

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

a.	Consolidated Statements of Financial Position as at June 30, 2017 (Unaudited) and December 31, 2016 (Audited)
b.	Unaudited Consolidated Statements of Comprehensive Income for the Quarters Ended June 30, 2017 and 2016
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JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousand Pesos)

	June 2017	December 2016	Change	
	(Unaudited)	(Audited)	Amount	Pct
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 6, 30 and 31)	14,020,833	16,733,346	(2,712,513)	(16.2)
Short-term investments (Notes 6, 30 and 31)	1,421,927	726,002	695,925	95.9
Receivables (Notes 7, 30 and 31)	2,749,329	3,376,702	(627,373)	(18.6)
Inventories (Note 8)	6,050,359	5,987,346	63,013	1.1
Other current assets (Note 9)	3,948,967	3,545,339	403,628	11.4
Total Current Assets	28,191,415	30,368,735	(2,177,320)	(7.2)
Noncurrent Assets				
Available-for-sale financial assets (Notes 10, 30 and 31)	26,212	26,212	-	-
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	7,102,993	9,873,297	(2,770,304)	(28.1)
Property, plant and equipment (Note 12)	18,727,314	16,655,567	2,071,747	12.4
Investment properties (Note 13)	983,428	983,428	-	-
Goodwill and other intangible assets (Notes 14)	12,706,168	9,086,742	3,619,426	39.8
Operating lease receivables (Notes 29, 30 and 31)	26,763	25,995	768	3.0
Derivative asset (Note 18)	78,329	78,329	-	-
Deferred tax assets - net (Note 24)	2,991,677	2,585,495	406,182	15.7
Other noncurrent assets (Notes 15, 30 and 31)	3,900,924	3,044,552	856,372	28.1
Total Noncurrent Assets	46,543,808	42,359,617	4,184,191	9.9
	74,735,223	72,728,352	2,006,871	2.8
LIABILITIES AND EQUITY				
Current Liabilities				
Trade payables and other current liabilities (Notes 16, 30 and 31)	20,646,666	21,960,567	(1,313,901)	(6.0)
Income tax payable	244,373	309,331	(64,958)	(21.0)
Current portion of long-term debt (Notes 18, 30 and 31)	1,629,577	1,561,516	68,061	4.4
Total Current Liabilities	22,520,616	23,831,414	(1,310,798)	(5.5)
Noncurrent Liabilities				
Noncurrent portion of long-term debt (Notes 18, 30 and 31)	10,307,282	10,593,850	(286,568)	(2.7)
Pension liability (Note 25)	1,794,371	1,658,178	136,193	8.2
Operating lease payables (Note 29, 30 and 31)	1,867,246	1,792,897	74,349	4.1
Derivative liability (Notes 18, 30 and 31)	50,708	33,531	17,177	51.2
Provisions (Note 17)	30,501	30,501	-	-
Deferred tax liabilities - net (Note 24)	467,792	506,577	(38,785)	(7.7)
Total Noncurrent Liabilities	14,517,900	14,615,534	(97,634)	(0.7)
Total Liabilities	37,038,516	38,446,948	(1,408,432)	(3.7)
Equity Attributable to Equity Holders of the Parent Company (Note 30)				
Capital stock (Note 19)	1,098,254	1,091,301	6,953	0.6
Subscriptions receivable (Note 19)	(17,178)	(17,178)	-	-
Additional paid-in capital (Note 19)	6,221,495	5,660,086	561,409	9.9
Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustments of interests in joint ventures	179,756	(20,812)	200,568	963.7
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	(608,801)	(608,801)	-	-
Unrealized gain on available-for-sale financial assets (Note 10)	4,291	4,291	-	-
Comprehensive loss on derivative liability (Note 18)	(50,708)	(33,531)	(17,177)	(51.2)
Excess of cost over the carrying value of non-controlling interests acquired (Notes 11 and 19)	(2,152,161)	(2,152,161)	-	-
Retained earnings (Notes 19 and 30):				
Appropriated for future expansion	18,200,000	18,200,000	-	-
Unappropriated	14,071,396	11,659,532	2,411,864	20.7
	36,946,344	33,782,727	3,163,617	9.4
Less cost of common stock held in treasury (Note 19)	180,511	180,511	-	-
	36,765,833	33,602,216	3,163,617	9.4
Non-controlling Interests (Note 11)	930,874	679,188	251,686	37.1
Total Equity	37,696,707	34,281,404	3,415,303	10.0
	74,735,223	72,728,352	2,006,871	2.8

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Data)

	Quarters Ended June 30				Change	
	2017		2016		Amount	Pct
	Pesos	Pct	Pesos	Pct		
REVENUES						
Gross sales	31,141,472	95.7%	27,046,707	95.5%	4,094,765	15.1%
Sales discounts	(345,407)	-1.1%	(204,519)	-0.7%	(140,888)	-68.9%
Net sales	30,796,065	94.6%	26,842,188	94.8%	3,953,877	14.7%
Royalty, franchise fees and others	1,757,204	5.4%	1,480,987	5.2%	276,217	18.7%
	32,553,269	100.0%	28,323,175	100.0%	4,230,094	14.9%
COST OF SALES						
Cost of inventories	15,598,083	47.9%	13,627,551	48.1%	1,970,532	14.5%
Store and manufacturing costs	10,767,048	33.1%	9,260,167	32.7%	1,506,881	16.3%
	26,365,131	81.0%	22,887,718	80.8%	3,477,413	15.2%
GROSS PROFIT	6,188,138	19.0%	5,435,457	19.2%	752,681	13.8%
EXPENSES						
General and administrative expenses	3,468,915	10.7%	2,999,685	10.6%	469,230	15.6%
Advertising and promotions	721,562	2.2%	650,484	2.3%	71,078	10.9%
	4,190,477	12.9%	3,650,169	12.9%	540,308	14.8%
OPERATING INCOME	1,997,661	6.1%	1,785,288	6.3%	212,373	11.9%
INTEREST INCOME (EXPENSE)						
Interest income	41,800	0.1%	56,329	0.2%	(14,529)	-25.8%
Interest expense	(103,145)	-0.3%	(63,990)	-0.2%	39,155	61.2%
	(61,345)	-0.2%	(7,661)	0.0%	(53,684)	700.7%
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net	(96,267)	-0.3%	(171,839)	-0.6%	75,572	44.0%
OTHER INCOME	365,381	1.1%	334,099	1.2%	31,282	9.4%
INCOME BEFORE INCOME TAX	2,205,430	6.8%	1,939,887	6.8%	265,543	13.7%
PROVISION FOR INCOME TAX						
Current	598,292	1.8%	587,607	2.1%	10,685	1.8%
Deferred	(293,689)	-0.9%	(279,290)	-1.0%	(14,399)	-5.2%
	304,603	0.9%	308,317	1.1%	(3,714)	-1.2%
NET INCOME	1,900,827	5.8%	1,631,570	5.8%	269,257	16.5%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>						
Share in the OCI (OCL) of joint ventures and an associate under equity method						
coming from translation adjustments	161,112	0.5%	(61,869)	-0.2%	222,981	360.4%
Translation adjustments of foreign subsidiaries	(44,964)	-0.1%	644	0.0%	(45,608)	-7082.0%
Comprehensive loss on derivative liability	(31,830)	-0.1%	(64,547)	-0.2%	32,717	50.7%
	84,318	0.3%	(125,772)	-0.4%	210,090	167.0%
TOTAL COMPREHENSIVE INCOME	1,985,145	6.1%	1,505,798	5.3%	479,347	31.8%
Net Income Attributable to:						
Equity holders of the Parent Company	1,956,146	6.0%	1,655,749	5.8%	300,397	18.1%
Non-controlling interests	(55,319)	-0.2%	(24,179)	-0.1%	(31,140)	-128.8%
	1,900,827	5.8%	1,631,570	5.8%	269,257	16.5%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	2,036,690	6.3%	1,533,760	5.4%	502,930	32.8%
Non-controlling interests	(51,545)	-0.2%	(27,962)	-0.1%	(23,583)	-84.3%
	1,985,145	6.1%	1,505,798	5.3%	479,347	31.8%
Earnings Per Share for Net Income Attributable to						
Equity Holders of the Parent Company						
Basic	1.811		1.545		0.266	17.2%
Diluted	1.791		1.515		0.276	18.2%

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Data)

	Six Months Ended June 30				Change	
	2017		2016		Amount	Pct
	Pesos	Pct	Pesos	Pct		
REVENUES						
Gross sales	59,276,899	95.9%	52,001,605	95.5%	7,275,294	14.0%
Sales discounts	(692,038)	-1.1%	(390,974)	-0.7%	(301,064)	-77.0%
Net sales	58,584,861	94.7%	51,610,631	94.8%	6,974,230	13.5%
Royalty, franchise fees and others (Note 20)	3,257,314	5.3%	2,814,817	5.2%	442,497	15.7%
	61,842,175	100.0%	54,425,448	100.0%	7,416,727	13.6%
COST OF SALES (Note 21)						
Cost of inventories	29,646,953	47.9%	26,261,363	48.2%	3,385,590	12.9%
Store and manufacturing costs	20,779,738	33.6%	18,058,209	33.2%	2,721,529	15.1%
	50,426,691	81.5%	44,319,572	81.4%	6,107,119	13.8%
GROSS PROFIT	11,415,484	18.5%	10,105,876	18.6%	1,309,608	13.0%
EXPENSES						
General and administrative expenses (Note 22)	6,255,052	10.1%	5,511,023	10.1%	744,029	13.5%
Advertising and promotions	1,334,122	2.2%	1,071,430	2.0%	262,692	24.5%
	7,589,174	12.3%	6,582,453	12.1%	1,006,721	15.3%
OPERATING INCOME	3,826,310	6.2%	3,523,423	6.5%	302,887	8.6%
INTEREST INCOME (EXPENSE) (Note 23)						
Interest income	105,366	0.2%	114,186	0.2%	(8,820)	-7.7%
Interest expense	(197,986)	-0.3%	(124,846)	-0.2%	73,140	58.6%
	(92,620)	-0.1%	(10,660)	0.0%	(81,960)	768.9%
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net (Note 11)	(205,890)	-0.3%	(240,902)	-0.4%	35,012	14.5%
OTHER INCOME (Note 23)	540,315	0.9%	479,321	0.9%	60,994	12.7%
INCOME BEFORE INCOME TAX	4,068,115	6.6%	3,751,182	6.9%	316,933	8.4%
PROVISION FOR INCOME TAX (Note 24)						
Current	1,125,897	1.8%	1,117,469	2.1%	8,428	0.8%
Deferred	(432,547)	-0.7%	(430,064)	-0.8%	(2,483)	-0.6%
	693,350	1.1%	687,405	1.3%	5,945	0.9%
NET INCOME	3,374,765	5.5%	3,063,777	5.6%	310,988	10.2%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>						
Share in the OCI (OCL) of joint ventures and an associate under equity method						
coming from translation adjustments (Note 11)	110,217	0.2%	(232,301)	-0.4%	342,518	147.4%
Translation adjustments of foreign subsidiaries	103,276	0.2%	110,775	0.2%	(7,499)	-6.8%
Comprehensive loss on derivative liability (Note 18)	(17,178)	-0.0%	(204,017)	-0.4%	186,839	91.6%
	196,315	0.3%	(325,543)	-0.6%	521,858	160.3%
TOTAL COMPREHENSIVE INCOME	3,571,080	5.8%	2,738,234	5.0%	832,846	30.4%
Net Income Attributable to:						
Equity holders of the Parent Company (Note 28)	3,489,391	5.6%	3,054,238	5.6%	435,153	14.2%
Non-controlling interests	(114,626)	-0.2%	9,539	0.0%	(124,165)	-1301.7%
	3,374,765	5.5%	3,063,777	5.6%	310,988	10.2%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	3,672,782	5.9%	2,742,869	5.0%	929,913	33.9%
Non-controlling interests	(101,702)	-0.2%	(4,635)	-0.0%	(97,067)	-2094.2%
	3,571,080	5.8%	2,738,234	5.0%	832,846	30.4%
Earnings Per Share for Net Income Attributable to						
Equity Holders of the Parent Company (Note 28)						
Basic	3.238		2.852		0.386	13.5%
Diluted	3.197		2.795		0.402	14.4%

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2017 and 2016

(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company												Non-controlling Interests	Total Equity
	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Share in Cumulative Translation Adjustments of Interests in Joint Ventures	Remeasurement Loss on Net Defined Benefit Plan - net of tax (Note 25)	Unrealized Gain on Sale Financial Assets (Note 10)	Comprehensive Loss on Derivative Liability (Note 18)	Excess of Cost over the Carrying Value of Non- controlling Interests Acquired (Notes 11 and 19)	Retained Earnings (Note 19)	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	
Balances at January 1, 2017	1,091,301	(17,178)	5,660,086	(20,812)	(608,801)	4,291	(33,531)	(2,152,161)	18,200,000	11,659,532	(180,511)	33,602,216	679,188	34,281,404
Net income (loss)	-	-	-	-	-	-	-	-	-	3,489,391	-	3,489,391	(114,626)	3,374,765
Other comprehensive income (loss)	-	-	-	200,568	-	-	(17,177)	-	-	-	-	183,391	12,924	196,315
Total comprehensive income (loss)	-	-	-	200,568	-	-	(17,177)	-	-	3,489,391	-	3,672,782	(101,702)	3,571,080
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	6,953	-	447,671	-	-	-	-	-	-	-	-	454,624	-	454,624
Cost of stock options granted (Note 26)	-	-	113,738	-	-	-	-	-	-	-	-	113,738	-	113,738
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,077,527)	-	(1,077,527)	-	(1,077,527)
Acquisition of minority interest (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	353,388	353,388
	6,953	-	561,409	-	-	-	-	-	-	(1,077,527)	-	(509,165)	353,388	(155,777)
Balances at June 30, 2017	1,098,254	(17,178)	6,221,495	179,756	(608,801)	4,291	(50,708)	(2,152,161)	18,200,000	14,071,396	(180,511)	36,765,833	930,874	37,696,707
Balances 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	-	-	-	-	-	-	-	-	-	3,054,238	-	3,054,238	9,539	3,063,777
Other comprehensive loss	-	-	-	(114,890)	-	-	(196,479)	-	-	-	-	(311,369)	(14,174)	(325,543)
Total comprehensive income (loss)	-	-	-	(114,890)	-	-	(196,479)	-	-	3,054,238	-	2,742,869	(4,635)	2,738,234
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock	3,732	-	248,304	-	-	-	-	-	-	-	-	252,036	-	252,036
Cost of stock options granted (Note 26)	-	-	117,022	-	-	-	-	-	-	-	-	117,022	-	117,022
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(919,435)	-	(919,435)	-	(919,435)
Appropriation during the period	-	-	-	-	-	-	-	-	8,000,000	(8,000,000)	-	-	-	-
Acquisition of minority interest (Note 11)	-	-	-	-	-	-	-	(1,217,616)	-	-	-	(1,217,616)	(782,384)	(2,000,000)
	3,732	-	365,326	-	-	-	-	(1,217,616)	8,000,000	(8,919,435)	-	(1,767,993)	(782,384)	(2,550,377)
Balances at June 30, 2016	1,089,881	(17,178)	5,420,619	(7,665)	(536,580)	-	(231,928)	(1,760,380)	18,200,000	9,621,842	(180,511)	31,598,100	346,347	31,944,447

