and cash equivalents*	**₱20,762.5**	**₱20,762.5**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Short-term investments	**1,413.4**	**1,413.4**	**–**	**–**	**–**	**–**	**–**
Receivables:							
Trade	**4,225.0**	**2,527.7**	**488.8**	**150.1**	**134.7**	**233.6**	**690.1**
Employee car plan receivables**	**275.0**	**275.0**	**–**	**–**	**–**	**–**	**–**
Advances to employees	**144.8**	**144.8**	**–**	**–**	**–**	**–**	**–**
Other receivables***	**145.2**	**89.2**	**0.7**	**1.6**	**2.0**	**51.7**	**–**
Other noncurrent assets:							
Security and other deposits	**2,465.0**	**2,465.0**	**–**	**–**	**–**	**–**	**–**
Operating lease receivables	**28.0**	**28.0**	**–**	**–**	**–**	**–**	**–**
Receivable from sale of business (including current portion)	**76.4**	**76.4**	**–**	**–**	**–**	**–**	**–**
	29,535.3	**27,782.0**	**489.5**	**151.7**	**136.7**	**285.3**	**690.1**
AFS financial assets	**29.9**	**29.9**	**–**	**–**	**–**	**–**	**–**
	29,565.2	**₱27,811.9**	**₱489.5**	**₱151.7**	**₱136.7**	**₱285.3**	**₱690.1**

**Excluding cash on hand amounting to ₱345.0 million in 2017.*
***Including noncurrent portion of employee car plan receivables.*
****Excluding receivables from government agencies amounting to ₱27.2 million in 2017.*

	2016						
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
				(In Millions)			
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	–	–	–	–	–
Receivable from sale of business (including current portion)	286.4	286.4	–	–	–	–	–
	23,647.8	21,800.4	451.4	78.8	79.8	657.6	579.8
AFS financial assets	26.2	26.2	–	–	–	–	–
	₱23,674.0	₱21,826.6	₱451.4	₱78.8	₱79.8	₱657.6	₱579.8

**Excluding cash on hand amounting to ₱295.7 million in 2016.*
***Including noncurrent portion of employee car plan receivables.*
****Excluding receivables from government agencies amounting to ₱19.1 million in 2016.*

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2017 and 2016 without considering the effects of collaterals and other credit risk mitigation techniques:

	2017		
	Gross Maximum Exposure (a)	**Fair Value and Financial Effect of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) - (b)**
		(In Millions)	
Financial Assets			
Cash and cash equivalents*	**₱20,762.5**	**₱150.1**	**₱20,612.4****
Short-term investments	**1,413.4**	**–**	**1,413.4**
Receivables:			
Trade	**3,534.9**	**42.1**	**3,492.8*****
Employee car plan receivables	**275.0**	**–**	**275.0**
Advances to employees	**144.8**	**–**	**144.8**
Other receivables****	**145.2**	**–**	**145.2**
Other noncurrent assets:			
Security and other deposits	**2,465.0**	**–**	**2,465.0**
Operating lease receivables	**28.0**	**–**	**28.0**
Receivable from sale of business (including current portion)	**76.4**	**–**	**76.4**
AFS financial asset	**29.9**	**–**	**29.9**
	₱28,875.1	**₱192.2**	**₱28,682.9**

** Excluding cash on hand amounting to ₱345.0 million in 2017.*
*** 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 ₱27.2 million in 2017.*

	2016		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Millions)	
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
Receivable from sale of business (including current portion)	286.4	–	286.4
	₱23,094.2	₱318.5	₱22,775.7

** Excluding cash on hand amounting to ₱295.7 million in 2016.*
*** 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 in 2016.*

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, 2017 and 2016.

	2017				
		Neither Past Due nor Impaired			
	Total	**A**	**B**	**C**	**Past Due or Impaired**
			(In Millions)		
Receivables					
Trade	**₱4,225.0**	**₱1,110.2**	**₱1,298.9**	**₱118.6**	**₱1,697.3**
Employee car plan receivables*	**275.0**	**275.0**	**–**	**–**	**–**
Advances to employees	**144.8**	**144.8**	**–**	**–**	**–**
Other receivables**	**145.2**	**89.2**	**–**	**–**	**56.0**
Receivable from sale of business	**76.4**	**76.4**	**–**	**–**	**–**
AFS financial asset	**29.9**	**29.9**	**–**	**–**	**–**
	₱4,896.3	**₱1,725.5**	**₱1,298.9**	**₱118.6**	**₱1,753.3**

**Including noncurrent portion of employee car plan receivables.*
***Excluding receivables from government agencies amounting to ₱27.2 million in 2017.*

	2016				
		Neither Past Due nor Impaired			
	Total	A	B	C	Past Due or Impaired
			(In Millions)		
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
Receivable from sale of business	286.4	286.4	–	–	–
AFS financial asset	26.2	26.2	–	–	–
	₱4,380.7	₱1,500.2	₱946.7	₱86.4	₱1,847.4

**Including noncurrent portion of employee car plan receivables.*
***Excluding receivables from government agencies amounting to ₱19.1 million in 2016.*

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 obligations, 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.

