

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

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JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

			Change	
	June 2016 (Unaudited)	December 2015 (Audited) <i>(in PHP)</i>	Amount	Pct
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 6, 30 and 31)	12,911,399,029	11,497,559,629	1,413,839,400	12.3
Short-term investments (Notes 6, 30 and 31)	1,442,399,416	922,317,012	520,082,404	56.4
Receivables (Notes 7, 30 and 31)	3,518,906,071	5,432,775,539	(1,913,869,468)	(35.2)
Inventories (Note 8)	4,895,935,455	5,478,416,309	(582,480,854)	(10.6)
Derivative asset (Note 18)	211,888	9,868,242	(9,656,354)	(97.9)
Other current assets (Note 9)	3,480,710,218	3,828,229,080	(347,518,862)	(9.1)
Total Current Assets	26,249,562,077	27,169,165,811	(919,603,734)	(3.4)
Noncurrent Assets				
Available-for-sale financial assets (Notes 10 and 31)	21,462,462	21,462,462	-	-
Interests in and advances to joint ventures, co-venturers and an associate (Note 11)	8,465,157,041	8,449,310,264	15,846,777	0.2
Property, plant and equipment - net (Note 12)	15,249,981,884	14,547,151,906	702,829,978	4.8
Investment properties - net (Note 13)	984,282,803	998,113,493	(13,830,690)	(1.4)
Goodwill and other intangible assets - net (Notes 14)	9,383,477,535	9,412,134,199	(28,656,664)	(0.3)
Operating lease receivables (Notes 29, 30 and 31)	21,685,361	12,516,788	9,168,573	73.3
Derivative asset (Note 18)	75,031,052	75,031,052	-	-
Deferred tax assets - net (Note 24)	1,829,091,795	1,408,488,536	420,603,259	29.9
Other noncurrent assets (Notes 15, 30 and 31)	2,826,350,640	2,669,673,900	156,676,740	5.9
Total Noncurrent Assets	38,856,520,573	37,593,882,600	1,262,637,973	3.4
Total Assets	65,106,082,650	64,763,048,411	343,034,239	0.5
LIABILITIES AND EQUITY				
Current Liabilities				
Trade payables and other current liabilities (Notes 16, 30 and 31)	19,140,141,592	19,527,045,864	(386,904,272)	(2.0)
Income tax payable	247,615,696	235,980,000	11,635,696	4.9
Short-term debt (Notes 18 and 31)	-	282,360,000	(282,360,000)	(100.0)
Current portion of:				
Long-term debt (Notes 18, 30 and 31)	1,215,505,109	927,916,273	287,588,836	31.0
Liability for acquisition of businesses (Notes 11, 30 and 31)	-	94,852,231	(94,852,231)	(100.0)
Total Current Liabilities	20,603,262,397	21,068,154,368	(464,891,971)	(2.2)
Noncurrent Liabilities				
Provisions (Note 17)	30,500,639	30,500,639	-	-
Noncurrent portion of long-term debt (Notes 18, 30 and 31)	9,107,808,650	8,790,712,333	317,096,317	3.6
Pension liability (Note 25)	1,584,945,911	1,466,530,394	118,415,517	8.1
Operating lease payables (Note 29)	1,612,568,142	1,615,639,498	(3,071,356)	(0.2)
Derivative liability (Notes 18, 30 and 31)	222,550,371	34,921,275	187,629,096	537.3
Total Noncurrent Liabilities	12,558,373,713	11,938,304,139	620,069,574	5.2
Total Liabilities	33,161,636,110	33,006,458,507	155,177,603	0.5
Equity Attributable to Equity Holders of the Parent Company (Note 30)				
Capital stock (Note 19)	1,089,880,579	1,086,149,410	3,731,169	0.3
Subscriptions receivable (Note 19)	(17,177,884)	(17,177,884)	-	-
Additional paid-in capital (Note 19)	5,420,619,975	5,055,293,439	365,326,536	7.2
Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustment of interests in joint ventures	(7,665,205)	107,225,186	(114,890,391)	(107.1)
Remeasurement loss on net defined benefit plan - net of tax	(536,579,937)	(536,579,937)	-	-
Comprehensive loss on derivative liability (Note 18)	(231,928,071)	(35,449,264)	(196,478,807)	(554.3)
Excess of cost over the carrying value of non-controlling interests acquired (Notes 11 and 19)	(1,760,379,783)	(542,764,486)	(1,217,615,297)	(224.3)
Retained earnings (Note 19):				
Appropriated for future expansion	18,200,000,000	10,200,000,000	8,000,000,000	78.4
Unappropriated	9,621,841,628	15,487,039,084	(5,865,197,456)	(37.9)
Total Equity	31,778,611,302	30,803,735,548	974,875,754	3.2
Less cost of common stock held in treasury (Note 19)	180,511,491	180,511,491	-	-
Total Equity	31,598,099,811	30,623,224,057	974,875,754	3.2
Non-controlling Interests (Note 11)	346,346,729	1,133,365,847	(787,019,118)	(69.4)
Total Equity	31,944,446,540	31,756,589,904	187,856,636	0.6
Total Equity	65,106,082,650	64,763,048,411	343,034,239	0.5

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarters Ended June 30				Change	
	2016		2015		2015 to 2016	
	Pesos	Pct	Pesos	Pct	Pesos	Pct
REVENUES						
Net sales	26,842,187,930	94.8%	23,652,707,868	95.2%	3,189,480,062	13.5%
Royalty, franchise fees and others	1,480,986,596	5.2%	1,200,091,506	4.8%	280,895,090	23.4%
	28,323,174,526	100.0%	24,852,799,374	100.0%	3,470,375,152	14.0%
COST OF SALES						
Cost of inventories	13,627,551,023	48.1%	12,338,364,422	49.6%	1,289,186,601	10.4%
Store and manufacturing costs	9,260,166,674	32.7%	8,307,980,380	33.4%	952,186,294	11.5%
	22,887,717,697	80.8%	20,646,344,802	83.1%	2,241,372,895	10.9%
GROSS PROFIT	5,435,456,829	19.2%	4,206,454,572	16.9%	1,229,002,257	29.2%
EXPENSES						
General and administrative expenses	2,999,684,537	10.6%	2,351,426,036	9.5%	648,258,501	27.6%
Advertising and promotions	650,484,408	2.3%	385,234,021	1.6%	265,250,387	68.9%
	3,650,168,945	12.9%	2,736,660,057	11.0%	913,508,888	33.4%
OPERATING INCOME	1,785,287,884	6.3%	1,469,794,515	5.9%	315,493,369	21.5%
INTEREST INCOME (EXPENSE)						
Interest income	56,328,781	0.2%	61,613,852	0.2%	(5,285,071)	-8.6%
Interest expense	(63,989,827)	-0.2%	(63,667,453)	-0.3%	322,374	0.5%
	(7,661,046)	0.0%	(2,053,601)	0.0%	(5,607,445)	-273.1%
EQUITY IN NET LOSSES OF JOINT VENTURES AND AN ASSOCIATE	(171,839,256)	-0.6%	(45,158,970)	-0.2%	(126,680,286)	-280.5%
OTHER INCOME	334,099,766	1.2%	349,022,622	1.4%	(14,922,856)	-4.3%
INCOME BEFORE INCOME TAX	1,939,887,348	6.8%	1,771,604,566	7.1%	168,282,782	9.5%
PROVISION FOR (BENEFIT FROM) INCOME TAX						
Current	587,606,483	2.1%	436,289,989	1.8%	151,316,494	34.7%
Deferred	(279,289,528)	-1.0%	(130,169,589)	-0.5%	(149,119,939)	-114.6%
	308,316,955	1.1%	306,120,400	1.2%	2,196,555	0.7%
NET INCOME	1,631,570,393	5.8%	1,465,484,166	5.9%	166,086,227	11.3%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>						
Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustment of interests in joint ventures	(61,226,489)	-0.2%	73,859,462	0.3%	(135,085,951)	-182.9%
Comprehensive loss on derivative liability	(64,547,235)	-0.2%	(68,000)	0.0%	(64,479,235)	-94822.4%
	(125,773,724)	-0.4%	73,791,462	0.3%	(199,565,186)	-270.4%
TOTAL COMPREHENSIVE INCOME	1,505,796,669	5.3%	1,539,275,628	6.2%	(33,478,959)	-2.2%
Net Income Attributable to:						
Equity holders of the Parent Company	1,655,749,683	5.8%	1,412,473,268	5.7%	243,276,415	17.2%
Non-controlling interests	(24,179,290)	-0.1%	53,010,898	0.2%	(77,190,188)	-145.6%
	1,631,570,393	5.8%	1,465,484,166	5.9%	166,086,227	11.3%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	1,533,759,491	5.4%	1,481,264,050	6.0%	52,495,441	3.5%
Non-controlling interests	(27,962,822)	-0.1%	58,011,578	0.2%	(85,974,400)	-148.2%
	1,505,796,669	5.3%	1,539,275,628	6.2%	(33,478,959)	-2.2%
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company						
Basic	1.545		1.325		0.220	16.6%
Diluted	1.515		1.298		0.217	16.8%