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

	Six Months Ended June 30		Change	
	2017	2016	Amount	Pct
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	4,068,115	3,751,182	316,933	8.4
Adjustments for:				
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	2,212,003	1,945,137	266,866	13.7
Equity in net losses of joint ventures and associates (Note 11)	205,890	240,902	(35,012)	(14.5)
Interest expense (Note 23)	197,986	124,846	73,140	58.6
Movement in pension liability (Notes 21 and 22)	136,193	118,111	18,082	15.3
Stock options expense (Notes 22 and 26)	113,738	117,022	(3,284)	(2.8)
Interest income (Note 23)	(105,366)	(114,186)	(8,820)	(7.7)
Deferred rent amortization - net (Note 29)	73,581	(12,239)	85,820	701.2
Net unrealized foreign exchange loss	54,185	28,610	25,575	89.4
Reversals of impairment losses on:				
Receivables (Notes 7 and 22)	(12,618)	(3,149)	9,469	300.7
Inventories (Notes 8 and 22)	(50,218)	(4,813)	45,405	943.4
Property, plant and equipment (Notes 12 and 22)	(1,631)	-	(1,631)	(100.0)
Loss on disposals and retirements of property and equipment (Notes 12 and 22)	48,750	123,985	(75,235)	(60.7)
Impairment losses on:				
Receivables (Notes 7 and 22)	8,000	46,022	(38,022)	(82.6)
Inventories (Notes 8 and 22)	20,347	7,540	12,807	169.9
Income before working capital changes	6,968,955	6,368,970	599,985	9.4
Decreases (increases) in:				
Receivables	795,912	1,870,997	(1,075,085)	(57.5)
Inventories	60,264	579,753	(519,489)	(89.6)
Other current assets	(282,647)	335,711	(618,358)	(184.2)
Decreases in trade payables and other current liabilities	(2,120,561)	(436,181)	1,684,380	386.2
Net cash generated from operations	5,421,923	8,719,250	(3,297,327)	(37.8)
Income taxes paid	(1,190,855)	(1,101,713)	89,142	8.1
Interest received	78,044	100,583	(22,539)	(22.4)
Net cash provided by operating activities	4,309,112	7,718,120	(3,409,008)	(44.2)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property, plant and equipment (Note 12)	(4,051,623)	(2,810,656)	1,240,967	44.2
Interests in joint ventures (Note 11)	(402,600)	(201,600)	201,000	99.7
Minority interests (Note 11)	142,158	(2,000,000)	2,142,158	107.1
Intangible assets (Note 14)	(62,901)	(7,969)	54,932	689.3
Advances to a joint venture (Note 11)	(1,059,786)	(55,149)	(1,004,637)	(1,821.7)
Proceeds from disposal of property, plant and equipment	164,741	32,830	131,911	401.8
Decreases (increases) in:				
Short-term investments	(695,925)	(520,082)	175,843	33.8
Other noncurrent assets	348,377	(260,607)	(608,984)	(233.7)
Net cash used in investing activities	(5,617,559)	(5,823,233)	(205,674)	(3.5)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Cash dividends (Note 19)	(992,285)	(848,318)	143,967	17.0
Long-term debt (Note 18)	(725,212)	(387,520)	337,692	87.1
Short-term debt (Note 18)	-	(276,420)	276,420	100.0
Liability for acquisition of businesses (Note 11)	-	(96,976)	96,976	100.0
Proceeds from:				
Issuances of and subscriptions to capital stock	454,624	252,036	202,588	80.4
Long-term debt (Note 18)	-	995,000	(995,000)	(100.0)
Interest paid	(139,433)	(104,791)	34,642	33.1
Net cash used in financing activities	(1,402,306)	(466,989)	935,317	200.3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(2,710,753)	1,427,898	(4,138,651)	(289.8)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
	(1,760)	(14,059)	(12,299)	(87.5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD				
	16,733,346	11,497,560	5,235,786	45.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)				
	14,020,833	12,911,399	1,109,434	8.6

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Pesos, Except When Otherwise Indicated)

1. Corporate Information

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

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

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

The consolidated financial statements as at June 30, 2017 and December 31, 2016 and for the periods ended June 30, 2017 and 2016, were reviewed and recommended for approval by the Audit Committee as well as approved and authorized for issuance by the Board of Directors (BOD) on August 11, 2017.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Basis of Consolidation

Basis of Preparation

The consolidated financial statements of the Jollibee Group have been prepared on a historical cost basis, except for the derivative assets and liabilities, and available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency. 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 accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new PFRSs and amendments to existing PFRS which became effective on January 1, 2016:

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

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

- The materiality requirements in PAS 1;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- PFRS 14, *Regulatory Deferral Accounts*

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

- Annual Improvements to PFRSs (2012-2014 Cycle)

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

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

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the

other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. This amendment is applied prospectively and has no significant impact on the Jollibee Group's financial condition and performance.

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

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

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

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

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

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

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

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

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

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

Effective January 1, 2017

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

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

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

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

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

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

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

Effective January 1, 2018

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

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

The adoption of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets but will have no impact on the classification and

measurement of the Jollibee Group's financial liabilities. The Jollibee Group, however, expects potential changes in its impairment model as an 'expected credit loss' model replaces the 'incurred credit losses' model under PAS 39.

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

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

These amendments address three main areas:

- *The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.* The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.
- *The classification of a share-based payment transaction with net settlement features for withholding tax obligations.* This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfill this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature'). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.
- *The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.* The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss.
- *IFRIC 22, Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in

its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Jollibee Group is currently assessing the impact of adopting this standard.

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

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

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

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

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

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

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

- **IFRS 16, *Leases***

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

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

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

With Deferred Effective Date

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

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

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

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2017 and December 31, 2016 and for the periods ended June 30, 2017 and 2016.

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

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

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

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

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

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

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

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

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

The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned and majority-owned subsidiaries as at June 30, 2017 and December 31, 2016:

	Country of Incorporation	Principal Activities	June 2017 (Unaudited)		December 2016 (Audited)	
			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) ^(c)	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. ^(b)	Singapore	Holding Company	—	75	—	—
Golden Cup Pte.Ltd.	Singapore	Holding company	—	60	—	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	PRC	Food Service	—	100	—	100
Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)	PRC	Food service	—	100	—	100
Southsea Binaries Ltd. (Southsea)	British Virgin Island (BVI)	Holding company	—	100	—	100
Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Hangzhou Yongtong Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Hangzhou Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Wuhan Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	—	100	—	100
Happy Bee Foods Processing Pte. Ltd. (HBFPPPL) ^(d)	Singapore	Holding company	—	100	—	100
- Happy Bee Foods Processing (Anhui) Co. Ltd. ^(d)	PRC	Food service	—	100	—	100
JSF Investments Pte. Ltd. (JSF)	Singapore	Holding company	—	99	—	99
- SF Vung Tau Joint Stock Company ^(a)	Vietnam	Holding Company	—	60	—	—
• Highland Coffee Service Joint-stock Company ^(a)	Vietnam	Food Service	—	100	—	—
• Quantum Corporation ^(a)	Vietnam	Food Service	—	100	—	—
• Pho Viet Joint Stock Company ^(a)	Vietnam	Food Service	—	100	—	—
• Pho 24 Service Trade Manufacture Corporation ^(a)	Vietnam	Food Service	—	100	—	—
- Blue Sky Holdings Limited ^(a)	Hong Kong	Holding company	—	60	—	—
• Sino Ocean Limited ^(a)	Hong Kong	Food Service	—	100	—	—
• Blue Sky Holdings (Macau) Limited ^(a)	Macau	Food Service	—	100	—	—
Jollibee (China) Food & Beverage Management Co. Ltd.	PRC	Management company	—	100	—	100

(Forward)

	Country of Incorporation	Principal Activities	June 2017 (Unaudited)		December 2016 (Audited)	
			Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership
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) ^(e)	Vietnam	Food service	—	100	—	—
- PT Chowking Indonesia	Indonesia	Food service	—	100	—	100
- PT Jollibee Indonesia	Indonesia	Dormant	—	100	—	100
- Jollibee (Hong Kong) Limited and Subsidiaries	Hong Kong	Dormant	—	85	—	85
- Belmont Enterprises Ventures Limited (Belmont):	BVI	Holding company	—	100	—	100
• Shanghai Belmont Enterprises Management and Adviser Co., Ltd. (SBEMAC)	PRC	Business management service	—	100	—	100
• Yong He Holdings Co., Ltd.	BVI	Holding company	—	100	—	100
• Centenary Ventures Ltd.	BVI	Holding company	—	100	—	100
Bee Good! Inc. (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	—	53	—	53
• PERF Restaurants, Inc. ^(f)	Philippines	Food service	—	53	—	53
Donut Magic Phils., Inc. (Donut Magic) ^(g)	Philippines	Dormant	100	—	100	—
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(g)	Philippines	Dormant	100	—	100	—
Mary's Foods Corporation (Mary's) ^(g)	Philippines	Dormant	100	—	100	—
QSR Builders, Inc.	Philippines	Dormant	100	—	100	—
Jollibee USA	USA	Dormant	100	—	100	—

(a) On May 11, 2017, the Jollibee Group, through JSF increase its shareholding in SF Vung Tau Joint Stock Company (SFVT) and Blue Sky Holdings Limited to 60%.

(b) On April 12, 2017, the Jollibee Group, through GPPL, incorporated Golden Piatto Pte. Ltd. to own and operate Jollibee restaurants in Italy.

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

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

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

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

(g) 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 June 30, 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 held-to-maturity investments category.

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

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

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

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

Loans and Receivables. This category is the most relevant to the Jollibee Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently

measured at amortized cost using the effective interest rate (EIR) method, except for short-term loans and receivables with no stated interest which are measured at undiscounted amounts less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is recognized in profit or loss. The losses arising from impairment are recognized also in profit or loss.

This category generally applies to cash and cash equivalents, short-term investments, receivables, refundable deposits, operating lease receivables and 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 OCI and credited directly in equity until the investment is derecognized, at which time, the cumulative gain or loss is recognized in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from equity to profit or loss. Dividends earned while holding AFS financial assets is recognized in profit or loss.

Derecognition

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

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

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

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

Impairment of Financial Assets

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

reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

Financial Liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

Financial liabilities at FVPL. Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Jollibee Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

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

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

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

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

The Jollibee Group's cross currency swap and interest rate swap are cash flow hedges. The Jollibee Group has no fair value hedge and hedge of a net investment in a foreign operation as at June 30, 2017 and December 31, 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. The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the statement of profit or loss.

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

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

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

Inventories

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

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

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

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

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

Other Current Assets

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

Property, Plant and Equipment

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

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

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

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

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

Investment Properties

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

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

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

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

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

Business Combinations

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

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

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

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

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

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

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

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Jollibee Group at cost being the excess of the total consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair

value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Jollibee Group determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

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

Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life.

Equity

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

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

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

Cost and Expenses

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

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

Pension Benefits

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

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

Pension Expense comprises the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Jollibee Group, nor can they be paid directly to the Jollibee Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting

expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Employee Leave Entitlement

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

Share-based Payments

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

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

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

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

Where the terms of a share-based award are modified, 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 which they are incurred.

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

Provisions

Provisions are recognized when the Jollibee Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Foreign Currency Transactions and Translations

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

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

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

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

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

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

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

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

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

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

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

Contingencies

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

Business Segments

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

Events after the Reporting Period

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

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

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

Rent expense amounted to ₱4,698.8 million and ₱4,083.0 million for the periods ended June 30, 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 ₱24.5 million and ₱43.0 million for the periods ended June 30, 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 which type of activities they engage in is important to the Jollibee Group as at end of the period.

Material Associates and Joint Ventures

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

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 P12,706.2 million and P9,086.7 million as at June 30, 2017 and December 31, 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.

No impairment loss for interests in and advances to joint ventures, co-venturers and associates was recognized for the periods ended June 30, 2017 and 2016. The carrying amount of interests in and advances to joint ventures, co-venturers and associates amounted to ₱6,040.4 million and ₱9,873.3 million as at June 30, 2017 and December 31, 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 ₱3,311.7 million and ₱2,894.1 million as at June 30, 2017 and December 31, 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 ₱30.5 million as at June 30, 2017 and December 31, 2016 (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.

The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱19,710.7 million and ₱17,639.0 million as at June 30, 2017 and December 31, 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 for the periods ended June 30, 2017 and 2016 amounted to ₱8.0 million and ₱46.0 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱12.6 million and ₱3.1 million were recognized for the periods ended June 30, 2017 and 2016, respectively (see Note 22). The carrying amount of receivables amounted to ₱2,749.3 million and ₱3,376.7 million as at June 30, 2017 and December 31, 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 ₱20.3 million and ₱7.5 million for the periods ended June 30, 2017 and 2016, respectively (see Note 22).