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, 2017 and 2016.

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 ₱21,107.5 million, ₱1,413.4 million and ₱3,534.9 million, respectively, as at December 31, 2017 and ₱16,733.3 million, ₱726.0 million and ₱3,028.8 million, respectively, as at December 31, 2016.

The tables below summarize the maturity profile of the Jollibee Group’s other financial liabilities based on the contractual undiscounted cash flows as at December 31, 2017 and 2016:

	2017				
	Due and Demandable	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
			(In Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	**₱6,372.5**	**₱16,698.8**	**₱–**	**₱–**	**₱23,071.3**
Long-term debt (including current portion)	**73.9**	**1,801.6**	**12,897.7**	**1,344.1**	**16,117.3**
Operating lease payables	**–**	**277.7**	**1,313.0**	**460.9**	**2,051.6**
Total Financial Liabilities	**₱6,446.4**	**₱18,778.1**	**₱14,210.7**	**₱1,805.0**	**₱41,240.2**

**Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱2,183.3 million as at December 31, 2017.*

	2016				
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
			(In Millions)		
Financial Liabilities					
Trade payables and other current liabilities*	₱–	₱20,099.0	₱–	₱–	₱20,099.0
Long-term debt (including current portion)	–	1,562.1	4,639.7	5,953.6	12,155.4
Operating lease payables	–	602.9	523.9	666.0	1,792.8
Total Financial Liabilities	₱–	₱22,264.0	₱5,163.6	₱6,619.6	34,047.2

**Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱1,861.6 million as at December 31, 2016.*

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.

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, 2017 and 2016, the Jollibee Group’s debt ratio and net debt ratio are as follows:

Debt Ratio

	2017	2016
Total debt (a)	**₱47,201,916**	₱38,446,948
Total equity attributable to equity holders of the Parent Company	**40,782,635**	33,602,216
Total debt and equity attributable to equity holders of the Parent Company (b)	**₱87,984,551**	₱72,049,164
Debt ratio (a/b)	**54%**	53%

Net Debt Ratio

	2017	2016
Total debt	**₱47,201,916**	₱38,446,948
Less cash and cash equivalents and short-term investments	**22,520,874**	17,459,348
Net debt (a)	**24,681,042**	20,987,600
Total equity attributable to equity holders of the Parent Company	**40,782,635**	33,602,216
Net debt and equity attributable to equity holders of the Parent Company (b)	**₱65,463,677**	₱54,589,816
Net debt ratio (a/b)	**38%**	38%

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 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:

	2017	2016
Security and other deposits	**2.44%-5.71%**	2.45%-5.38%
Employee car plan receivables	**2.50%-4.92%**	1.89%-4.74%
Derivative assets	**2.08%-4.09%**	2.08%-4.09%
Long-term debt	**2.56%-4.92%**	2.45%-4.74%
Derivative liability	**0.95%-1.05%**	0.95%-1.05%

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, 2017:

		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	**₱29,862**	**₱29,862**	**₱–**	**₱29,862**	**₱–**
Derivative asset - interest rate swap	**11,948**	**11,948**	**–**	**11,948**	**–**
Assets for which fair values are disclosed:					
Investment properties:	**848,974**	**3,038,347**	**–**	**3,038,347**	**–**
Land	**848,974**	**2,083,920**	**–**	**2,083,920**	**–**
Buildings	**–**	**954,427**	**–**	**954,427**	**–**
Other noncurrent assets:					
Security and other deposits	**2,464,995**	**2,506,400**	**–**	**2,506,400**	**–**
Employee car plan receivables	**186,000**	**251,492**	**–**	**251,492**	**–**

Quantitative 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	₱26,212	₱26,212	₱–	₱26,212	₱–
Derivative asset - put/call rights	78,329	78,329	–	–	78,329
Assets for which fair values are disclosed:					
Investment properties:	983,428	2,088,764	–	2,088,764	–
Land	983,428	1,876,625	–	1,876,625	–
Buildings	–	212,139	–	212,139	–
Other noncurrent assets:					
Security and other deposits	2,103,707	1,877,227	–	1,877,227	–
Employee car plan receivables	130,584	196,224	–	196,224	–
Receivables from sale of business	286,448	286,448	–	286,448	–

Quantitative fair value measurement hierarchy for liabilities as at December 31, 2017:

		Fair Value Measurement Using			
	Date of Valuation	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities measured at fair value:					
Derivative liability - put/call rights	**December 31, 2017**	**₱51,042**	**₱–**	**₱51,042**	**₱–**
Liabilities disclosed at fair value:					
Product Security Deposit	**December 31, 2017**	**221,973**	**–**	**221,973**	**–**
Tenants' Deposit	**December 31, 2017**	**8,339**	**–**	**8,339**	**–**
Long-term debt	**December 31, 2017**	**15,749,921**	**–**	**15,749,921**	**–**