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six Months Ended June 30				Change	
	2016		2015		2015 to 2016	
	Pesos	Pct	Pesos	Pct	Pesos	Pct
REVENUES						
Net sales	51,610,631,412	94.8%	45,510,196,066	95.1%	6,100,435,346	13.4%
Royalty, franchise fees and others (Note 20)	2,814,816,695	5.2%	2,345,279,243	4.9%	469,537,452	20.0%
	54,425,448,107	100.0%	47,855,475,309	100.0%	6,569,972,798	13.7%
COST OF SALES (Note 21)						
Cost of inventories	26,261,362,578	48.3%	23,520,765,566	49.1%	2,740,597,012	11.7%
Store and manufacturing costs	18,058,208,919	33.2%	16,045,834,144	33.5%	2,012,374,775	12.5%
	44,319,571,497	81.4%	39,566,599,710	82.7%	4,752,971,787	12.0%
GROSS PROFIT	10,105,876,610	18.6%	8,288,875,599	17.3%	1,817,001,011	21.9%
EXPENSES						
General and administrative expenses (Note 22)	5,511,023,165	10.1%	4,485,074,399	9.4%	1,025,948,766	22.9%
Advertising and promotions	1,071,430,270	2.0%	883,753,139	1.8%	187,677,131	21.2%
	6,582,453,435	12.1%	5,368,827,538	11.2%	1,213,625,897	22.6%
OPERATING INCOME	3,523,423,175	6.5%	2,920,048,061	6.1%	603,375,114	20.7%
INTEREST INCOME (EXPENSE) (Note 23)						
Interest income	114,186,130	0.2%	111,107,348	0.2%	3,078,782	2.8%
Interest expense	(124,845,924)	-0.2%	(121,933,924)	-0.3%	2,912,000	2.4%
	(10,659,794)	0.0%	(10,826,576)	0.0%	166,782	-1.5%
EQUITY IN NET LOSSES OF JOINT VENTURES AND AN ASSOCIATE (Note 11)	(240,902,279)	-0.4%	(75,143,348)	-0.2%	(165,758,931)	-220.6%
OTHER INCOME (Note 23)	479,321,372	0.9%	531,989,640	1.1%	(52,668,268)	-9.9%
INCOME BEFORE INCOME TAX	3,751,182,474	6.9%	3,366,067,777	7.0%	385,114,697	11.4%
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)						
Current	1,117,469,395	2.1%	873,497,746	1.8%	243,971,649	27.9%
Deferred	(430,063,519)	-0.8%	(209,362,427)	-0.4%	(220,701,092)	-105.4%
	687,405,876	1.3%	664,135,319	1.4%	23,270,557	3.5%
NET INCOME	3,063,776,598	5.6%	2,701,932,458	5.6%	361,844,140	13.4%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>						
Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustment of interests in joint ventures	(121,525,381)	-0.2%	86,721,641	0.2%	(208,247,022)	-240.1%
Comprehensive gain (loss) on derivative liability (Note 18)	(204,017,450)	-0.4%	2,822,000	0.0%	(206,839,450)	-7329.5%
	(325,542,831)	-0.6%	89,543,641	0.2%	(415,086,472)	-463.6%
TOTAL COMPREHENSIVE INCOME	2,738,233,767	5.0%	2,791,476,099	5.8%	(53,242,332)	-1.9%
Net Income Attributable to:						
Equity holders of the Parent Company (Note 28)	3,054,237,380	5.6%	2,600,247,393	5.4%	453,989,987	17.5%
Non-controlling interests	9,539,218	0.0%	101,685,065	0.2%	(92,145,847)	-90.6%
	3,063,776,598	5.6%	2,701,932,458	5.6%	361,844,140	13.4%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	2,742,868,182	5.0%	2,682,340,186	5.6%	60,527,996	2.3%
Non-controlling interests	(4,634,415)	0.0%	109,135,913	0.2%	(113,770,328)	-104.2%
	2,738,233,767	5.0%	2,791,476,099	5.8%	(53,242,332)	-1.9%
Earnings Per Share for Net Income Attributable to						
Equity Holders of the Parent Company (Note 28)						
Basic	2.852		2.441		0.411	16.9%
Diluted	2.795		2.390		0.405	16.9%