In addition, reversal of previously recognized provisions amounting to ₱50.2 million and ₱4.8 million were recognized for the periods ended June 30, 2017 and 2016, respectively (see Note 22). The carrying amount of inventories amounted to ₱6,050.4 million and ₱5,987.3 million as at June 30, 2017 and December 31, 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 ₱1,794.4 million and ₱1,658.2 million as at June 30, 2017 and December 31, 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 ₱113.7 million and ₱117.0 million for the periods ended June 30, 2017 and 2016, 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.

As at June 30, 2017 and December 31, 2016, the Jollibee Group recognized a derivative asset amounting to ₱78.3 million 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 periods ended June 30, 2017 and 2016:

	June 2017 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	P 58,734,179	P 2,825,086	P 282,910	P-	P61,842,175
Inter-segment revenues	17,903,325	965,233	3,028,452	(21,897,010)	-
Segment revenues	76,637,504	3,790,319	3,311,362	(21,897,010)	61,842,175
Segment expenses	(75,878,679)	(965,233)	(3,105,083)	21,897,010	(58,051,985)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	36,120	-	-	-	36,120
Equity in net losses of joint ventures and associates - net	(205,890)	-	-	-	(205,890)
Other segment income	537,912	-	2,403	-	540,315
Segment result	P1,126,967	P2,825,086	P208,682	P-	4,160,735
Interest income					105,366
Interest expense					(197,986)
Income before income tax					4,068,115
Provision for income tax					(693,350)
Net income					P3,374,765
Assets and Liabilities					
Segment assets	P71,369,549	P-	373,997	P-	P71,743,546
Deferred tax assets - net	2,989,427	-	2,250	-	P2,991,677
Consolidated assets	P74,358,976	P-	P376,247	P-	P74,735,223
Segment liabilities	P24,304,598	P-	P 84,894	P-	P24,389,492
Deferred tax liabilities - net	467,792	-	-	-	467,792
Long-term debt - including current portion	11,936,859	-	-	-	11,936,859
Income tax payable	242,218	-	2,155	-	244,373
Consolidated liabilities	P36,951,467	P-	P87,049	P-	P37,038,516
Other Segment Information					
Capital expenditures	P 4,114,524	P-	P-	P-	P4,114,524
Depreciation and amortization	2,209,634	-	2,369	-	2,212,003

	June 2016 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	P51,781,992	P2,512,350	P131,106	P-	P54,425,448
Inter-segment revenues	16,196,520	851,969	2,176,003	(19,224,492)	-
Segment revenues	67,978,512	3,364,319	2,307,109	(19,224,492)	54,425,448
Segment expenses	(66,980,620)	(851,969)	(2,248,328)	19,224,492	(50,856,425)
Impairment losses on receivables and inventories - net of reversals	(45,600)	-	-	-	(45,600)
Equity in net losses of joint ventures and an associate - net	(240,902)	-	-	-	(240,902)
Other segment income	478,517	-	804	-	479,321
Segment result	P1,189,907	P2,512,350	P59,585	P-	3,761,842
Interest income					114,186
Interest expense					(124,846)
Income before income tax					3,751,182
Provision for income tax					(687,405)
Net income					P3,063,777
Assets and Liabilities					
Segment assets	P62,934,656	P-	P342,335	P-	P63,276,991
Deferred tax assets – net	1,824,754	-	4,338	-	1,829,092
Consolidated assets	P64,759,410	P-	P346,673	P-	P65,106,083
Segment liabilities	P22,522,274	P-	P68,432	P-	P22,590,706
Long-term debt - including current portion	10,323,314	-	-	-	10,323,314
Income tax payable	246,104	-	1,512	-	247,616
Consolidated liabilities	P33,091,692	P-	P69,944	P-	P33,161,636
Other Segment Information					
Capital expenditures	P2,818,625	P-	P-	P-	P2,818,625
Depreciation and amortization	1,942,746	-	2,391	-	1,945,137

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:

	June 2017 (Unaudited)			
	Philippines	International	Eliminations	Consolidated
Segment revenues	P 49,188,377	P 12,905,468	(P251,670)	P61,842,175
Segment assets	41,190,674	30,552,872	-	71,743,546
Capital expenditures	3,425,280	689,244	-	4,114,524

	June 2016 (Unaudited)			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱43,474,427	₱11,125,660	(₱174,639)	₱54,425,448
Segment assets	39,216,682	24,060,309	–	63,276,991
Capital expenditures	2,297,233	521,392	–	2,818,625

6. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash on hand	₱335,053	₱295,716
Cash in banks	8,204,650	9,672,006
Short-term deposits	5,481,130	6,765,624
	₱14,020,833	₱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 ₱1,421.9 million and ₱726.0 million as at June 30, 2017 and December 31, 2016, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash in bank and short-term investments amounted to ₱45.3 million and ₱44.2 million for the periods ended June 30, 2017 and 2016, respectively (see Note 23).

7. Receivables

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Trade	₱2,859,029	₱3,608,583
Less allowance for impairment loss	564,003	579,792
	2,295,026	3,028,791
Advances to employees	221,854	112,652
Current portion of employee car plan receivables	42,216	83,383
Others	190,233	151,876
	₱2,749,329	₱3,376,702

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

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

The movements in the allowance for impairment loss on trade receivables as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Balance at beginning of period	P579,792	P520,055
Provisions (see Note 22)	8,000	91,415
Write-offs	(11,341)	(29,327)
Reversals (see Note 22)	(12,618)	(3,188)
Translation adjustments	170	837
Balance at end of period	P564,003	P579,792

The provisions in 2017 and 2016 resulted from specific impairment assessments performed by the Jollibee Group.

8. Inventories

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
At cost:		
Food supplies and processed inventories	P5,674,345	P5,458,186
Packaging, store and other supplies	338,891	461,630
	6,013,236	5,919,816
At net realizable value -		
Novelty items	37,123	67,530
Total inventories at lower of cost and net realizable value	P6,050,359	P5,987,346

The cost of novelty items carried at net realizable value amounted to P86.0 million and P146.2 million as at June 30, 2017 and December 31, 2016, respectively.

The movements in the allowance for inventory obsolescence as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Balance at beginning of period	P78,647	P18,180
Provisions (see Note 22)	20,347	78,621
Reversals (see Note 22)	(50,218)	(18,129)
Translation adjustments	128	(25)
Balance at end of period	P48,904	P78,647

9. Other Current Assets

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Deposits to suppliers and other third parties	₱1,259,626	₱1,278,972
Prepaid expenses:		
Taxes	1,135,356	1,019,538
Rent	660,776	625,560
Insurance and others	287,604	288,887
Notes receivable (see Note 11)	462,187	–
Receivable from sale of business (see Note 11)	74,378	214,836
Supplies	69,040	117,546
	₱3,948,967	₱3,545,339

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

Notes receivable pertains to the current portion of advances to co-venturers (USD9.0 million) including accrued interest, payable on September 30, 2017 (see Note 11).

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

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

10. Available-for-Sale Financial Assets

This account consists mainly of shares in golf and leisure clubs amounting to ₱26.2 million as at June 30, 2017 and December 31, 2016, respectively.

11. Business Combinations, Incorporation of New Subsidiaries, Interests in and Advances to Joint Ventures, Co-venturers and Associates and Divestments

A. Business Combinations

Business Combination 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, Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holding Limited Hongkong, Sino Ocean Asia Limited Hongkong, Blue Sky Holdings Limited Macau, and China Co.) through formation of joint ventures. This consists of a 49% share in SF Vung Tau Joint Stock Company (SFVT) in Vietnam and a 60% share in Blue Sky Holding Limited in Hongkong (the SuperFoods Holding Companies). The formation of joint ventures is an implementation of

the Framework Agreement made on May 20, 2011 between the Jollibee Group, through JSF, a 99% subsidiary of JWPL, and its co-venturers, Viet Thai International Joint Stock Company (VTIJS) and Viet Thai International Company Limited (VTI). The SuperFoods Group operates the chain of Highlands Coffee shops, Pho 24 restaurants and Hard Rock Cafe stores, whose market is mostly in Vietnam, Hong Kong and Macau. The Framework Agreement provided for the Jollibee Group to contribute a total of USD25.0 million to gain 50% effective ownership in the joint ventures. Loans and deposits were made to the SuperFoods Group and the co-venturers prior to the formation of the joint ventures in 2012.

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

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

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

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

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

Loans to Co-venturers

Loan to the co-venturers in the SuperFoods Group joint venture amounting to USD35.0 million (P1,523.9 million), extended on June 30, 2011, is payable in September 2017. This loan is secured by a mortgage by the co-venturers of all their shares in SuperFoods Holding Companies.

The loan bears interest of 5% per annum payable in lump sum also in December 2016. The loan was agreed to be used for general corporate purposes. Total interest from this loan, recognized as interest income, amounted to USD0.6 million (P31.6 million), USD1.8 million (P88.5 million) and USD1.8 million (P88.2 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 loan receivable including accrued interests as at December 31, 2016 from JSF to JWPL. With the completion of the Settlement Transaction Document, the loan, including interests as at May 10, 2017, was contributed as additional capital to the SuperFoods Group.

On April 30, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (P41.2 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 (P0.1 million), USD0.06 million (P2.8 million) and USD0.05 million (P2.7 million) for the period ended January 17, 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 (P44.1 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 (P0.1 million), USD0.06 million (P2.8 million) and USD0.05 million (P2.7 million) for the period ended January 17, 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 January 17, 2017, were converted to additional equity on SFVT upon the completion of the Settlement Transaction Documents as provided in the Third Supplement to the Loan Agreement signed on December 29, 2016.

Loans to Blue Sky

On June 10, 2011, a loan was extended to Blue Sky Holdings Limited (Blue Sky), the Hong Kong-based holding company, amounting to USD5.0 million (P216.0 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 (P0.7 million), USD0.3 million (P15.4 million) and USD0.3 million (P14.7 million) for the period ended January 17, 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 (P105.9 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 (P0.3 million), USD0.1 million (P7.4 million) and USD0.1 million (P7.1 million) for the period ended January 17, 2017 and years ended December 31, 2016 and 2015, respectively.

With the Third Supplement to the Loan Agreement signed on December 29, 2016, the loans to Blue Sky including accrued interests as at January 17, 2017 were converted into equity except for the balance of USD2.9 million (P145.6M). This is in accordance with the Settlement Transaction Documents completed on May 10, 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 in adjusting the ownership of SuperFoods Group.

On December 14, 2016, a loan of USD9.0 million (P447.5 million) was extended to the co-venturers payable on September 30, 2017 with an interest rate of 3.5% per annum. The loan was agreed to be used for SuperFoods' short-term capital needs. The loan is part of the total agreed loan of USD30.0 million. Total interest from this loan recognized as interest income amounted to USD0.2 million (P8.0 million), USD0.01 million (P0.8 million) for the period ended June 30, 2017 and year ended December 31, 2016, respectively.

On June 2, 2017, the additional loan of USD21.0 million (P1,060.0 million) was granted to the co-venturers. The loan is payable in eight (8) years with an interest rate of 3.5% per annum. The loan is secured by pledged shares in SFVT and Blue Sky which will be released in proportion to the amount of the principal paid. Total interest from this loan recognized as interest income amounted to USD0.06 million (P2.8 million) for the period ended June 30, 2017.

On May 11, 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 from its previous 50-50 ownership share. As majority owner, the Jollibee Group has included the SuperFoods Group in its financial consolidation effective May 11, 2017.

To help fund the SuperFoods' expansion plans, the Jollibee Group will henceforth take the lead in the capital raising activities for the joint venture 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 joint venture and advances to co-venturers as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in a joint venture – cost	P1,120,659	P1,120,659
Cumulative equity in net losses:		
Balance at beginning of period	(367,155)	(323,331)
Equity in net earnings (loss) for the period	18,755	(43,824)
Balance at end of period	(348,400)	(367,155)
Conversion to equity during the period	(772,259)	–
	–	753,504
Advances to the joint ventures and co-venturers:		
Balance at beginning of period	3,257,386	2,548,225
Conversion to equity during the period	(2,708,869)	–
Additions during the period	1,059,786	447,480
Accrual of interest	43,908	117,641
Translation adjustments and others	(127,393)	144,040
	1,524,818	3,257,386
Less current portion	462,187	–
	P1,062,631	P4,010,890

The current portion of the advances to the joint ventures and co-venturers is presented under "Other current assets" in the statement of financial position in 2017 (see Note 9).

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	P564,801
Noncurrent assets	1,244,239
Total assets	P1,809,040
Current liabilities	P772,840
Noncurrent liabilities	1,032,085
Total liabilities	P1,804,925
Cash and cash equivalents	P69,880
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 periods ended May 10, 2017 and June 30, 2016 include the following:

	May 2017 (Unaudited)	June 2016 (Unaudited)
Revenues	P1,467,717	P1,449,995
Depreciation and amortization	67,865	76,812
Interest income	1,456	5
Interest expense	24,284	37,965
Provision for income tax	27,406	10,770
Net income (loss)	37,509	(46,726)
Total comprehensive income (loss)	37,509	(46,726)
		December 2016 (Audited)
Net assets		P4,115
Proportion of the Jollibee Group's ownership		50%
		2,057
Goodwill		708,891
Cumulative translation adjustments		42,556
		P753,504

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	P142,158
Receivables	224,338
Inventories	93,404
Other current assets	41,254
Property, plant and equipment (see Note 12)	311,068
Other noncurrent assets	593,446
Total identifiable assets acquired	1,405,668
Less:	
Trade payables and other current liabilities	617,918
Loans and other noncurrent liabilities	547,240
Total identifiable liabilities assumed	1,165,158
Net identifiable assets acquired	P240,510

The amount of provisional goodwill recorded at acquisition date amounted to P3,594.0 million determined as follows:

Fair value of consideration transferred:	
Carrying amount of investment in joint venture at acquisition date	P772,259
Conversion of advances and accrued interest	2,708,869
	3,481,128
Non-controlling interest's share in the net assets acquired	353,387
Aggregate amount	3,834,515
Less acquisition date – fair value of net assets acquired	240,510
Goodwill (see Note 14)	P3,594,005
The net cash inflow from the acquisition -	
Cash acquired from subsidiary	P142,158

From the acquisition date, SuperFoods Group contributed P26.7 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 period would have been P1,952.8 million and P64.0 million, respectively.