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2016:

		Fair Value Measurement Using			
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability - interest rate swap	December 31, 2016	₱33,531	₱–	₱33,531	₱–
Liabilities disclosed at fair value:					
Product Security Deposit	December 31, 2016	171,782	–	171,782	–
Tenants' Deposit	December 31, 2016	12,781	–	12,781	–
Long-term debt	December 31, 2016	12,750,225	–	12,750,225	–

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, 2017 and 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. **Reclassification**

The sales discounts of PRC-based subsidiaries taken up as advertising and promotions in the 2016 statement of comprehensive income and supporting note disclosures have been reclassified to conform with the presentation used in the statement of comprehensive income in 2017.

The reclassification did not affect the total assets, total liabilities and total equity in the statement of financial position as at December 31, 2016 and the net income and total comprehensive income in the statement of comprehensive income in 2016.

The effects of the reclassification in the 2016 statement of comprehensive income are as follows:

Account	As previously reported	Reclassification	As reclassified
Sales discounts	₱971,595	₱96,292	₱1,067,887
Advertising and promotions	2,765,787	(96,292)	2,669,495

33. **Event after the Reporting Period**

<u>Dividend Declaration</u>
On April 6, 2018, the BOD of the Parent Company approved a regular cash dividend of ₱1.14 per share of common stock to all stockholders of record as of April 24, 2018. Consequently, the cash is expected to be paid out by May 9, 2018. The cash dividend is 14% higher than the ₱1.00 regular dividend declared on April 5, 2017.

34. **Notes to the Statement of Cash Flows**

Changes in liabilities and equity arising from financing activities are as follows:

	January 1, 2017	Cash flows	Dividends declared (Note 19)	Granted stock options to employees and subsidiaries	Deferred tax assets (Note 24)	Interest expense (Note 24)	Amortization of debt issue cost (Note 17)	Foreign exchange loss	Acquisition of a subsidiary (Note 11)	Share in net losses of Non-controlling interest (Note 11)	Share in cumulative translation adjustments of Non-controlling interest (Note 11)	December 31, 2017
						(In Millions)						
Dividends payable (Note 16)	₱47.7	(₱2,347.2)	₱2,355.5	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱56.0
Long-term debt (Note 18)	12,155.4	3,909.7	–	–	–	–	3.2	49.0	–	–	–	16,117.3
Interest payable (Note 16)	51.4	(360.9)	–	–	–	392.6	–	–	–	–	–	83.1
Capital stock (Note 19)	1,091.3	10.4	–	–	–	–	–	–	–	–	–	1,101.7
Additional paid-in capital (Note 19)	5,660.1	850.8	–	227.5	782.0	–	–	–	–	–	–	7,520.4
Non-controlling interest (Note 11)	679.2	14.5	–	–	–	–	–	–	1,536.4	(436.5)	5.7	1,799.3
Total liabilities and equity on financing activities	₱19,685.1	₱2,077.3	₱2,355.5	₱227.5	₱782.0	₱392.6	₱3.2	₱49.0	₱1,536.4	(₱436.5)	₱5.7	₱26,677.8

THE ISSUER

Jollibee Worldwide Pte. Ltd.
80 Robinson Road
#02-00 Singapore (068898)

THE GUARANTOR

Jollibee Foods Corporation
10/F Jollibee Plaza Building
10 F. Ortigas Jr. Ave.
Ortigas Center, Pasig City
Philippines

TRUSTEE

Citicorp International Limited
20th Floor, Citi Tower, One Bay East
83 Hoi Bun Road
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL PAYING AGENT, TRANSFER AGENT, CALCULATION AGENT AND REGISTRAR

Citibank, N.A., London Branch
c/o Citibank, N.A., Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS

To the Issuer and the Guarantor as to Singapore law

Allen & Overy LLP
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321

To the Issuer and the Guarantor as to English law

Allen & Overy
9th Floor
Three Exchange Square
Central
Hong Kong

To the Issuer and the Guarantor as to Philippine law

Romulo Mabanta Buenaventura Sayoc & de los Angeles
21st Floor, Philamlife Tower
8767 Paseo de Roxas
Makati City 1226
Philippines

To the Joint Lead Managers as to English law

Latham & Watkins LLP
18th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

To the Joint Lead Managers as to Philippine law

Picazo Buyco Tan Fider & Santos
Penthouse, Liberty Center
104 H.V. Dela Costa Street, Salcedo Village
Makati City 1227
Philippines

To the Trustee as to English law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Hong Kong

INDEPENDENT AUDITORS OF THE COMPANY

SyCip Gorres Velayo & Company
6760 Ayala Ave.
Makati City 1226
Philippines

LISTING AGENT

Allen & Overy LLP
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321