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30		Change	
	2016	2015	Amt	Pct
<i>(In PHP)</i>				
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	3,751,182,474	3,366,067,777	385,114,697	11.4
Adjustments for:				
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	1,945,136,815	1,711,578,604	233,558,211	13.6
Equity in net losses of joint ventures and an associate (Note 11)	240,902,279	75,143,348	165,758,931	220.6
Interest expense (Note 23)	124,845,924	121,933,924	2,912,000	2.4
Loss on disposals and retirements of property and equipment and investment properties (Notes 12, 13 and 22)	123,984,643	56,401,192	67,583,451	119.8
Movement in pension liability (Notes 21 and 22)	118,111,444	92,158,780	25,952,664	28.2
Stock options expense (Notes 22 and 26)	117,022,203	89,903,901	27,118,302	30.2
Interest income (Note 23)	(114,186,130)	(111,107,348)	3,078,782	2.8
Impairment losses on:				
Receivables (Notes 7 and 22)	46,021,986	12,155,839	33,866,147	278.6
Inventories (Notes 8 and 22)	7,540,343	13,121,645	(5,581,302)	(42.5)
Net unrealized foreign exchange loss (gain)	28,609,487	(4,523,621)	33,133,108	732.4
Deferred rent amortization - net (Note 29)	(12,239,929)	(9,196,857)	3,043,072	33.1
Reversals of impairment losses on:				
Receivables (Note 7)	(3,149,051)	(4,563,870)	(1,414,819)	(31.0)
Inventories (Note 8)	(4,812,823)	(2,866,856)	1,945,967	67.9
Income before working capital changes	6,368,969,665	5,406,206,458	962,763,206	17.8
Decreases (increases) in:				
Receivables	1,870,996,533	1,873,728,709	(2,732,176)	(0.1)
Inventories	579,753,334	(496,998,849)	1,076,752,183	216.7
Other current assets	335,711,678	(446,641,433)	782,353,111	175.2
Increase (decrease) in trade payables and other current liabilities	(436,180,866)	173,665,900	(609,846,766)	(351.2)
Net cash generated from operations	8,719,250,344	6,509,960,785	2,209,289,558	33.9
Interest received	100,582,884	110,599,202	(10,016,318)	(9.1)
Income taxes paid	(1,101,713,699)	(901,416,075)	200,297,624	22.2
Net cash provided by operating activities	7,718,119,529	5,719,143,912	1,998,975,616	35.0
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property, plant and equipment (Note 12)	(2,810,655,898)	(2,076,646,700)	734,009,198	35.3
Minority interest (Note 11)	(2,000,000,000)	-	(2,000,000,000)	(100.0)
Interest in a joint venture (Note 11)	(201,600,000)	(165,626,798)	35,973,202	21.7
Intangible assets (Note 14)	(7,969,373)	(85,303,588)	(77,334,215)	(90.7)
Market entry fee (Notes 11 and 15)	-	(93,870,000)	93,870,000	100.0
Advances to a joint venture	(55,149,055)	(51,602,416)	3,546,639	6.9
Proceeds from disposals of property, plant and equipment and investment properties	32,830,056	11,465,464	21,364,592	186.3
Increases in:				
Short-term investments	(520,082,404)	-	(520,082,404)	(100.0)
Other noncurrent assets	(260,606,655)	(39,015,889)	221,590,766	568.0
Net cash used in investing activities	(5,823,233,329)	(2,500,599,927)	3,322,633,402	132.9
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Cash dividends (Note 19)	(848,318,045)	(804,296,743)	44,021,302	5.5
Long-term debt (Note 18)	(387,520,000)	(359,160,000)	28,360,000	7.9
Short-term debt (Note 18)	(276,420,000)	(996,000,000)	(719,580,000)	(72.2)
Liability for acquisition of businesses (Note 11)	(96,975,855)	(86,199,326)	10,776,529	12.5
Proceeds from:				
Long-term debt (Note 18)	995,000,000	-	995,000,000	100.0
Issuances of and subscriptions to capital stock	252,035,502	150,048,403	101,987,099	68.0
Short-term debt (Note 18)	-	1,634,200,000	(1,634,200,000)	(100.0)
Interest paid	(104,790,210)	(111,597,141)	(6,806,931)	(6.1)
Contributions from non-controlling interests	-	177,627,620	(177,627,620)	(100.0)
Net cash used in financing activities	(466,988,608)	(395,377,187)	71,611,421	18.1
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,427,897,592	2,823,166,798	(1,395,269,206)	(49.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(14,058,192)	-	(14,058,192)	(100.0)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,497,559,629	7,618,473,267	3,879,086,362	50.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	12,911,399,029	10,441,640,065	2,469,758,964	23.7

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Jollibee Group”) 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”, “San Pin Wang”, “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 were listed and have been 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, 2016 and December 31, 2015 and for the periods ended June 30, 2016 and 2015, 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 8, 2016.

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 certain available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new PFRSs and amendments to existing PFRS which became effective on January 1, 2015:

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is not applicable to the Jollibee Group since defined benefit plans of the Jollibee Group do not require contributions from employees and third parties wherein employees or third parties.

Annual Improvements to PFRSs (2010-2012 Cycle)

The following Annual Improvements to PFRS (2010-2012 cycle) are effective for annual periods beginning on or after July 1, 2014 and are not expected to have material impact on the Jollibee Group's consolidated financial statements. They include:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

While the Jollibee Group has stock options plans, the clarification mentioned above will not change the recognition and measurement of these stock option plans.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit and loss whether or not they fall within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Jollibee Group is already compliant with this amendment since it currently measures contingent consideration from acquisitions at fair value through profit or loss.

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This is not applicable to the Jollibee Group since it has not adopted the revaluation model to subsequently measure items of property, plant and equipment and intangible assets after initial recognition.

- PAS 24, *Related Party Disclosures - Key Management Personnel*

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- Annual Improvements to PFRSs (2011-2013 Cycle)

The Annual Improvements to PFRSs (2011-2013 Cycle) are effective for annual periods beginning on or after July 1, 2014 and have no material impact on the Jollibee Group's consolidated financial statements. They include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

- PAS 40, *Investment Property - Ancillary Services*

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). This amendment will be applied only to future acquisition of an asset with ancillary services.

New Accounting Standards, Interpretations and Amendments to Existing Standards
Effective Subsequent to December 31, 2015

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

Effective 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 an associate 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 are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Jollibee Group is currently assessing the impact of the amendments on the consolidated financial statements but does not currently expect significant changes as a result of the amendments.

▪ 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 not expected to have any impact to the Jollibee Group given that the Jollibee Group 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. The amendments are

retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Jollibee Group as the Jollibee Group does not have any bearer plants.

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Jollibee Group's consolidated financial statements.

- *PFRS 10, Consolidated Financial Statements and PAS 28, Investments in an Associate and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address the conflict between PFRS 10 and PAS 28 (2011) 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 the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in PFRS 3, between an investor and its associate or joint venture is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. These amendments are not expected to have significant impact to 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 an Associate and Joint Ventures - Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments of PFRS 10 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 is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. These amendments are not expected to have any impact on the Jollibee Group's consolidated financial statements.

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

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 prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Jollibee Group.

- 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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Jollibee Group is an existing PFRS preparer, this standard would not apply.

- 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 must be applied prospectively. This amendment is currently not applicable to the Jollibee Group since it has no non-current asset held for sale and discontinued operations.

- *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 must be applied retrospectively. These amendments are not expected to have significant impact for the Jollibee Group.

- *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 calculate the present value of the Group's defined benefit obligation due to the absence of a deep local market for high quality corporate bonds. This amendment must be applied retrospectively. The Jollibee Group is already compliant with the requirements of this amendment even before it became effective since government board 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 must be applied retrospectively. The Jollibee Group is already in compliant with the requirements of this amendment.

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.

Other than the potential changes on the accounting for the Jollibee Group's AFS financial assets, the Jollibee Group does not expect any material change on its accounting for financial assets and financial liabilities. The Jollibee Group, however, expects potential changes in its impairment model as a '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.