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 (P8.6 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 acquired	571,590
Net identifiable liabilities acquired	₱158,330

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

Fair value of the consideration transferred:	
Cash consideration	₱8,601
Less acquisition date – net of the fair value of liabilities acquired	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.

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

Business Combination through Purchase of Assets

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

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

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

B. Incorporation of New Subsidiaries

Golden Piatto Pte. Ltd. (Golden Piatto). On March 31, 2017, the Jollibee Group, through its wholly owned subsidiary, GPPL, entered into a Joint Venture Agreement with Blackbird Holdings Pte. Ltd. (Blackbird) to own and operate the first Jollibee store in Italy.

The joint venture entity, incorporated as Golden Piatto on April 12, 2017, is 75% owned by GPPL and 25% owned by Blackbird. GPPL and Blackbird have committed to invest up to EUR1million (₱53.6 million) to the Joint Venture, of which EUR0.8 million (₱42.9 million) will be contributed by GPPL in proportion to its ownership in the business.

As at June 30, 2017, capital contribution of GPPL to Golden Piatto amounted to USD0.4 million (₱20.9 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 June 30, 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 June 30, 2017 and December 31, 2016, capital contributions of the Jollibee Group to Golden Cup amounted to USD27.6 million (₱1,340.0 million).

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

C. Material Non-Controlling Interests

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation and operation	June 2017 (Unaudited)	December 2016 (Audited)
SuperFoods Group	Vietnam, Hongkong and Macau	40%	—
GCPL	Singapore	40%	40%

Summarized Unaudited Statement of Comprehensive Income for the period ended June 30, 2017

	SuperFoods Group	GCPL
Revenues	P495,351	P145,605
Net income (loss)	26,662	(269,372)
Other comprehensive income (loss)	(1,025)	25,669
Total comprehensive income (loss)	25,637	(243,703)
Total comprehensive income (loss) attributable to non-controlling interests	10,255	(97,481)
Dividends paid to non-controlling interests	—	—

Summarized Unaudited Statement of Comprehensive Income for the period ended June 30, 2016

	GCPL
Revenues	P16,742
Net loss	(100,786)
Other comprehensive loss	(3,626)
Total comprehensive loss	(104,412)
Total comprehensive loss attributable to non-controlling interests	(41,765)
Dividends paid to non-controlling interests	—

Summarized Unaudited Statement of Financial Position as at June 30, 2017

	SuperFoods Group	GCPL
Current assets	P609,448	P1,815,261
Noncurrent assets	1,575,376	457,449
Current liabilities	582,917	672,280
Noncurrent liabilities	693,356	-
Total equity	908,551	1,600,430
Equity attributable to non-controlling interests	363,420	640,172

Summarized Audited Statement of Financial Position as at December 31, 2016

	GCPL
Current assets	P2,001,100
Noncurrent assets	439,532
Current liabilities	596,500
Noncurrent liabilities	-
Total equity	1,844,132
Equity attributable to non-controlling interests	737,653

Summarized Unaudited Cash Flow Information for the period ended June 30, 2017

	GCPL
Net cash used in operating activities	(P165,710)
Net cash used in investing activities	(22,705)
Net cash provided by financing activities	-
Net decrease in cash and cash equivalents	(188,415)

Summarized Unaudited Cash Flow Information for the period ended June 30, 2016

	GCPL
Net cash used in operating activities	(P106,753)
Net cash used in investing activities	(57,477)
Net cash provided by financing activities	-
Net decrease in cash and cash equivalents	(164,230)

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

Mang Inasal

On April 22, 2016, the Parent Company acquired the remaining 30% minority stake in Mang Inasal for the purchase price of P2,000.0 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 P1,217.6 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 P8.2 million which is recognized in the statements of comprehensive income. The transfer of the 30% equity was approved and registered in Singapore on November 22, 2016. With the transfer, JWPL now owns 100% of HBFPL.

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

San Pin Wang

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

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

	June 2017 (Unaudited)	December 2016 (Audited)
Interests in and advances to SuperFoods joint ventures and co-venturers	P1,062,631	P4,010,890
Interests in joint ventures:		
SJBF LLC	5,408,485	5,258,923
Cargill Joy Poultry	197,866	229,481
Golden Bee	167,965	100,163
WJ	139,175	151,629
	5,913,491	5,740,196
Interests in associates:		
Entrek	117,254	112,227
Cargill Joy Realty	9,617	9,984
	126,871	122,211
	P7,102,993	P9,873,297

Interests in Joint Ventures

SuperFoods Group

See Part A of this note for the discussion on the Interest and advances to SuperFoods joint ventures and co-venturers.

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 (P4,629.5 million). Thereafter, a post-closing adjustment of USD0.8 million (P36.6 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 (P4,629.5 million) of the transaction price in December 2015. The remaining USD0.8 million (P36.6 million) was carried as part of the “Current portion of liability for acquisition of business” account in the 2015 consolidated statement of financial position and was settled in January 2016. In addition, acquisition-related

costs consisting of professional fees for the Jollibee Group's financial, tax, accounting and legal advisors for the transaction amounted to ₱221.8 million.

In March 24, 2017, BGI made additional investments to SJBF amounting to USD8.0 million (₱402.6 million). The additional investments did not change BGI's equity interest in SJBF.

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

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

As a result of the first and second Put/Call Rights in the agreement, the Jollibee Group allocated ₱75.0 million of the purchase price to a derivative asset in 2015, representing the fair value of the First and Second Put/Call Rights on transaction date. As at June 30, 2017 and December 31, 2016, the derivative asset related to Put/Call Rights amounted to ₱78.3 million. The marked-to-market gain of ₱3.3 million was recognized in the 2016 statement of comprehensive income.

The details of Jollibee Group's interest in SJBF as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in a joint venture - cost:		
Balance at beginning of period	₱5,620,834	₱4,812,854
Additions during the period	402,600	807,980
Balance at end of period	6,023,434	5,620,834
Cumulative equity in net losses:		
Balance at beginning of period	(361,911)	(70,122)
Equity in net loss during the period	(253,038)	(291,789)
Balance at end of period	(614,949)	(361,911)
	₱5,408,485	₱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:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	₱2,187,089	₱1,910,435
Noncurrent assets	5,121,647	5,886,847
Total assets	₱7,308,736	₱7,797,282

	June 2017 (Unaudited)	December 2016 (Audited)
Current liabilities	₱5,541,631	₱1,287,258
Noncurrent liabilities	1,135,209	5,439,780
Total liabilities	₱6,676,840	₱6,727,038

The amounts of assets and liabilities above include the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	₱1,708,882	₱1,338,834
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	—	—
Noncurrent financial liabilities (excluding provisions)	47,283	4,217,929

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

	June 2017 (Unaudited)	June 2016 (Unaudited)
Revenues	₱5,004,537	₱5,132,453
Depreciation and amortization	318,567	259,620
Interest expense	174,017	165,861
Net loss attributable to SJBF LLC	(632,595)	(491,864)
Total comprehensive loss attributable to SJBF LLC	(632,595)	(491,864)

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	₱631,896	₱1,070,244
Proportion of the Jollibee Group's ownership	40%	40%
	252,758	428,098
Goodwill	4,837,671	4,837,671
Cumulative translation adjustments	318,056	(6,846)
	₱5,408,485	₱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 has not yet started commercial operations as at June 30, 2017.

The details of Jollibee Group's interest in Cargill Joy Poultry as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in a joint venture - cost	₱233,406	₱233,406
Cumulative equity in net losses:		
Balance at beginning of period	(3,925)	—
Equity in net loss during the period	(31,615)	(3,925)
Balance at end of period	(35,540)	(3,925)
	₱197,866	₱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 as at June 30, 2017 and December 31, 2016 are set out below:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	₱452,015	₱769,608
Noncurrent assets	630,902	—
Total Assets	₱1,082,917	₱769,608
Current liabilities	₱396,153	₱4,672
Noncurrent liabilities	27,212	—
Total liabilities	₱423,365	₱4,672

The amounts of assets and liabilities as at June 30, 2017 and December 31, 2016 include the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	₱50,958	₱631,739
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	32,029	1,105
Noncurrent financial liabilities (excluding provisions)	27,212	—

The amounts of the income and expense accounts for the period ended June 30, 2017 include the following:

Revenues	₱—
Taxes and licenses	761
Interest income	6,609
Interest expense	15
Net loss	(105,385)
Total comprehensive loss	(105,385)

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	P659,552	P764,936
Proportion of the Jollibee Group's ownership	30%	30%
	P197,866	P229,481

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 June 30, 2017, the Jollibee Group has invested USD0.8 million (P33.9 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 June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in a joint venture - cost	P33,926	P33,926
Cumulative equity in net earnings:		
Balance at beginning of period	66,237	14,017
Equity in net earnings during the period	67,802	52,220
Balance at end of period	134,039	66,237
	P167,965	P100,163

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:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	P262,928	P92,129
Noncurrent assets	259,061	209,806
Total assets	P521,989	P301,935
Current liabilities	P215,504	P96,606

The amounts of assets and liabilities above include the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	P116,541	P30,527
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	—	—

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

	June 2017 (Unaudited)	June 2016 (Unaudited)
Revenues	P632,281	P245,345
Depreciation and amortization	22,843	4,489
Net income	138,371	23,959
Total comprehensive income	138,371	23,959

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	P306,485	P205,329
Proportion of the Jollibee Group's ownership	49%	49%
	150,178	100,611
Cumulative translation adjustments	17,787	(448)
	P167,965	P100,163

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

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

As at June 30, 2017, capital contributions of the Jollibee Group to WJ amounted to USD9.6 million (P414.9 million). The first store started commercial operations in January 2013.

The details of Jollibee Group's interest in WJ as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in a joint venture - cost	P414,872	P414,872
Cumulative equity in net losses:		
Balance at beginning of period	(263,243)	(194,063)
Equity in net loss during the period	(12,454)	(69,180)
Balance at end of period	(275,697)	(263,243)
	P139,175	P151,629

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:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	P244,720	P282,556
Noncurrent assets	104,482	107,872
Total assets	P349,202	P390,428
Current liabilities	P30,579	P54,592

The amounts of assets and liabilities above include the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	P216,295	P238,079
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	—	—

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

	June 2017 (Unaudited)	June 2016 (Unaudited)
Revenues	P191,034	P202,795
Depreciation and amortization	17,563	23,507
Interest income - net	250	3,359
Net loss	(25,945)	(84,080)
Total comprehensive loss	(25,945)	(84,080)

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	P318,623	P335,836
Proportion of the Jollibee Group's ownership	48%	48%
	152,939	161,201
Cumulative translation adjustments	(13,764)	(9,572)
	P139,175	P151,629

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 June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in an associate - cost	P16,660	P16,660
Cumulative equity in net earnings:		
Balance at beginning of period	95,567	75,612
Equity in net earnings during the period	5,027	19,955
Balance at end of period	100,594	95,567
	P117,254	P112,227

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:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	P572,791	P523,344
Noncurrent assets	151,228	141,509
Total assets	P724,019	P664,853
Current liabilities	P293,811	P270,199
Noncurrent liabilities	5,297	4,505
Total liabilities	P299,108	P274,704

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

	June 2017 (Unaudited)	June 2016 (Unaudited)
Revenues	P338,107	P293,079
Depreciation	17,217	15,221
Net Income	15,082	23,474
Total comprehensive income	15,082	23,474

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	P424,911	P390,149
Proportion of the Jollibee Group's ownership	33.33%	33.33%
	141,637	130,050
Impairment loss recognized in 2011	(16,660)	(16,660)
Cumulative translation adjustments	(7,723)	(1,163)
	P117,254	P112,227

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 Poultry Realty Inc., which will lease the land where the Cargill Joy Poultry plant will be located.

The details of the Jollibee Group's interest in Cargill Joy Realty as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Interest in an associate - cost	₱10,586	₱10,586
Cumulative equity in net losses:		
Balance at beginning of period	(602)	—
Equity in net loss during the period	(367)	(602)
Balance at end of period	(969)	(602)
	₱9,617	₱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 as at June 30, 2017 and December 31, 2016 are set out below:

	June 2017 (Unaudited)	December 2016 (Audited)
Current assets	₱8,343	₱25,724
Noncurrent assets	62,152	61,440
Total assets	₱70,495	₱87,164
Current liabilities	₱3,152	₱18,338
Noncurrent liabilities	35,285	35,546
Total liabilities	₱38,437	₱53,884

The amounts of assets and liabilities as at June 30, 2017 and December 31, 2016 are the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	6,023	₱25,548
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	164	2
Noncurrent financial liabilities	35,285	35,546

The amounts of the income and expense accounts for the period ended June 30, 2017 include the following:

Revenues	₱—
Taxes and licenses	—
Interest expense	603
Net loss	(1,222)
Total comprehensive loss	(1,222)

	June 2017 (Unaudited)	December 2016 (Audited)
Net assets	₱32,058	₱33,280
Proportion of the Jollibee Group's ownership	30%	30%
	₱9,617	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. 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 June 30, 2017 and December 31, 2016 (see Notes 9 and 15). The second and third tranches were collected in January 2017.

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 (P79.6 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 P84.0 million which is recognized in the statements of comprehensive income. The divestment is part of Jollibee Group's intention to concentrate its resources in building its larger businesses.