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

- *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Jollibee Group is primarily engaged in the restaurant and franchising businesses. The Jollibee Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15. Furthermore, the Jollibee Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

- *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16 which requires lessees to recognize assets and liabilities for most leases. Lessees will have a single accounting model for all leases, with certain exemptions. For lessors, there is little change to the existing accounting in PAS 17, *Leases*.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 has been applied, or is applied at the same date as IFRS 16. The Jollibee Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. 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 to gross amounts.

With Deferred Effective Date

- Philippine Interpretation IFRIC 15, *Agreements of Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Jollibee Group as it is not into the business of construction of real estate.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2016 and December 31, 2015 and for the periods ended June 30, 2016 and 2015.

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 and 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 interests 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 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, 2016 and December 31, 2015:

	Country of Incorporation	Principal Activities	2016		2015	
			Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership
Fresh N' Famous Foods, Inc. (Fresh N' Famous):	Philippines	Food service	100	-	100	-
Chowking Food Corporation USA	United States of America (USA)	Holding company	-	100	-	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	100	-	100	-
Freemont Foods Corporation (Freemont)	Philippines	Food service	100	-	100	-
RRB Holdings, Inc. (RRBH):	Philippines	Holding company	100	-	100	-
Red Ribbon Bakeshop, Inc. (RRBI)	Philippines	Food service	-	100	-	100
Red Ribbon Bakeshop, Inc. USA (RRBI USA)	USA	Food service	-	100	-	100
Mang Inasal Philippines Inc. (Mang Inasal) ^(a)	Philippines	Food service	100	-	70	-
Grandworth Resources Corporation (Grandworth):	Philippines	Leasing	100	-	100	-
Adgraphix, Inc. (Adgraphix)	Philippines	Digital printing	-	100	-	100
ICconnect Multi Media Network, Inc. (ICconnect)	Philippines	Advertising	-	60	-	60
JC Properties & Ventures Co.	Philippines	Inactive	-	50	-	50
Honeybee Foods Corporation (HFC)	USA	Food service	100	-	100	-
Tokyo Teriyaki Corporation (TTC)	USA	Food service	-	100	-	100
Honeybee Foods (Canada) Corporation (HFCC) ^(b)	Canada	Food service	-	100	-	100
Jollibee Worldwide Pte. Ltd. (JWPL):	Singapore	Holding company	100	-	100	-
Regional Operating Headquarters of JWPL (JWS)	Philippines	Financial accounting, human resources and logistics services	-	100	-	100
Golden Plate Pte., Ltd. (GPPL)	Singapore	Holding company	-	100	-	100
- Golden Beeworks Pte. Ltd.	Singapore	Food service	-	60	-	60
Golden Cup Pte.Ltd.	Singapore	Holding company	-	60	-	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	PRC	Food Service	-	100	-	100
Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)	PRC	Food service	-	100	-	100
Southsea Binaries Ltd. (Southsea)	British Virgin Island (BVI)	Holding company	-	100	-	100
Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Hangzhou Yontong 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
Guangxi San Pin Wang Food and Beverage Management Company Limited (San Pin Wang)	PRC	Food service	-	55	-	55
Happy Bee Foods Processing Pte. Ltd. (HBFPP)	Singapore	Holding company	-	70	-	70
- Happy Bee Foods Processing (Anhui) Co. Ltd.	PRC	Food service	-	100	-	100
JSF Investments Pte. Ltd. (JSF)	Singapore	Holding company	-	99	-	99
Chow Fun Holdings LLC (Chow Fun)	USA	Food service	-	81	-	81
Jollibee (China) Food & Beverage Management Co. Ltd.	PRC	Management company	-	100	-	100
Jollibee International (BVI) Ltd. (JIBL):	BVI	Holding company	-	100	-	100
- Jollibee Vietnam Corporation Ltd.	Vietnam	Food service	-	100	-	100
- 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. ^(c)	Philippines	Food service	-	53	-	53
Donut Magic Phils., Inc. (Donut Magic) ^(d)	Philippines	Dormant	100	-	100	-
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(d)	Philippines	Dormant	100	-	100	-
Mary's Foods Corporation (Mary's) ^(d)	Philippines	Dormant	100	-	100	-
QSR Builders, Inc.	Philippines	Inactive	100	-	100	-
Jollibee USA	USA	Dormant	100	-	100	-

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

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

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

(d) 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, 2016.

3. Significant Accounting Policies

Current versus Noncurrent Classification

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

- Expected to be realized or intended to be sold or consumed in normal the 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.

All other assets are classified 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 an supportable market data as possible).

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 that are subject to insignificant risk of change in value.

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, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at FVPL
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Financial Asset 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, 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, advances to related parties, refundable deposits and employees' car plan receivables.

AFS Financial Assets. AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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 and interest 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 the statement of 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.

In the case of debt instruments classified as AFS financial assets, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit and loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Jollibee Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

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 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 interest-bearing loans and borrowings.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 Company 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.

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:

Fair value hedges. The change in the fair value of a hedging instrument is recognized in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

The Jollibee Group has no fair value hedges as at June 30, 2016 and December 31, 2015, respectively.

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 across 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.

Debt Issue Costs

Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings.

Inventories

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

- | | |
|---|--|
| Processed inventories | - Standard costing, 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 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.

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.

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, 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 period 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 readily 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.

Goodwill or Gain on a Bargain Purchase

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.

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.

The estimated useful lives used in amortizing computer software and other intangible assets are disclosed in Note 14.

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

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

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

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

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

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

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

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

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

Upon loss of significant influence over the associate or joint control over the joint ventures, the Jollibee Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the 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 joint ventures constitutes significant influence, it is accounted for as interest in an associate.

Impairment of Nonfinancial Assets

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

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

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

Equity

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

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

Subscriptions Receivable. Subscriptions receivable represents common stock subscribed and issued by the Parent Company but payment from the shareholders has not yet been received.

Retained Earnings. Retained earnings represent the Jollibee Group's accumulated earnings, net of dividends declared.

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 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.

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.

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 accounting 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.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of 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 costs in profit or loss. 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 net defined benefit 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, provided that all other performance conditions are satisfied.

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

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

Research Costs

Research costs are expensed as incurred.

Leases

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

Jollibee Group as Lessee. Leases which do not transfer to the Jollibee Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term and carried at amortized cost. The related accretion is recognized as interest income and the amortization as rent expense. 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 leased asset 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 the consolidated statement of changes in equity under the account "Cumulative translation adjustments of foreign subsidiaries and share in cumulative translation adjustment of an interest in a joint venture". On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in profit or loss.

Taxes

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

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in a joint venture, 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 interest in a joint venture, 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 equity.

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 ₱4,083.0 million and ₱3,713.8 million for the periods ended June 30, 2016 and 2015, respectively (see Notes 21, 22 and 29).

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

Rent income amounted to ₱43.0 million and ₱38.6 million for the periods ended June 30, 2016 and 2015, respectively (see Notes 20 and 29).

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

Material Partly-Owned Subsidiaries

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

Material Associates and Joint Ventures

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

Estimates and Assumptions

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

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, 2016 and 2015 amounted to ₱46.0 million and ₱12.2 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱3.1 million and ₱4.6 million were recognized for the periods ended June 30, 2016 and 2015, respectively (see Note 22). The carrying amount of receivables amounted to ₱3,518.9 million and ₱5,432.8 million as at June 30, 2016 and December 31, 2015, respectively (see Note 7).

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

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

The Jollibee Group assessed that the net realizable value for some inventories is lower than cost, hence, it recognized provision for inventory obsolescence amounting to ₱7.5 million and ₱13.1 million for the periods ended June 30, 2016 and 2015, respectively (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱4.8 million and ₱2.9 million were recognized for the periods ended June 30, 2016 and 2015, respectively (see Note 22). The carrying amount of inventories amounted to ₱4,895.9 million and ₱5,478.4 million as at June 30, 2016 and December 31, 2015, respectively (see Note 8).

Impairment of Property, Plant and Equipment, Investment Properties, Interests in and Advances to Joint Ventures, Co-venturers and an Associate. The Jollibee Group performs impairment review of property, plant and equipment, investment properties, interests in and advances to joint ventures, co-venturers and an associate 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, investment properties, interests in and advances to joint ventures, co-venturers and an associate amounted to ₱24,699.4 million and ₱23,994.6 million as at June 30, 2016 and December 31, 2015, respectively (see Notes 11, 12 and 13).

Estimation of Useful Lives of Property, Plant and Equipment and Investment Properties. The Jollibee Group estimates the useful lives of property, plant and equipment and investment properties based on the period over which the property, plant and equipment and investment properties 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 and investment properties 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 property, plant and equipment and investment properties. 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 and investment properties 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 and investment properties in 2016 and 2015.

Impairment 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 future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Management has determined that goodwill and other intangible assets are not impaired. The carrying amount of goodwill and other intangible assets amounted to ₱9,383.5 million and ₱9,412.1 million as at June 30, 2016 and December 31, 2015, respectively (see Note 14).

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 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 past results and future expectations on revenue and expenses.

The carrying amount of deferred tax assets amounted to ₱2,684.1 million and ₱2,275.2 million as at June 30, 2016 and December 31, 2015, respectively (see Note 24).

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 ₱1,584.9 million and ₱1,466.5 million as at June 30, 2016 and December 31, 2015, respectively.

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 ₱117.0 million and ₱89.9 million for the periods ended June 30, 2016 and 2015, respectively (see Notes 22 and 26).

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 where 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.

Derivative on Put / Call Rights on SJBF LLC. The Jollibee Group has derivatives 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 the binomial option pricing 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 statement of financial position.

As at June 30, 2016 and December 31, 2015, the Jollibee Group recognized a derivative asset amounting to ₱75.0 million from put / call rights (see Note 11).

Contingent Consideration or Earn-out. The Jollibee Group has existing joint venture agreements with contingent consideration or earn-out provisions. This requires the estimation of payout associated with the probability-weighted discounted cash flow model, taking into consideration the specific conditions outlined in the purchase agreement that must be met to satisfy the contingency.

Jollibee Group estimated nil earn-out as at June 30, 2016 and December 31, 2015.

Provisions. The Jollibee Group recognizes a provision for an obligation resulting from a past event when it has assessed that it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These assessments are made based on available evidence, including the opinion of experts. Future events and developments may result in changes in these assessments which may impact the Jollibee Group's financial position and performance.

There were no additional provisions recorded in 2016 and 2015. Total outstanding provisions amounted to ₱30.5 million as at June 30, 2016 and December 31, 2015 (see Note 17).

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. 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.

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 June 30, 2016 and 2015 and for the periods ended June 30, 2016 and 2015:

	June 2016 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenues from external customers	₱51,781,992	₱2,512,350	₱131,106	₱-	₱54,425,448
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	(66,980,619)	(851,969)	(2,248,328)	19,224,492	(50,856,424)
Impairment losses on receivables and inventories, net of reversals	(45,600)	-	-	-	(45,600)
Equity in net losses of joint ventures and an associate	(240,902)	-	-	-	(240,902)
Other segment income	478,517	-	804	-	479,321
Segment result	₱1,189,908	₱2,512,350	₱59,585	₱-	3,761,843
Interest income					114,186
Interest expense					(124,846)
Income before income tax					3,751,183
Provision for income tax					(687,406)
Net income					₱3,063,777
Assets and Liabilities					
Segment assets	₱62,934,656	₱-	₱342,335	₱-	₱63,276,991
Deferred tax assets- net	1,824,754	-	4,338	-	1,829,092
Consolidated assets	₱64,759,410	₱-	₱346,673	₱-	₱65,106,083
Segment liabilities	₱22,522,274	₱-	₱68,432	₱-	₱22,590,706
Long-term debt - including current portion	10,323,314	-	-	-	10,323,314
Income tax payable	246,104	-	1,512	-	247,616
Consolidated liabilities	₱33,091,692	₱-	₱69,944	₱-	₱33,161,636
Other Segment Information					
Capital expenditures	₱2,818,625	₱-	₱-	₱-	₱2,818,625
Depreciation and amortization	1,942,746	-	2,391	-	1,945,137

	June 2015 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenues from external customers	₱45,621,753	₱2,138,881	₱94,841	₱-	₱47,855,475
Inter-segment revenues	14,448,859	404,653	1,996,839	(16,850,351)	-
Segment revenues	60,070,612	2,543,534	2,091,680	(16,850,351)	47,855,475
Segment expenses	(59,291,680)	(404,653)	(2,071,598)	16,850,351	(44,917,580)
Impairment losses on receivables and inventories, net of reversals	(17,848)	-	-	-	(17,848)
Equity in net losses of joint ventures and an associate	(75,143)	-	-	-	(75,143)
Other segment income	531,236	-	754	-	531,990
Segment result	₱1,217,177	₱2,138,881	₱20,836	₱-	3,376,894
Interest income					111,107
Interest expense					(121,934)
Income before income tax					3,366,067
Provision for income tax					(664,135)
Net income					₱2,701,932
Assets and Liabilities					
Segment assets	₱55,755,940	₱-	₱352,243	₱-	₱56,108,183
Deferred tax assets- net	944,629	-	8,672	-	953,301
Consolidated assets	56,700,569	₱-	₱360,915	₱-	₱57,061,484

	June 2015 (Unaudited)				Consolidated
	Food Service	Franchising	Leasing	Eliminations	
Segment liabilities	₱21,568,169	₱-	₱96,175	₱-	₱21,664,344
Long-term debt - including current portion	4,807,501	-	-	-	4,807,501
Income tax payable	152,130	-	1,781	-	153,911
Consolidated liabilities	₱26,527,800	₱-	₱97,956	₱-	₱26,625,756
Other Segment Information					
Capital expenditures	₱2,161,950	₱-	₱-	₱-	₱2,161,950
Depreciation and amortization	1,709,377	-	2,202	-	1,711,579

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 Jollibee Group'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 2016 (Unaudited)			
	Philippines	International	Eliminations	Consolidated
	<i>(In Thousands)</i>			
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
	June 2015 (Unaudited)			
	<i>(In Thousands)</i>			
Segment revenues	₱37,266,260	₱10,777,493	(₱188,278)	₱47,855,475
Segment assets	37,777,358	18,330,825	-	56,108,183
Capital expenditures	1,526,219	635,731	-	2,161,950

6. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Cash on hand	₱324,600,653	₱292,751,687
Cash in banks	7,377,575,300	5,936,387,052
Short-term deposits	5,209,223,076	5,268,420,890
	₱12,911,399,029	₱11,497,559,629

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

The Jollibee Group also has short-term investments amounting to ₱1,442.4 million and ₱922.3 million as at June 30, 2016 and December 31, 2015, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash in bank, short-term deposits and short-term investments amounted to ₱44.2 million and ₱48.1 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23).