12. Property, Plant and Equipment

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

June 2017 (Unaudited)								
	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 period	P673,250	P2,743,294	P17,177,082	P15,529,426	P1,230,895	P611,648	P902,457	P38,868,052
Additions	—	19,795	459,897	796,403	71,001	17,721	2,686,806	4,051,623
Acquisition of a subsidiary (see Note 11)	—	502,872	19,461	230,369	—	2,067	46,671	801,440
Retirements and disposals	—	(918)	(406,539)	(341,249)	(26,349)	(5,912)	(71,791)	(852,758)
Reclassifications	—	24,690	1,286,034	630,003	73,254	—	(2,013,981)	—
Translation adjustments	986	15,591	175,817	79,138	3,035	1,289	7,594	283,450
Balance at end of period	674,236	3,305,324	18,711,752	16,924,090	1,351,836	626,813	1,557,756	43,151,807
Accumulated Depreciation and Amortization								
Balance at beginning of period	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)	—	67,743	908,966	1,051,863	107,113	36,215	—	2,171,900
Acquisition of a subsidiary (see Note 11)	—	191,619	846	295,894	—	2,013	—	490,372
Retirements and disposals	—	(918)	(321,830)	(288,171)	(22,446)	(5,902)	—	(639,267)
Reclassifications	—	—	(1)	445	(444)	—	—	—
Translation adjustments	—	4,017	129,690	51,995	3,480	1,033	—	190,215
Balance at end of period	7,564	1,508,606	10,455,514	11,090,625	890,685	429,980	—	24,382,974
Accumulated Impairment Losses								
Balance at beginning of period	—	—	—	42,731	—	—	—	42,731
Reversals (see Note 22)	—	—	—	(1,631)	—	—	—	(1,631)
Translation adjustments	—	—	—	419	—	—	—	419
Balance at end of period	—	—	—	41,519	—	—	—	41,519
Net Book Value	P666,672	P1,796,718	P8,256,238	P5,791,946	P461,151	P196,833	P1,557,756	P18,727,314

December 2016 (Audited)								
	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	P669,735	P2,873,961	P14,912,782	P13,759,957	P1,123,037	P542,761	P1,267,898	P35,150,131
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
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	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	—	—	—	42,731	—	—	—	42,731
Reversals	—	—	—	(2,000)	—	—	—	(2,000)
Balance at end of year	—	—	—	42,731	—	—	—	42,731
Net Book Value	P665,686	P1,497,149	P7,439,239	P5,508,096	P427,913	P215,027	P902,457	P16,655,567

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

Loss on disposals and retirements of property, plant and equipment and investment properties amounted to ₱48.7 million and ₱124.0 million for the periods ended June 30, 2017 and 2016, respectively.

The cost of fully depreciated property, plant and equipment still in use amounted to ₱10,209.3 million and ₱9,929.9 million as at June 30, 2017 and December 31, 2016, respectively.

The Jollibee Group performed impairment assessments of its store fixed assets considering that there are observable indications that the assets' values have significantly declined during the period as a result of the passage of time. Consequently, allowance for impairment loss on office, store and food processing equipment amounted to ₱41.5 million and ₱42.7 million as at June 30, 2017 and December 31, 2016, respectively.

No property, plant and equipment as at June 30, 2017 and December 31, 2016 have been pledged as security or collateral.

13. Investment Properties

The rollforward analysis of this account follows:

	June 2017 (Unaudited)		
	Buildings and Building		
	Land	Improvements	Total
Cost			
Balance at beginning of period	₱983,428	₱182,901	₱1,166,329
Retirements and disposals	–	(3,874)	(3,874)
Balance at end of period	983,428	179,027	1,162,455
Accumulated Depreciation and Amortization			
Balance at beginning of period	–	182,901	182,901
Retirements and disposals	–	(3,874)	(3,874)
Balance at end of period	–	179,027	179,027
Net Book Value	₱983,428	₱–	₱983,428

	December 2016 (Audited)		
	Buildings and Building		
	Land	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	–	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 2017 and 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 June 30, 2017 and December 31, 2016, respectively.

The Jollibee Group's investment properties have an aggregate fair value of ₱1,414.3 million as at December 31, 2014 as determined by independent qualified appraisers. Management does not expect a significant change in the aggregate fair value of the Jollibee Group's investment properties in 2017. 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 ₱12.1 million and ₱16.9 million for the periods ended June 30, 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 ₱4.5 million and ₱8.5 million for the periods ended June 30, 2017 and 2016, respectively.

No investment properties as at June 30, 2017 and December 31, 2016 have been pledged as security or collateral for the Jollibee Group's debts.

14. Goodwill and Other Intangible Assets

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Goodwill	₱10,136,427	₱6,542,422
Trademark	2,004,256	2,004,256
Computer software, net of accumulated amortization	543,096	513,337
Other intangible assets, net of accumulated amortization	22,389	26,727
	₱12,706,168	₱9,086,742

Goodwill and trademark

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

	June 2017 (Unaudited)	December 2016 (Audited)
Goodwill:		
SuperFoods Group (see Note 11)	P3,594,005	P-
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
Total goodwill	10,136,427	6,542,422
Trademark -		
Mang Inasal	2,004,256	2,004,256
Goodwill and trademark	P12,140,683	P8,546,678

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 June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Cost:		
Balance at beginning of period	P670,762	P656,177
Additions	62,780	14,585
Balance at end of period	P733,542	P670,762
Accumulated amortization:		
Balance at beginning of period	P157,425	P96,935
Amortizations (see Note 22)	33,021	60,490
Balance at end of period	P190,446	P157,425
Net book value:		
At June 30, 2017 and December 31, 2016	P543,096	P513,337
At January 1	513,337	559,242

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 June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Cost:		
Balance at beginning of period	P56,983	P47,863
Additions	121	9,120
Balance at end of period	P57,104	P56,983
Accumulated amortization:		
Balance at beginning of period	P30,256	P21,753
Amortizations (see Note 22)	4,459	8,503
Balance at end of period	P34,715	P30,256
Net book value:		
At June 30, 2017 and December 31, 2016	P22,389	P26,727
At January 1	26,727	26,110

Impairment Testing of Goodwill and Trademark

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

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

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

Key assumptions with respect to the calculation of value in use of the groups of CGUs as at December 31, 2016 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 other groups of CGUs to exceed its recoverable amount.

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

15. Other Noncurrent Assets

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Security and other deposits (see Notes 30 and 31)	P2,403,476	P2,103,707
Noncurrent portion of:		
Rent and other long-term prepayments	552,317	379,393
Employee car plan receivables (see Notes 30 and 31)	200,349	130,584
Prepaid market entry fee - net of accumulated amortization of P7.2 million and P4.6 million in 2017 and 2016, respectively (see Notes 11 and 22)	98,472	99,626
Returnable containers and others	83,024	21,121
Receivable from sale of business (see Note 11)	74,378	71,612
Deferred rent expense	49,196	49,196
Deferred compensation	17,710	17,710
Other assets	422,002	171,603
	P3,900,924	P3,044,552

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

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

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

The rollforward analysis of prepaid market entry fee as at June 30, 2017 and December 31, 2016 are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Market Entry Fee	₱93,870	₱93,870
Accumulated Amortization:		
Balance at beginning of period	(4,571)	–
Amortizations (see Note 22)	(2,623)	(4,571)
Balance at end of period	(7,194)	(4,571)
Translation adjustment	11,796	10,327
	₱98,472	₱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 June 30, 2017 and December 31, 2016.

Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱8.0 million and ₱5.9 million for the periods ended June 30, 2017 and 2016, respectively (see Note 23).

16. Trade Payables and Other Current Liabilities

This account consists of:

	June 2017 (Unaudited)	December 2016 (Audited)
Trade	₱8,539,700	₱9,944,749
Accruals for:		
Salaries, wages and employee benefits	1,588,090	1,406,605
Local and other taxes	1,457,535	1,599,791
Store operations	1,443,114	1,397,179
Advertising and promotions	1,277,344	1,206,902
Rent	971,503	923,430
Repairs and maintenance	416,352	300,594
Utilities	384,549	393,389
Freight	273,151	374,225
Operating supplies	246,383	326,017
Corporate events	232,171	250,673
Professional fees	174,857	203,089
Trainings and seminars	134,722	124,801
Security	134,088	140,547
Interest (see Note 18)	104,999	51,384
Communication	64,802	76,569
Transportation and travel	39,670	54,131
Insurance	24,258	20,207
Service fees and others	1,334,474	1,455,559
Customers' deposits	599,967	617,218
Unearned revenue from gift certificates	101,217	147,098
Dividends payable	46,137	47,705
Other current liabilities	1,057,583	898,705
	₱20,646,666	₱21,960,567

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

Accrued expenses are noninterest-bearing and are normally settled within the next financial year. Other accrued liabilities include service fees which amounted to ₱246.3 million and ₱188.3 million as at June 30, 2017 and December 31, 2016, respectively. This also consists of charges related to representations and other miscellaneous expenses.

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

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

Accretion of interest on financial liabilities amounted to ₱4.9 million and ₱8.8 million for the periods ended June 30, 2017 and 2016, respectively (see Note 23).

17. Provisions

The Jollibee Group has outstanding provisions amounting to ₱30.5 million as at June 30, 2017 and December 31, 2016, consisting mainly of provisions for asserted claims.

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

18. Short and Long-term Debts

Short-term Debt

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

Interest expense recognized on short-term debt amounted to nil and ₱0.1 million for the periods ended June 30, 2017 and 2016, respectively (see Note 23).

Long-term Debt

The long-term debt consists of the following:

	June 2017 (Unaudited)	December 2016 (Audited)
Principal	₱11,945,465	₱12,165,608
Unamortized debt issue cost	(8,606)	(10,242)
	₱11,936,859	₱12,155,366

The details of long-term debt follow:

	June 2017 (Unaudited)	December 2016 (Audited)
USD-denominated:		
Loan 1	₱5,242,857	₱5,469,200
Loan 2	378,495	621,500
Loan 3	151,398	298,320
Loan 4	1,513,980	1,491,600
Loan 5	403,728	397,760
Loan 6	201,864	198,880
Loan 7	297,750	293,348
VND-denominated:		
Loan 8	176,987	—
Loan 9	133,865	—
Loan 10	64,541	—
PHP-denominated:		
Loan 11	1,467,273	1,481,591
Loan 12	798,533	798,133
Loan 13	996,083	995,584

(Forward)

	June 2017 (Unaudited)	December 2016 (Audited)
Loan 14	109,505	109,450
	11,936,859	12,155,366
Less current portion - net of debt issue costs of ₱3.3 million and ₱0.6 million in 2017 and 2016, respectively	1,629,577	1,561,516
	₱10,307,282	₱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 June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱5,242.9 million and ₱5,469.2 million, respectively.

Under the loan agreement, the Parent Company as the guarantor is subject to certain debt covenants which include among others, maintaining a Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. As at June 30, 2017 and December 31, 2016, the Parent Company is in compliance with the terms of the loan covenants.

Loan 2 consists of a 5-year unsecured loan acquired on February 25, 2013 amounting to USD40.0 million (₱1,632.0 million) subject to quarterly interest repricing with one-time option to fix in the future. The interest rate is based on three-month US Dollar LIBOR plus spread of 1.0%. The principal is payable in 16 quarterly installments commencing on May 26, 2014 up to February 26, 2018, the maturity date. As at June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱378.5 million and ₱621.5 million, respectively.

Loan 3 consists of a 4-year unsecured loan acquired on October 25, 2013 amounting to USD18.0 million (₱777.8 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% subject to interest repricing every quarter. The principal is payable in 12 quarterly installment commencing on January 25, 2015 up to October 25, 2017, the date of maturity. As at June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱151.4 million and ₱298.3 million, respectively.

The loan agreements above (Loans 2 and 3) provide certain restrictions and requirements with respect to maintaining financial ratios, which include Debt-to-Equity ratio which is not to exceed 1.5 and Debt Service Coverage ratio of at least 2.0. As at June 30, 2017 and December 31, 2016, JWPL is in compliance with the terms of its loan covenants.

Loan 4 consists of an 8-year unsecured loan acquired on November 29, 2016 amounting to USD30.0 million (₱1,491.9 million) with an interest rate of 3.0% per annum. The principal is payable in 6 yearly installment commencing on November 29, 2017 up to November 29, 2022 amounting to USD0.3 million, and the remaining balance on November 29, 2024, the maturity date. As at June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱1,514.0 million and ₱1,491.6 million, respectively.

Loan 5 consists of a 6-year unsecured loan acquired on November 29, 2016 amounting to USD8.0 million (₱397.8 million) with an interest rate based on interpolated ROP 2021 and ROP 2024 plus spread of 0.5%. The principal is payable in 5 yearly installment commencing on

November 29, 2017 up to November 29, 2021 amounting to USD0.08 million, and the remaining balance on November 29, 2022, the maturity date. As at June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱403.7 million and ₱397.8 million, respectively.

Under the loan agreement, the Parent Company as the guarantor 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 June 30, 2017 and December 31, 2016, respectively.

USD-denominated loans of HBFPPPL. Loan 6 consists of a 5-year unsecured loan acquired on May 8, 2013 amounting to USD4.0 million (₱163.3 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% basis points subject to repricing every quarter. The principal is payable on May 7, 2018, the maturity date. As at June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱201.9 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 June 30, 2017 and December 31, 2016, the carrying value of the loan amounted to ₱297.8 million and ₱293.3 million, respectively.

The loan agreements above (Loans 6 and 7) provide certain restrictions and requirements with respect to maintaining financial ratios, which include Debt-to-Equity ratio and Debt-to-EBITDA ratio not to exceed 3.0. As at June 30, 2017 and December 31, 2016, the HBFPPPL 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) with an interest rate of 4.32% subject to monthly repricing. The principal is payable on February 19, 2019, the maturity date. As at June 30, 2017, the carrying value of the loan amounted to ₱177.0 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) with an interest rate of 6.15% subject to quarterly repricing. The principal is payable on December 20, 2020, the maturity date. As at June 30, 2017, the carrying value of the loan amounted to ₱133.9 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 on April 1, 2022, the maturity date. As at June 30, 2017, the carrying value of the loan amounted to ₱64.5 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 new loan is payable over five years and six months from the date of drawdown with annual principal repayments of ₱15.0 million starting on the 30th month from the date of drawdown and ₱1,455.0 million upon maturity. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus spread of 1.25%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the Bangko Sentral ng Pilipinas (BSP) Overnight Reverse Repurchase Agreement Rate. The loan was drawn on December 16, 2013 and will mature on June 17, 2019.

The Parent Company incurred debt issue costs of ₱7.5 million, representing documentary stamp tax, in relation to this loan in 2013.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at June 30, 2017 and December 31, 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%, and to an interest rate floor based on the BSP Special Deposit Account 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.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 and below and Debt-to-Service Coverage ratio of at least 3.0 and 1.3, respectively. The Parent Company is in compliance with these debt covenants as at June 30, 2017 and December 31, 2016.

Loan 13 consists of 5-year unsecured loan acquired from a local bank on April 21, 2016 amounting to ₱1,000.0 million. The loan is subject to an interest rate based on Reference Rate plus spread of 0.55%, subject to repricing every quarter, and to an interest rate floor of BSP SDA. Provided, however that on any Interest Payment Date, in lieu of a floating interest rate, the Parent Company shall have a one-time option to convert into a fixed-interest rate loan. The principal is payable in sixteen (16) quarterly installments commencing on the 15th 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.

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 June 30, 2017 and December 31, 2016.

The Parent Company's PHP denominated long-term debt (Loans 11, 12 and 13) amounts to ₱3,261.9 million and ₱3,275.3 million, net of unamortized debt issue cost of ₱8.6 million and ₱10.2 million as at June 30, 2017 and December 31, 2016, respectively. The current portion amounted to ₱261.8 million and ₱140.0 million, net of debt issue costs of ₱3.2 million and ₱0.6 million as at June 30, 2017 and December 31, 2016, respectively.

PHP-denominated loan of PERF Restaurants, Inc.(PERF). Loan 14 is a 5-year unsecured loan acquired from local bank on December 21, 2016 amounting to ₱110.0 million with an interest rate based on three-month PDST-R2 plus spread of 1.0% with interest rate floor computed as BSP Overnight Deposit Facility Rate plus spread of 0.5%.

Loan is guaranteed by the Parent Company. Consequently, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 and below and Debt-to-Service Coverage ratio of at least 3.0 and 1.3, respectively. The Parent Company is in compliance with these debt covenants as at June 30, 2017 and December 31, 2016, respectively.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱193.0 million and ₱115.9 million for the periods ended June 30, 2017 and 2016, respectively (see Note 23).

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

2017	₱856,308
2018	1,526,762
2019	3,140,984
2020 to 2025	6,421,411
	11,945,465
Less debt issue costs	(8,606)
	₱11,936,859

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 June 30, 2017 and December 31, 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 ₱50.7 million and ₱33.5 million as at June 30, 2017 and December 31, 2016, respectively, which were presented as a derivative liability in the statements of financial position. The terms of the IRS approximately match the terms of the interest payments on the loan. Accordingly, there is no hedge ineffectiveness to be recognized in profit or loss.

Unrealized loss of ₱17.2 million and ₱187.7 million were recognized in other comprehensive income for the periods ended June 30, 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.

The foreign exchange revaluation of the hedged loan, amounting to ₱16.3 million was recognized in other comprehensive income for the period ended June 30, 2016.

19. Equity

a. Capital Stock

The movements in the account are as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Authorized - ₱1 par value	₱1,450,000	₱1,450,000
Issued and subscribed:		
Balance at beginning of period	₱1,091,301	₱1,086,149
Issuances during the period	6,953	5,152
Balance at end of period	1,098,254	1,091,301
Subscriptions receivable	(17,178)	(17,178)
	₱1,081,076	₱1,074,123

The total number of shareholders of the Parent Company is 3,068 and 3,075 as at June 30, 2017 and December 31, 2016, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid in-capital pertain to the difference between the exercised prices of stock options exercised and the par value of Parent Company's shares. For the period ended June 30, 2017 and year ended December 31, 2016, stock options totaling 6,953,181 shares and 5,151,895 shares, respectively, were exercised (see Note 26). These resulted to an additional paid in capital amounting to ₱447.7 million and ₱363.5 million for the period ended June 30, 2017 and year ended December 31, 2016, respectively.

Stock options expense, amounting to ₱113.7 million and ₱117.0 million for the periods ended June 30, 2017 and 2016, respectively, were also recognized as part of additional paid in capital (see Notes 22 and 26).

As at June 30, 2017 and December 31, 2016, total additional-paid in capital amounted to ₱6,221.5 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 June 30, 2017 and December 31, 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 June 30, 2017 and December 31, 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 HBFPL 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 30.9% and 32.4% in 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 ₱5,937.0 million and ₱6,046.3 million as at June 30, 2017 and December 31, 2016, 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
<i>(In Thousands, except dividend per share)</i>				
<u>2017</u>				
April 5	April 21	May 5	₱1.00	₱1,077,527
<u>2016</u>				
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
<u>2015</u>				
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 (P4,812.8 million), including transaction costs in 2015, the remaining 30% minority share each in Mang Inasal (P2,000.0 million) and HBFPL (P514.9 million), GSC (P8.6 million) in 2016 and the acquisition of additional 10% share in SuperFoods Group (P3,481.1 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 an additional appropriation of P8,000.0 million, P5,200.0 million, P3,800.0 million and P1,200.0 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 June 30, 2017 and December 31, 2016 follow:

Projects	Timeline	Amount
Capital Expenditures	2013 - 2018	P10,600,000
Acquisition of Businesses	2013 - 2018	7,600,000
		P18,200,000

The unappropriated retained earnings of the Parent Company is also restricted to the extent of cost of common stock held in treasury amounting to P180.5 million as well as the undistributed retained earnings of its subsidiaries which amounted to P4,271.3 million and P3,664.8 million as at June 30, 2017 and December 31, 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.

				2017 (Unaudited)	2016 (Audited)
	Number of Shares registered	Initial issue/offer price	Listing Date	Number of holders of securities as at June 30	Number of holders of securities as at December 31
Common shares	75,000,000	P9	July 14, 1993	3,068	3,075

20. Royalty, Franchise Fees and Others

This account consists of:

	June 2017 (Unaudited)	June 2016 (Unaudited)
Royalty fees	P2,642,649	P2,429,399
Franchise fees	182,437	119,303
Service fees	172,974	30,986
Scrap sales	122,180	43,068
Rent income (see Notes 13 and 29)	24,508	42,992
Other revenues	112,566	149,069
	P3,257,314	P2,814,817

The Jollibee Group has existing Royalty and Franchise Agreements with independent franchisees for the latter to operate quick service restaurant outlets under the “Jollibee”, “Chowking”, “Greenwich”, “Red Ribbon”, “Mang Inasal”, “Yong He King” and “Hong Zhuang Yuan” concepts and trade names. In consideration thereof, the franchisees agree to pay franchise fees and monthly royalty fees equivalent to a certain percentage of the franchisees’ net sales.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the Jollibee Group.

21. Cost of Sales

This account consists of:

	June 2017 (Unaudited)	June 2016 (Unaudited)
Cost of inventories	P29,646,953	P26,261,363
Personnel costs:		
Salaries, wages and other employee benefits	5,214,505	5,196,881
Pension expense	67,074	55,652
Rent (see Note 29)	4,456,245	3,860,745
Contracted services	3,377,836	1,971,434
Electricity and other utilities	2,182,617	1,932,157
Depreciation and amortization (see Note 12)	2,003,736	1,727,383
Supplies	1,219,502	1,013,789
Repairs and maintenance	444,172	645,252
Security and janitorial	369,175	298,549
Communication	107,783	87,536
Professional fees	20,066	14,071
Entertainment, amusement and recreation	22,150	19,318
Others	1,294,877	1,235,442
	P50,426,691	P44,319,572

22. General and Administrative Expenses

This account consists of:

	June 2017 (Unaudited)	June 2016 (Unaudited)
Personnel costs:		
Salaries, wages and other employee benefits	P3,333,077	P2,742,534
Stock options expense (see Note 26)	113,738	117,022
Pension expense	69,119	62,460
Taxes and licenses	691,597	596,195
Professional fees	324,050	240,849
Transportation and travel	270,451	222,909
Rent (see Note 29)	242,559	222,274
Contracted services	217,489	209,953
Depreciation and amortization (see Notes 12, 13, 14 and 15)	208,267	217,754
Corporate events	96,292	78,827
Donations	93,041	77,558
Training	81,340	60,542
Repairs and maintenance	65,454	67,594
Reversals of provision for impairment on:		
Inventories (see Note 8)	(50,218)	(4,813)
Receivables (see Note 7)	(12,618)	(3,149)
Property, plant & equipment (see Note 12)	(1,631)	—
Communication	55,125	50,398
Loss on retirement of assets	48,750	123,985
Supplies	41,839	35,018
Entertainment, amusement and recreation	28,737	28,820
Impairment in value of:		
Inventories (see Note 8)	20,347	7,540
Receivables (see Note 7)	8,000	46,022
Electricity and other utilities	26,383	25,804
Association dues	26,175	24,915
Insurance	12,565	6,419
Security and janitorial	12,109	9,403
Others	233,015	244,190
	P6,255,052	P5,511,023

23. Interest Income (Expense) and Other Income (Expense)

	June 2017 (Unaudited)	June 2016 (Unaudited)
Interest income:		
Loans and advances* (see Note 11)	₱52,037	64,050
Cash and cash equivalents and short-term investments (see Note 6)	45,319	₱44,220
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	8,010	5,916
	₱105,366	114,186
<i>*Including interest income of other subsidiaries other than those mentioned in Note 11</i>		
Interest expense:		
Long-term debt (see Note 18)	(₱193,048)	(₱115,947)
Short-term debt (see Note 18)	—	(132)
Accretion of customers' deposits (see Note 16)	(4,938)	(8,767)
	(197,986)	(124,846)
Other income (expense):		
Write-off of liabilities	₱462,271	₱369,972
Rebates and suppliers' incentives	98,694	100,987
Bank charges	(74,719)	(54,196)
Foreign exchange loss - net	(61,541)	(37,019)
Penalties and charges	33,319	26,948
Other rentals	12,084	5,865
Charges to franchisees	9,323	8,092
Pre-termination of operating leases	15	—
Insurance claims and others	60,869	58,672
	₱540,315	₱479,321

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:

	June 2017 (Unaudited)	June 2016 (Unaudited)
Final tax withheld on:		
Royalty and franchise fee income	₱597,949	₱541,089
Interest income	7,689	7,107
RCIT:		
With itemized deduction	242,012	330,252
With Optional Standard Deduction (OSD)	143,185	138,545
MCIT	135,062	100,476
	₱1,125,897	₱1,117,469

RCIT consists of corporate income taxes from the Jollibee Group's operations in the Philippines, PRC, United States and Singapore.

For the periods ended June 30, 2017 and 2016, Zenith, Grandworth and RRBHI, wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. The total tax benefits from the availment of OSD amounted to ₱4.1 million and ₱38.2 million for the periods ended June 30, 2017 and 2016, respectively.

The components of the Jollibee Group's recognized net deferred tax assets follow:

	June 2017 (Unaudited)	December 2016 (Audited)
Deferred tax assets:		
NOLCO:		
Philippine-based entities	₱1,124,628	₱844,872
PRC-based entities	209,294	228,101
Excess of MCIT over RCIT	567,287	460,009
Pension liability and other benefits	560,812	545,489
Operating lease payables	488,358	470,202
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	100,300	109,328
Unaccreted discount on security deposits and employee car plan receivables	20,958	21,236
Unamortized past service costs	10,785	13,146
Unrealized foreign exchange loss	9,696	17,918
Others	7,939	8,390
Total	3,100,057	2,718,691

	June 2017 (Unaudited)	December 2016 (Audited)
Deferred tax liabilities:		
Prepaid rent	66,696	60,796
Unaccreted discount on employee car plan receivables and security deposits	14,313	14,907
Unrealized foreign exchange gain	12,658	43,292
Deferred rent expense	9,370	9,322
Operating lease receivables	4,145	3,708
Excess of fair value over book value of identifiable assets of acquired businesses	738	711
Unrealized gain on change in fair value of AFS	460	460
	108,380	133,196
Deferred tax assets – net	₱2,991,677	₱2,585,495

The components of the Jollibee Group's recognized net deferred tax liabilities follow:

	June 2017 (Unaudited)	December 2016 (Audited)
Deferred tax assets:		
Allowance for impairment loss on receivables and inventories	₱83,556	₱84,942
Pension liability and other benefits	55,165	41,605
Excess of MCIT over RCIT	37,617	24,921
NOLCO - Philippine-based	22,215	10,474
Operating lease payables	9,044	8,371
Unamortized past service costs	3,051	3,997
Unaccreted discount on security deposits and employee car plan receivables	961	1,022
Unrealized foreign exchange loss	5	33
	211,614	175,365
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	677,105	677,106
Unaccreted discount on employee car plan receivables, security and product security deposits	4,120	4,183
Unrealized foreign exchange gain	(1,819)	653
	679,406	681,942
Deferred tax liabilities - net	₱467,792	₱506,577

The rollforward analysis of the net deferred tax assets and liabilities of the Jollibee Group follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Balance at beginning of period	₱2,078,868	₱1,408,489
Additions	436,207	643,506
Income tax effect of other remeasurements of net defined benefit plan	–	29,646
Translation adjustments	8,810	(2,723)
	₱2,523,885	₱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:

	June 2017 (Unaudited)	December 2016 (Audited)
Deferred tax assets:		
Pension liability	₱11,499	₱11,053
Allowance for impairment losses on receivables and nonfinancial assets	10,950	20,341
Operating lease payables	9,901	18,917
Provision for bonus	5,504	6,879
Unaccredited discount on financial instruments and others	571	605
Unamortized past service cost	200	261
Excess MCIT over RCIT	–	2,450
	38,625	60,506
Deferred tax liabilities:		
Operating lease receivables	4,639	4,496
Deferred rent expense	23	54
Others	546	589
	5,208	5,139
	₱33,417	₱55,367

As at June 30, 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	₱782,805	₱119,974
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
		4,127,721	604,904
Utilized during the period		(99,836)	—
		₱4,027,885	₱604,904

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at June 30, 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	₱47,564	₱11,891
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
		959,969	239,992
Utilized during the period		(122,792)	(30,698)
		₱837,177	₱209,294

The following are the movements in deferred tax assets on NOLCO of the Jollibee Group:

	June 2017 (Unaudited)	December 2016 (Audited)
Balance at beginning of period	₱1,083,447	₱782,610
Additions	304,562	355,025
Utilized during the period	(40,682)	(51,416)
Translation adjustments	8,810	(2,772)
	₱1,356,137	₱1,083,447

The following are the movements in deferred tax assets on Excess of MCIT over RCIT of the Jollibee Group:

	June 2017 (Unaudited)	December 2016 (Audited)
Balance at beginning of period	₱484,930	₱318,340
Additions	119,974	179,224
Utilized during the period	—	(8,247)
Write-offs and expirations	—	(4,387)
	₱604,904	₱484,930

25. Pension Liability

Defined Benefit Plan

The Parent Company and certain Philippine-based subsidiaries have funded, independently-administered, non-contributory defined benefit pension plan covering all permanent employees. The benefits are based on the employees' projected salaries and number of years of service.