7. Receivables

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Trade	₱3,663,580,307	₱5,575,193,914
Less allowance for impairment loss	533,445,960	520,055,036
	3,130,134,347	5,055,138,878
Advances to employees	142,022,828	154,670,011
Current portion of employee car plan receivables	67,256,131	67,461,983
Others	179,492,765	155,504,667
	₱3,518,906,071	₱5,432,775,539

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

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

The movements in the allowance for impairment loss on trade receivables as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱520,055,036	₱208,940,071
Provisions (see Note 22)	46,021,986	325,907,626
Write-offs	(29,475,583)	(11,154,044)
Reversals (see Note 22)	(3,149,051)	(4,605,656)
Translation adjustments	(6,428)	967,039
Balance at end of period	₱533,445,960	₱520,055,036

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

8. Inventories

This account consists of:

	June 30 2016 (Unaudited)	December 2015 (Audited)
At cost:		
Food supplies and processed inventories	₱4,295,965,375	₱5,222,435,586
Packaging, store and other supplies	508,416,930	183,664,631
	4,804,382,305	5,406,100,217
At net realizable value -		
Novelty items	91,553,150	72,316,092
Total inventories at lower of cost and net realizable value	₱4,895,935,455	₱5,478,416,309

The cost of novelty items carried at net realizable value amounted to ₱112.4 million and ₱90.5 million as at June 30, 2016 and December 31, 2015, respectively.

The movements in the allowance for inventory obsolescence as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱18,180,388	₱19,143,425
Provisions (see Note 22)	7,540,343	11,048,562
Reversals (see Note 22)	(4,812,823)	(12,047,290)
Translation adjustments	(91,650)	35,691
Balance at end of period	₱20,816,258	₱18,180,388

9. Other Current Assets

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Deposits to suppliers and other third parties	₱1,592,091,620	₱2,221,639,595
Prepaid expenses:		
Taxes	856,876,867	743,623,466
Rent	624,417,678	589,550,139
Others	308,294,662	192,836,136
Supplies	99,029,391	80,579,744
	₱3,480,710,218	₱3,828,229,080

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

Prepaid taxes mainly represent creditable withholding taxes that can be applied in the following year against the corporate income tax due from Jollibee Group or can be claimed as tax refund from the BIR.

Prepaid expenses – others include unused portion of advance payment for advertising, insurance and other expenses in 2016 and 2015.

10. Available-for-Sale Financial Assets

This account consists mainly of shares in golf and leisure clubs amounting to ₱21.5 million each as at June 30, 2016 and December 31, 2015.

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

A. Business Combinations

Business Combination through Acquisition of Equity Shares

Acquisitions in 2012 and Prior

San Pin Wang. On March 9, 2012, the Jollibee Group, through JWPL, completed its acquisition of 55% equity interest 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 for a total acquisition cost of RMB30.0 million (₱195.9 million). The Jollibee Group paid RMB20.0 million (₱135.1 million) as at December 31, 2012. The remaining RMB10.0 million (₱67.6 million) was paid in March 2013. The other 45% of San Pin Wang is held by Guangxi Zong Kai Food Beverage Investment Company Limited (“GZK”).

Subsequent to the acquisition date, the Jollibee Group and GZK contributed additional investments amounting to RMB11.0 million (₱74.6 million) and RMB9.0 million (₱59.2 million), respectively.

The primary reason for the acquisition of San Pin Wang was to expand the Jollibee Group’s chain of QSRs and to serve high-quality but affordable noodles to urban areas in the PRC.

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.

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 amounted to USD0.7 million (₱34.6 million) as at December 31, 2015 and was fully settled on May 27, 2016.

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

B. Incorporation of New Subsidiaries

Honeybee Foods (Canada) Corporation (HFCC). On May 7, 2015, the Jollibee Group, through HFC, incorporated HFCC to own and operate Jollibee restaurants in Canada. As at June 30, 2016, no capital investment has been made other than the investment to incorporate.

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.

Capital contributions of the Jollibee Group to Golden Cup amounted to USD6.0 million (₱266.4 million) as at June 30, 2016 and December 31, 2015.

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. Partly-owned Subsidiaries with 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 2016 (Unaudited)	December 2015 (Audited)
Mang Inasal	Philippines	–	30%
HBFPPL	Singapore	30%	30%
San Pin Wang	People's Republic of China	45%	45%

Mang Inasal

On April 22, 2016, the Parent Company acquired the remaining 30% stake in Mang Inasal owned by Injap Investments, Inc., Mr. Edgar J. Sia II and Mr. Ferdinand J. Sia, for the purchase price of ₱2,000.0 million in line with the terms of the Shareholders' Agreement among Mang Inasal shareholders dated November 22, 2010. The acquisition resulted to Mang Inasal becoming a wholly owned subsidiary of the Parent Company.

The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition amounting to ₱1,217.6 million was recognized under the “Excess of the 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.

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. With the acquisition, JWPL shall own 100% of HBFPPL. Payment for the acquisition is approximately USD10.4 million (₱489.4 million).

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

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

	Mang Inasal	HBFPPL	San Pin Wang
Revenues	–	₱730,908,414	₱630,387,127
Net income (loss)	–	(44,269,468)	23,069,972
Other comprehensive loss	–	(11,416,938)	(7,595,825)
Total comprehensive income (loss)	–	(55,686,406)	15,474,147
Total comprehensive income (loss) attributable to non-controlling interests	–	(16,705,922)	6,963,366
Dividends paid to non-controlling interests	–	–	–

Summarized Unaudited Statement of Comprehensive Income for the period ended June 30, 2015

	Mang Inasal	HBFPPL	San Pin Wang
Revenues	₱3,769,071,766	₱809,171,290	₱577,131,584
Net income	245,706,180	69,486,858	26,082,194
Other comprehensive income	–	6,285,813	3,337,259
Total comprehensive income	245,706,180	75,772,671	29,419,453
Total comprehensive income attributable to non-controlling interests	73,711,854	22,731,801	13,238,754
Dividends paid to non-controlling interests	–	–	–

Summarized Unaudited Statement of Financial Position as at June 30, 2016

	Mang Inasal	HBFPPL	San Pin Wang
Current assets	–	₱392,284,580	₱364,295,323
Noncurrent assets	–	900,773,532	117,588,837
Current liabilities	–	422,967,650	180,143,137
Noncurrent liabilities	–	465,894,000	15,774,030
Total equity	–	404,196,462	285,966,993
Equity attributable to non-controlling interests	–	121,258,939	127,632,822

Summarized Audited Statement of Financial Position as at December 31, 2015

	Mang Inasal	HBFPPL	San Pin Wang
Current assets	₱2,176,382,490	₱450,607,662	₱261,324,261
Noncurrent assets	442,100,692	933,937,095	125,731,328
Current liabilities	1,449,329,972	369,497,486	100,353,245
Noncurrent liabilities	167,163,686	465,894,000	16,209,497
Total equity	1,001,989,524	549,153,271	270,492,847
Equity attributable to non-controlling interests	729,268,757	137,965,112	120,669,456