The funds are administered by trustee banks. Subject to the specific instructions provided in writing, the Parent Company and certain Philippine-based subsidiaries direct the trustee banks to hold, invest and reinvest the funds and keep the same invested, in its sole discretion, without distinction between principal and income in, but not limited to, certain cash and other short-term deposits, investments in government and corporate debt securities and quoted equity securities.

Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of pension expense, included under "Cost of sales" and "General and administrative expenses" accounts in the consolidated statements of comprehensive income and pension liability in the consolidated statements of financial position, which are based on actuarial valuations.

Changes in pension liability of the Jollibee Group in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2016	₱2,999,152	₱1,532,622	₱1,466,530
Pension expense:			
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

Changes in pension liability of the Jollibee Group in 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2015	₱2,329,212	₱1,496,821	₱832,391
Pension expense:			
Current service cost	244,820	–	244,820
Net interest	136,917	69,101	67,816
	381,737	69,101	312,636
Benefits paid	(85,856)	(85,856)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	(47,444)	47,444
Actuarial changes arising from changes in financial assumptions	(367,216)	–	(367,216)
Actuarial changes due to experience adjustment	741,275	–	741,275
	374,059	(47,444)	421,503
Contributions	–	100,000	(100,000)
At December 31, 2015	₱2,999,152	₱1,532,622	₱1,466,530

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:

	June 2017 (Unaudited)	December 2016 (Audited)
Cash and cash equivalents	₱323,430	₱369,024
Investments in government and corporate debt securities	1,000,099	1,075,581
Investments in quoted equity securities:		
Holding firms	192,155	142,308
Property	105,079	73,507
Banks	95,593	53,375
Food, beverage and tobacco	57,445	55,749
Electricity, energy, power and water	32,509	27,107
Telecommunications	32,236	17,038
Others	36,475	12,359
Interest and dividends receivable	26,533	17,545
Fund liabilities	(139,335)	(122,879)
	₱1,762,219	₱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 2.88%-11.70% and have maturities from February 2019 to October 2037.
- Investments in equity securities consist of investments in listed equity securities, including equity securities of the Parent Company, for certain retirement plans of the Jollibee Group (see Note 27).
- Investments in debt securities consist of long-term corporate bonds in the property sector, which bear interest ranging from 5.17%-5.35% maturing in May 2024.
- Other financial assets held by the retirement plan are primarily accrued interest income on cash and cash equivalents, debt instruments and other securities.

Pension expense as well as the present value of the pension liability is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension expense and liability for the defined benefit plans are shown below:

	December 31, 2016	December 31, 2015	January 1, 2015
Discount rate	5.20%–5.70%	5.00%–5.10%	4.60%–4.70%
Salary increase rate	6.00%	6.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2016	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50 % -0.50 %	(P156,602) 169,836
Future salary increases	+0.50% -0.50%	P167,757 (156,240)
	December 31, 2015	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50 % -0.50 %	(P144,519) 156,999
Future salary increases	+0.50% -0.50%	P154,738 (143,898)

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	2016	2015
Less than 1 year	P492,013	P424,285
More than 1 year to 5 years	1,036,202	904,330
More than 5 years to 10 years	1,996,378	1,687,578
More than 10 years to 15 years	2,301,591	2,066,461
More than 15 years to 20 years	2,451,602	2,136,735
More than 20 years	7,615,074	6,678,572

The Parent Company and certain Philippine-based subsidiaries do not have a formal asset-liability matching strategy. The overall investment policy and strategy of the retirement plan is based on the client suitability assessment, as provided by its trustee banks, in compliance with the Bangko Sentral ng Pilipinas requirements. Nevertheless, the Parent Company and certain Philippine-based subsidiaries ensure that there will be sufficient assets to pay the retirement benefits as they fall due while attempting to mitigate the various risks of the plan.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk. Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the trustee banks maintain assets in cash and short-term deposits. Price risk pertains mainly to fluctuation in market prices of the retirement funds' marketable securities. In order to effectively manage price risk, the trustee banks continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The Parent Company and certain Philippine-based subsidiaries expect to contribute P555.0 million to the defined benefit pension plans in 2017.

The average duration of the defined benefit obligation is 10 years as at December 31, 2016 and 2015.

Defined Contribution Plan

The employees of the PRC-domiciled and USA-based subsidiaries of the Jollibee Group are members of a state-managed pension benefit scheme operated by the national governments. These subsidiaries are required to contribute a specified percentage of their payroll costs to the pension benefit scheme to fund the benefits. The only obligation of these subsidiaries with respect to the pension benefit scheme is to make the specified contributions.

Pension expense under the defined contribution plan amounted to ₱286.8 million and ₱283.3 million for the periods ended June 30, 2017 and 2016, respectively.

26. Stock Options Plan

Senior Management Stock Option and Incentive Plan

On December 17, 2002, the SEC approved the exemption requested by the Jollibee Group on the registration requirements of the 101,500,000 options underlying the Parent Company's common shares to be issued pursuant to the Jollibee Group's Senior Management Stock Option and Incentive Plan (the Plan). The Plan covers selected key members of management of the Jollibee Group.

The Plan is divided into two programs, namely, the Management Stock Option Program (MSOP) and the Executive Long-term Incentive Program (ELTIP). The MSOP provides a yearly stock option grant program based on company and individual performance while the ELTIP provides stock ownership as an incentive to reinforce entrepreneurial and long-term ownership behavior of executive participants.

MSOP. The MSOP is a yearly stock option grant program open to members of the senior management committee of the Jollibee Group and members of the management committee, key talents and designated consultants of some of the business units.

Each MSOP cycle refers to the period commencing on the MSOP grant date and ending on the last day of the MSOP exercise period. Vesting is conditional on the employment of the employee-participants in the Jollibee Group within the vesting period. The options will vest at the rate of one-third of the total options granted on each anniversary of the MSOP grant date until the third anniversary.

The exercise price of the stock options is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of grant for the 1st up to the 7th MSOP cycle. Starting with the 8th MSOP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the market closing price at date of grant.

For instance, on July 1, 2004, the Compensation Committee of the Jollibee Group granted 2,385,000 options under the 1st MSOP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted from the start of the grant date on each anniversary date which will start after a year from the grant date. One-third of the options granted, or 795,000 options, vested and exercised starting July 1, 2005. The options expired on June 30, 2012. From July 1, 2005 to 2016, the Compensation Committee granted series of MSOP grants under the 2nd to 13th MSOP cycle to eligible participants.

On September 9, 2016 the Compensation Committee granted 2,865,500 options under the 13th MSOP cycle to eligible participants. These options are similar to the 1st MSOP cycle. The 2nd, 3rd, 4th, 5th and 6th MSOP cycles expired on June 30, 2013, 2014, 2015, 2016 and 2017, respectively.

The movements in the number of stock options outstanding and related weighted average exercise prices (WAEP) are as follows:

	June 2017 (Unaudited)		December 2016 (Audited)		December 2015 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted as at end of period	42,986,294	P92.47	42,986,294	P92.47	40,120,794	P82.22
Outstanding at beginning of period	15,256,198	P159.46	14,868,437	P133.32	13,609,275	P117.51
Options granted during the period	—	—	2,865,500	236.00	3,257,600	179.99
Options exercised during the period	(919,284)	67.02	(2,259,125)	87.40	(1,380,628)	100.42
Options forfeited during the period	—	—	(218,614)	129.31	(617,810)	104.73
Outstanding at end of period	14,336,914	P165.39	15,256,198	P159.46	14,868,437	P133.32
Exercisable at end of period	8,456,730	P132.56	9,141,965	P128.20	8,262,670	P100.95

The weighted average share price of the Parent Company common shares is P205.34, P227.53 and P206.05 in 2017, 2016 and 2015, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2016, 2015 and 2014 is 5.17 years, 5.19 years and 5.83 years, respectively.

The weighted average fair value of stock options granted in 2016, 2015 and 2014 is P31.16, P26.13 and P32.39, respectively. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because the option plan allows exercise before the expiry date.

The inputs in the valuation of the options granted on the dates of grant for each MSOP cycle are shown below:

MSOP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5-7 years	P24.00	P20.00
2 nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3 rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4 th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5 th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6 th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7 th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8 th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9 th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10 th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11 th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00
13 th	2016	2.00%	17.76%	2.63%	3-4 years	236.00	236.00

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

ELTIP. The ELTIP entitlement is given to members of the senior management committee and designated consultants of the Jollibee Group.

Each ELTIP cycle refers to the period commencing on the ELTIP entitlement date and ending on the last day of the ELTIP exercise period. Actual grant and vesting is conditional upon achievement of the Jollibee Group's medium to long-term goals and individual targets in a given period, and the employment of the employee-participants in the Jollibee Group within the vesting period. If the goals are achieved, the options will be granted. For the 3rd ELTIP cycle, a percentage of the options to be granted are based on the percentage of growth in annual earnings per share such that 100%, 50% or 25% of the options granted when percentage of growth in annual earnings per share are 12% and above, 10% to less than 12% or 8% to less than 10%, respectively. For the 4th ELTIP cycle, the percentage of the options to be granted and the targeted percentage of growth in annual earnings per share have been further revised such that 150%, 100% or 50% of the options granted when percentage of growth in annual earnings per share are 15% and above, 12% to less than 15% or 10% to less than 12%, respectively.

The exercise price of the stock options under ELTIP is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of entitlement for the first and second ELTIP cycles. Starting with the 3rd ELTIP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the closing market price as of the date of entitlement.

The options will vest at the rate of one-third of the total options granted on each anniversary date which will start after the goals 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. The options expired on June 30, 2012. On July 1, 2008, October 19, 2012 and August 25, 2015, entitlement to 20,399,999, 24,350,000 and 11,470,000 options were given to eligible participants under the 2nd, 3rd and 4th ELTIP cycles, respectively.

The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding for the 2nd to 4th ELTIP cycles and related WAEP for the period ended June 30, 2017, years ended December 31, 2016 and 2015 follow:

	June 2017 (Unaudited)		December 2016 (Audited)		December 2015 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options given as at end of period	78,969,999	P74.58	78,969,999	P74.58	78,969,999	P74.58
Outstanding at beginning of period	35,118,896	P122.65	38,344,999	P117.74	31,270,560	P90.06
Options granted during the period	—	—	—	—	11,470,000	180.00
Options exercised during the period	(6,033,897)	65.13	(2,892,770)	59.59	(3,728,468)	79.46
Options forfeited during the period	—	—	(333,333)	105.00	(667,093)	105.00
Outstanding at end of period	29,084,999	P134.58	35,118,896	P122.65	38,344,999	P117.74
Exercisable at end of period	9,581,523	P105.00	15,615,420	P89.60	10,808,048	P70.59

The weighted average remaining contractual life for the stock options outstanding as of 2016, 2015 and 2014 is 4.00 years, 4.85 years and 4.85 years, respectively.

The fair value of stock options granted is P26.13 in 2015 and P22.96 in 2014. There were no additional stock option grants under ELTIP in 2016. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan is the

American style because this option plan allows exercise before the maturity date. The 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 inputs to the model used for the options granted on the dates of grant for each ELTIP cycle are shown below:

ELTIP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5 years	P24.00	P20.00
2 nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3 rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The cost of the stock options expense charged to operations for both MSOP and ELTIP in the “General and administrative expenses” account amounted to P113.7 million and P117.0 million for the periods ended June 30, 2017 and 2016, respectively (see Note 22). Correspondingly, a credit was made to additional paid-in-capital.

27. Related Party Transactions

The Jollibee Group has transactions with related parties. Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Jollibee Group, including holding companies, subsidiaries and fellow subsidiaries are related entities of the Jollibee Group. Individuals owning, directly or indirectly, an interest in the voting power of the Jollibee Group that give them significant influence over the enterprise; key management personnel, including directors and officers of the Jollibee Group, and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group in 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Salaries and short-term benefits	P1,001,048	P798,882	P687,550
Stock options expense	241,324	173,212	166,491
Net pension expense	59,701	47,584	59,134
Employee car plan and other long-term benefits	47,673	42,803	41,336
	<u>P1,349,746</u>	<u>P1,062,481</u>	<u>P954,511</u>

Transactions with the Retirement Plans

As at June 30, 2017 and December 31, 2016, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	June 2017 (Unaudited)	December 2016 (Audited)
Number of shares	199,850	192,860
Market value	P40,769	P37,415
Cost	10,662	9,187
Unrealized gain	P30,107	P28,228

The Jollibee Group's receivable from retirement fund amounted to P137.2 million and P119.7 million as at June 30, 2017 and December 31, 2016, respectively. The receivable arose from benefit payments made by the Jollibee Group for and in behalf of the retirement plan. The receivable is noninterest-bearing.

Transactions with a Joint Venture

As at December 31, 2016, 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:

	June 2017 (Unaudited)	June 2016 (Unaudited)
	<i>(In Thousand pesos, except for EPS)</i>	
(a) Net income attributable to the equity holders of the Parent Company	P3,489,391	P3,054,238
(b) Weighted average number of shares - basic	1,077,741,069	1,070,809,575
Weighted average number of shares outstanding under the stock options plan	36,017,990	52,105,931
Weighted average number of shares that would have been purchased at fair market value	(22,208,209)	(30,271,254)
(c) Adjusted weighted average shares - diluted	1,091,550,850	1,092,644,252
EPS:		
Basic (a/b)	P3.238	P2.852
Diluted (a/c)	3.197	2.795

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2016 because they are antidilutive. Contingently issuable shares for stock options under the 4th ELTIP cycle have not been included in the calculation of the diluted EPS for the periods ended June 30, 2017 and December 31, 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 ₱972.1 million and ₱806.7 million for the periods ended June 30, 2017 and 2016, respectively (see Notes 21 and 22).

The future minimum lease payments for the noncancellable periods of the operating leases follow:

	2016	2015	2014
Within one year	₱1,546,661	₱1,532,583	₱1,669,686
After one year but not more than five years	5,916,716	5,581,731	6,449,433
More than five years	8,093,585	6,443,631	4,897,338
	₱15,556,962	₱13,557,945	₱13,016,457

Rent expense recognized on a straight-line basis amounted to ₱4,698.8 million and ₱4,083.0 million for the periods ended June 30, 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 ₱44.5 million and ₱14.7 million for the periods ended June 30, 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:

	2016	2015	2014
Within one year	₱142,011	₱63,359	₱55,256
After one year but not more than five years	393,154	244,123	199,538
More than five years	184,930	598,950	432,616
	₱720,095	₱906,432	₱687,410

Rent income recognized on a straight-line basis amounted to ₱24.5 million and ₱43.0 million for the periods ended June 30, 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 ₱1.5 million and ₱2.5 million as at June 30, 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 and receivables. The main purpose of these financial instruments is to obtain financing for the Jollibee Group’s operations. The Jollibee Group has other financial assets and liabilities such as other noncurrent assets and trade payables and other current liabilities which arise directly from its operations.

The main risks arising from these financial instruments are equity price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The policies for managing each of these risks are summarized as follows:

Interest Rate Risk

Interest rate risk arises from the possibility that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Jollibee Group’s exposure to interest rate risk relates primarily to long-term debt with floating interest rates. Floating rate financial instruments are subject to cash flow interest rate risk. The Jollibee Group’s interest rate exposure management policy centers on reducing the Company’s overall interest expense and exposure to changes in the interest rates.

To manage the interest rate risk related to the Jollibee Group’s long-term debt, the Jollibee Group used a derivative instrument to fix the interest rate over the term of 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 bank, short-term deposits and short-term investments.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Jollibee Group's equity as at December 31, 2016 and 2015. The impact on the Jollibee Group's equity is due to changes in the fair value of floating interest rates.

Long-term Debt with Floating Interest Rates

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax
2016		
USD	+100 -100	(87,706) 87,706
PHP	+100 -100	(33,848) 33,848

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax
2015		
USD	+100 -100	(72,661) 72,661
PHP	+100 -100	(24,526) 24,526

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 4.52% and 5.74% of the consolidated net assets of the Jollibee Group as at June 30, 2017 and December 31, 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 June 30, 2017 and December 31, 2016:

	June 2017 (Unaudited)			December 2016 (Audited)		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	400	6	20,210	687	8	34,185
Receivables	6,904	—	348,441	4,991	—	248,164
Total exposure	7,304	6	368,651	5,678	8	282,349

Foreign Currency Risk Sensitivity Analysis

The Jollibee Group has recognized in profit or loss, foreign currency exchange losses, included under “Other income” account, which amounted to a net foreign exchange loss of ₱61.5 million and ₱37.0 million for the periods ended June 30, 2017 and 2016, 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	RMB
June 30, 2017	50.47	7.44
June 30, 2016	47.06	7.07

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 June 30, 2017 and December 31, 2016:

		June 2017 (Unaudited)		December 2016 (Audited)	
		Effect on Income before Income Tax	Effect on Equity before Income Tax	Effect on Income before Income Tax	Effect on Equity before Income Tax
Appreciation (Depreciation) of ₱ against Foreign Currency					
USD					
	₱1.50	(₱10,956)	(₱10,956)	(₱8,517)	(₱8,517)
	(1.50)	10,956	10,956	8,517	8,517
	1.00	(7,304)	(7,304)	(5,678)	(5,678)
	(1.00)	7,304	7,304	5,678	5,678
RMB					
	0.95	(5.7)	(5.7)	(7.6)	(7.6)
	(0.95)	5.7	5.7	7.6	7.6
	0.63	(3.8)	(3.8)	(5.0)	(5.0)
	(0.63)	3.8	3.8	5.0	5.0

Equity Price Risk

The Jollibee Group is not exposed to significant equity price risk on its investment in quoted equity securities consisting of investment in club shares.

Credit Risk

Credit risk is the risk that a customer or counterparty fails to fulfill its contractual obligations to the Jollibee Group. This includes risk of non-payment by borrowers, failed settlement of transactions and default on outstanding contracts.

The Jollibee Group has a strict credit policy. Its credit transactions are with franchisees and customers that have gone through rigorous screening before granting them the franchise. The credit terms are very short, while deposits and advance payments are also required before rendering the 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 June 30, 2017 and December 31, 2016 are as follows:

June 2017 (Unaudited)							
		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*	₱13,685.8	₱13,685.8	₱–	₱–	₱–	₱–	₱–
Short-term investments	1,421.9	1,421.9	–	–	–	–	–
Receivables:							
Trade	2,859.0	1,579.3	410.8	99.8	76.3	128.8	564.0
Employee car plan receivables**	242.6	232.6	1.5	0.8	1.0	6.7	–
Advances to employees	221.9	221.9	–	–	–	–	–
Other receivables***	167.9	158.3	1.9	0.9	–	6.8	–
Other noncurrent assets:							
Security and other deposits	2,403.5	2,403.5	–	–	–	–	–
Operating lease receivables	26.8	26.8	–	–	–	–	–
	21,029.4	19,730.1	414.2	101.5	77.3	142.3	564.0
AFS Financial Assets	26.2	26.2	–	–	–	–	–
	₱21,055.6	19,756.3	414.2	101.5	77.3	₱142.3	₱564.0

December 2016 (Audited)							
		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	–	–	–	–	–
	23,361.4	21,514.0	451.4	78.8	79.8	657.6	579.8
AFS Financial Assets	26.2	26.2	–	–	–	–	–
	₱23,387.6	₱21,540.2	₱451.4	₱78.8	₱79.8	₱657.6	₱579.8

*Excluding cash on hand amounting to ₱335.1 million and ₱295.7 million in 2017 and 2016, respectively.

**Including noncurrent portion of employee car plan receivables.

***Excluding receivables from government agencies amounting to ₱22.4 million and ₱19.1 million in 2017 and 2016, respectively.

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2016 and 2015 without considering the effects of collaterals and other credit risk mitigation techniques:

2016			
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
Financial Assets			
Cash and cash equivalents*	P16,437.6	P236.8	P16,200.8**
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
	P22,807.8	P318.5	P22,489.3
2015			
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
Financial Assets			
Cash and cash equivalents*	P11,204.8	P223.3	P10,981.5**
Short-term investments	922.3	—	922.3
Receivables:			
Trade	5,055.1	137.7	4,917.4***
Employee car plan receivables	197.6	—	197.6
Advances to employees	154.7	—	154.7
Other receivables****	145.2	—	145.2
Other noncurrent assets:			
Security and other deposits	1,795.0	—	1,795.0
Operating lease receivables	12.5	—	12.5
AFS financial asset	21.5	—	21.5
	P19,508.7	P361.0	P19,147.7

* Excluding cash on hand amounting to P295.7 million and P292.8 million in 2016 and 2015, respectively.

** Gross financial assets after taking into account insurance bank deposits for cash and cash equivalents.

*** Gross financial assets after taking into account payables to the same counterparty.

**** Excluding receivables from government agencies amounting to P19.1 million and P10.3 million in 2016 and 2015, respectively.

With respect to credit risk arising from financial assets of the Jollibee Group, the Jollibee Group's exposure to credit risk arises from default of the counterparty, with a gross maximum exposure equal to the carrying amount of these instruments.

Credit Quality. The tables below show the credit quality by class of financial assets that are neither past due nor impaired, based on the Jollibee Group's credit rating system as at June 30, 2017 and December 31, 2016.

	June 2017 (Unaudited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
(In Millions)					
Receivables					
Trade	P2,859.0	P661.4	P841.1	P76.8	P1,279.7
Employee car plan receivables*	242.6	232.6	—	—	10.0
Advances to employees	221.9	221.9	—	—	—
Other receivables**	167.9	158.3	—	—	9.6
AFS financial asset	26.2	26.2	—	—	—
	P3,517.6	P1,300.4	P841.1	P76.8	P1,299.3

	December 2016 (Audited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
	(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
AFS financial asset	26.2	26.2	—	—	—
	₹4,094.3	₹1,213.8	₹946.7	₹86.4	₹1,847.4

*Including noncurrent portion of employee car plan receivables.

**Excluding receivables from government agencies amounting to P22.4 million and P19.1 million in 2017 and 2016, respectively.

The credit quality of financial assets is managed by the Jollibee Group using internal credit ratings, as shown below:

- A - For counterparty that is not expected by the Jollibee Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes financial institutions, certain related parties and customers who pay on or before due date.
- B - For counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Jollibee Group. The delays may be due to cut-off differences and/or clarifications on contracts/billings.
- C - For counterparty who consistently defaults in settling its 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 period ended June 30, 2017 and year ended December 31, 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 ₱14,020.8 million, ₱1,421.9 million and ₱2,295.0 million, respectively, as at June 30, 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 financial liabilities based on the contractual undiscounted cash flows as at June 30, 2017 and December 31, 2016:

	June 2017 (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*	P–	P 19,025.4	P–	P–	P19,025.4
Long-term debt (including current portion)	–	1,629.6	6,666.9	3,640.4	11,936.9
Operating lease payables	–	627.9	545.6	693.7	1,867.2
Total Financial Liabilities	P–	P21,282.9	P7,212.5	P4,334.1	P32,829.5

	December 2016 (Audited)				
	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*	P–	P20,099.0	P–	P–	P20,099.0
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	P–	P22,264.0	P5,163.6	P6,619.6	34,047.2

*Excluding statutory obligations such as accrued local and other taxes, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱1,621.3 million and ₱1,861.6 million in 2017 and 2016, respectively.

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 June 30, 2017 and December 31, 2016, the Jollibee Group's debt ratio and net debt ratio are as follows:

<i>Debt Ratio</i>	June 2017 (Unaudited)	December 2016 (Audited)
Total debt (a)	₱37,038,516	₱38,446,948
Total equity attributable to equity holders of the Parent Company	36,765,833	33,602,216
Total debt and equity attributable to equity holders of the Parent Company (b)	₱73,804,349	₱72,049,164
Debt ratio (a/b)	50%	53%

<i>Net Debt Ratio</i>	June 2017 (Unaudited)	December 2016 (Audited)
Total debt	₱37,038,516	₱38,446,948
Less cash and cash equivalents and short-term investments	15,442,760	17,459,348
Net debt (a)	21,595,756	20,987,600
Total equity attributable to equity holders of the Parent Company	36,765,833	33,602,216
Net debt and equity attributable to equity holders of the Parent Company (b)	₱58,361,589	₱54,589,816
Net debt ratio (a/b)	37%	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:

	2016	2015
Security and other deposits	2.45%-5.38%	2.37%-7.25%
Employee car plan receivables	1.89%-4.74%	2.14%-6.55%
Derivative assets	2.08%-4.09%	0.81%-2.78%
Long-term debt	2.45%-4.74%	3.43%-3.71%
Derivative liability	0.95%-1.05%	0.96%-1.00%

The following tables provide the fair value measurement hierarchy of the Jollibee Group's recurring financial assets and liabilities.

Quantitative disclosure fair value measurement hierarchy for assets as at December 31, 2016:

	Carrying Value	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	P26,212	P26,212	P-	P26,212	P-
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	-

Quantitative fair value measurement hierarchy for assets as at December 31, 2015:

	Carrying Value	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	P21,462	P21,462	P-	P21,462	P-
Derivative asset – cross currency swap	9,868	9,868	-	9,868	-
Derivative asset – put/call rights	75,031	75,031	-	-	75,031
Assets for which fair values are disclosed:					
Investment properties:	998,113	1,414,303	-	1,414,303	-
Land	983,428	1,311,229	-	1,311,229	-
Buildings	14,686	103,074	-	103,074	-
Other noncurrent assets:					
Security and other deposits	1,794,989	1,894,451	-	1,894,451	-
Employee car plan receivables	130,156	138,223	-	138,223	-

Quantitative fair value measurement hierarchy for liabilities as at December 31, 2016:

	Date of Valuation	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability	December 31, 2016	P33,531	P–	P33,531	P–
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	–

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2015:

	Date of Valuation	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability	December 31, 2015	P34,921	P–	P34,921	P–
Contingent consideration	December 31, 2015	23,636	–	–	23,636
Liabilities disclosed at fair value:					
Long-term debt	December 31, 2015	10,558,419	–	10,558,419	–

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements during the year.

Description of significant unobservable input to the measurement of the derivative asset – put/call rights as at December 31, 2016 is as follows:

	Valuation Technique	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value
Derivative asset – put/call rights	Discounted cash flow method	Long-term growth rate used to calculate equity value	6.0% to 7.0%	Increase (decrease) in the long-term rate would increase (decrease) the fair value.