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

	Mang Inasal	HBFPPL	San Pin Wang
Net cash provided by (used in) operating activities	-	(₱38,062,220)	₱34,230,520
Net cash provided by investing activities	-	32,803,387	7,875,028
Net cash used in financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	-	(5,258,833)	42,105,548

Summarized Unaudited Cash Flow Information for the period ended June 30, 2015

	Mang Inasal	HBFPPL	San Pin Wang
Net cash provided by operating activities	₱459,708,211	₱163,057,949	₱29,366,750
Net cash used in investing activities	(101,992,414)	(142,380,024)	(963,174)
Net cash provided by financing activities	-	-	-
Net increase in cash and cash equivalents	357,715,797	20,677,925	28,403,576

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

	June 2016 (Unaudited)	December 2015 (Audited)
Interests in and advances to SuperFoods joint ventures and co-venturers	₱3,377,339,062	₱3,345,553,021
Interests in joint ventures:		
SJBF LLC	4,734,987,224	4,742,732,683
WJ	180,450,905	220,809,356
Golden Bee	59,683,220	47,943,083
Cargill Joy	12,600,000	-
	8,365,060,411	8,357,038,143
Interest in an associate – Entrek	100,096,630	92,272,121
	₱8,465,157,041	₱8,449,310,264

Interests in Joint Ventures

SuperFoods Group. On January 20, 2012, upon fulfillment of certain legal and regulatory requirements in Vietnam, the Jollibee Group, through JWPL, acquired effective ownership of 50% share in the business of the SuperFoods Group (includes SF Vung Tau Joint Stock Company, Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holding Limited Hongkong, Sino Ocean Asia Limited 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, 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 and Viet Thai International Company Limited. 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 (₱34.1 million).

The Supplemental Agreement further provides that JWPL shall be required to pay the co-venturers an additional amount in 2016 based upon achieving a positive amount determined in accordance with a formula contained in the agreement (earn-out formula). Based on management's assessment using the earn-out formula, no additional consideration needs to be recognized as at January 20, 2012, date of acquisition, as at December 31, 2012 to 2015 and for the period ended June 30, 2016.

In accordance with the Framework Agreement, JWPL, through its 99%-owned subsidiary JSF, extended loans to the SuperFoods Group with the following details:

Loans to Co-venturers

Loan to the co-venturers in the SuperFoods Group joint venture amounting to USD35.0 million (₱1,523.9 million), extended on June 30, 2011, is payable in December 2016. The loan bears interest of 5% per annum payable in lump sum also in December 2016. The loan was agreed to be used for general corporate purposes. Total interest from this loan recognized as interest income amounted to USD0.9 million (₱41.8 million), USD1.8 million (₱83.5 million) and USD1.8 million (₱83.5 million) for the period ended June 30, 2016, years ended December 31, 2015 and 2014, respectively. The USD35.0 million loan is secured by a mortgage by the co-venturers of all their shares in SuperFoods Holding Companies.

On April 30, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱41.2 million) payable in February 2014 but was extended to December 2016. The loan bears interest of 5% per annum payable in lump sum also in December 2016. The loan was agreed to be used for general corporate purposes. Total interest from this loan recognized as interest income amounted to USD0.03 million (₱1.3 million), USD0.05 million (₱2.6 million) and USD0.05 million (₱2.4 million) for the period ended June 30, 2016, years ended December 31, 2015 and 2014, respectively.

On August 22, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱44.1 million) payable in August 2014. As of August 2014, the principal was subject to 5% interest per annum. However, with the extension to December 2016, the sum of principal and the accumulated interest as of August 2014 were subjected to 4.99% interest per annum. The loan was agreed to be used for general corporate purposes. Total interest from this loan amounted to USD0.03 million (₱1.3 million), USD0.05 million (₱2.5 million) and USD0.05 million (₱2.4 million) for the period ended June 30, 2016, years ended December 31, 2015 and 2014, respectively.

Loan to Blue Sky

On June 10, 2011, a loan was extended to Blue Sky Holdings Limited (Blue Sky), the Hong Kong-based holding company, amounting to USD5.0 million (₱216.0 million) payable in June 2014. As of June 2014, the principal was subject to 5% interest per annum. However, with the extension to December 2016, the sum of principal and the accumulated interest as of June 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.2 million (₱7.3 million), USD0.3 million (₱13.9 million) and USD0.3 million (₱12.4 million) for the period ended June 30, 2016, years ended December 31, 2015 and 2014, respectively.

On May 7, 2012, an additional loan was extended to Blue Sky amounting to USD2.5 million (₱105.9 million) payable in May 2014. As of May 2014, the principal was subjected to 5% interest per annum. However, with the extension to December 2016, the sum of principal and the accumulated interest as of May 2014 were subjected to 4.99% interest per annum. Total interest from this loan amounted to USD0.07 million (₱3.5 million), USD0.1 million (₱6.7 million) and USD0.1 million (₱6.1 million) for the period ended June 30, 2016, years December 31, 2015 and 2014, respectively.

The carrying value of the loans to co-venturers and Blue Sky, including the accrued interest, amounted to ₱2,603.4 million and ₱2,548.2 as at June 30, 2016 and December 31, 2015, respectively.

The details of the Jollibee Group's interests in the SuperFoods joint venture and advances to co-venturers as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016	December 2015
	(Unaudited)	(Audited)
Interest in a joint venture—cost:		
Balance at beginning of period	₱1,120,658,822	₱1,086,562,975
Additions during the period	–	34,095,847
Balance at end of period	1,120,658,822	1,120,658,822
Cumulative equity in net losses:		
Balance at beginning of period	(323,330,934)	(259,539,871)
Equity in net loss for the period	(23,363,015)	(63,791,063)
Balance at end of period	(346,693,949)	(323,330,934)
	773,964,873	797,327,888
Advances to the joint ventures and co-venturer:		
Balance at beginning of period	2,548,225,133	2,317,832,742
Accrual of interest	55,149,056	109,110,458
Translation adjustments	–	121,281,933
Balance at end of period	2,603,374,189	2,548,225,133
	₱3,377,339,062	₱3,345,553,021

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

	June 2016 (Unaudited)	December 2015 (Audited)
Current assets	₱569,007,173	₱500,473,793
Noncurrent assets	1,114,904,489	1,196,430,982
Total assets	₱1,683,911,662	₱1,696,904,775
Current liabilities	₱651,225,753	₱576,963,970
Noncurrent liabilities	960,409,802	1,007,931,851
Total liabilities	₱1,611,635,555	₱1,584,895,821

	June 2016 (Unaudited)	December 2015 (Audited)
Cash and cash equivalents	₱93,666,775	₱97,215,799
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-
Noncurrent financial liabilities (excluding provisions)	1,024,179,726	1,007,931,851

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

	June 2016 (Unaudited)	June 2015 (Unaudited)
Revenues	₱1,449,994,945	₱1,172,354,365
Depreciation and amortization	76,811,891	56,049,124
Interest income	5,406	8,637
Interest expense	37,965,156	25,163,443
Provision for income tax	10,770,135	708,916
Net loss	(46,726,030)	(84,654,032)
Total comprehensive loss	(46,726,030)	(84,654,032)

	June 2016 (Unaudited)	December 2015 (Audited)
Net assets	72,276,107	₱112,008,954
Proportion of the Jollibee Group's ownership	50%	50%
Goodwill	36,138,054	56,004,477
Goodwill	708,890,600	708,890,600
Cumulative translation adjustments	28,936,219	32,432,811
	₱773,964,873	₱797,327,888

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

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

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

In February 2016, BGI made additional investment to SJBF amounting to USD4.0 million (₱189.0 million).

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.

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, representing the fair value of the First and Second Put / Call Rights on transaction date.

The details of Jollibee Group's interest in SJBF as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Interest in a joint venture - cost:		
Balance at beginning of period	₱4,812,854,343	₱-
Additions during the period	189,000,000	4,812,854,343
Balance at end of period	5,001,854,343	4,812,854,343
Cumulative equity in net loss:		
Balance at beginning of period	(70,121,660)	-
Equity in net loss during the period	(196,745,459)	(70,121,660)
Balance at end of period	(266,867,119)	(70,121,660)
Balance at end of period	₱4,734,987,224	₱4,742,732,683

Summarized financial information of the 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 2016 (Unaudited)	December 2015 (Audited)
Current assets	₱1,152,400,291	₱1,489,289,278
Noncurrent assets	5,330,215,229	4,698,052,225
Total assets	₱6,482,615,520	₱6,187,341,503
Current liabilities	₱1,210,121,970	₱2,549,999,466
Noncurrent liabilities	5,428,891,766	3,898,129,921
Total liabilities	₱6,639,013,736	₱6,448,129,387

The amounts of assets and liabilities above include the following:

	June 2016 (Unaudited)	December 2015 (Audited)
Cash and cash equivalents	₱585,477,225	₱586,506,568
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-
Noncurrent financial liabilities (excluding provisions)	4,210,206,288	3,791,307,722

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

	June 2016 (Unaudited)	
Revenues	₱5,132,452,676	
Depreciation and amortization	259,619,853	
Interest expense	165,861,158	
Net loss	(491,863,648)	
Total comprehensive loss	(491,863,648)	

	June 2016 (Unaudited)	December 2015 (Audited)
Net assets	(₱156,398,216)	(₱260,787,884)
Proportion of the Jollibee Group's ownership	40%	40%
	(62,559,286)	(104,315,154)
Provisional goodwill	4,837,671,526	4,837,671,526
Cumulative translation adjustments	(40,125,016)	9,376,311
	₱4,734,987,224	₱4,742,732,683

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.

The Jollibee Group has invested USD2.4 million (₱98.0 million) in 2012. The first store started commercial operations in January 2013. The Jollibee Group made additional investments of USD3.1 million (₱138.2 million), USD1.7 million (₱75.0 million) and USD2.4 million (₱103.6 million) during 2015, 2014 and 2013, respectively.

The details of Jollibee Group's interest in WJ as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Interest in a joint venture - cost:		
Balance at beginning of period	₱414,872,115	₱276,646,875
Additions during the period	-	138,225,240
Balance at end of period	414,872,115	414,872,115
Cumulative equity in net loss:		
Balance at beginning of period	(194,062,759)	(111,307,493)
Equity in net loss during the period	(40,358,451)	(82,755,266)
Balance at end of period	(234,421,210)	(194,062,759)
Balance at end of period	₱180,450,905	₱220,809,356

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

	June 2016 (Unaudited)	December 2015 (Audited)
Current assets	₱264,780,135	₱360,433,195
Noncurrent assets	169,466,646	181,127,783
Total assets	₱434,246,781	₱541,560,978
Current liabilities	₱45,573,041	₱52,611,918

The amounts of assets and liabilities above include the following:

	June 2016 (Unaudited)	December 2015 (Audited)
Cash and cash equivalents	₱243,754,663	₱299,488,233
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-

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

	June 2016 (Unaudited)	June 2015 (Unaudited)
Revenues	₱202,795,477	₱195,438,830
Depreciation and amortization	23,506,953	22,409,839
Interest income - net	3,359,436	1,200,297
Net loss	(84,080,107)	(79,257,529)
Total comprehensive loss	(84,080,107)	(79,257,529)

	June 2016 (Unaudited)	December 2015 (Audited)
Net assets	₱388,673,740	₱488,949,060
Proportion of the Jollibee Group's ownership	48%	48%
	186,563,395	234,695,549
Cumulative translation adjustments	(6,112,490)	(13,886,193)
	₱180,450,905	₱220,809,356

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

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

GPPL has invested USD0.8 million (₱33.9 million) in 2015. 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, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Interest in a joint venture - cost	₱33,925,803	₱33,925,803
Cumulative equity in net earnings:		
Balance at beginning of period	14,017,280	-
Equity in net earnings during the period	11,740,137	14,017,280
Balance at end of period	25,757,417	14,017,280
Balance at end of period	₱59,683,220	₱47,943,083

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

	June 2016 (Unaudited)	December 2015 (Audited)
Current assets	₱91,821,198	₱98,590,566
Noncurrent assets	96,636,438	44,005,319
Total assets	₱188,457,636	₱142,595,885
Current liabilities	₱77,007,717	₱53,735,001

The amounts of assets and liabilities above include the following:

	June 2016 (Unaudited)	December 2015 (Audited)
Cash and cash equivalents	₱46,136,750	₱52,451,311
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-

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

	June 2016 (Unaudited)	June 2015 (Unaudited)
Revenues	₱245,345,460	₱59,312,158
Depreciation and amortization	4,488,924	599,625
Net income (loss)	23,959,463	(226,144)
Total comprehensive loss	23,959,463	(226,144)
	June 2016 (Unaudited)	December 2015 (Audited)
Net assets	111,449,919	88,860,884
Proportion of the Jollibee Group's ownership	49%	49%
	54,610,460	43,541,833
Cumulative translation adjustments	5,072,760	4,401,250
	₱59,683,220	₱47,943,083

Cargill Joy Poultry Meats Productions, Inc. (Cargill Joy). 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. (Cargill Joy), 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 Parent Company contributed investment in Cargill Joy amounting to ₱12.6 million as at June 30, 2016.

Interest in an Associate

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 an associate as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Interest in an associate - cost	₱16,660,000	₱16,660,000
Cumulative equity in net earnings:		
Balance at beginning of period	75,612,121	62,047,378
Equity in net earnings during the period	7,824,509	13,564,743
Balance at end of period	83,436,630	75,612,121
	₱100,096,630	₱92,272,121

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

	June 2016 (Unaudited)	December 2015 (Audited)
Current assets	P498,302,586	P474,524,666
Noncurrent assets	131,708,060	92,958,117
Total assets	P630,010,646	P567,482,783
Current liabilities	P275,775,050	P244,262,858
Noncurrent liabilities	4,452,896	4,356,052
Total liabilities	P280,227,946	P248,618,910

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

	June 2016 (Unaudited)	June 2015 (Unaudited)
Revenues	P293,079,106	P243,811,002
Depreciation	15,220,615	9,644,977
Total comprehensive income	23,473,528	16,014,273

	June 2016 (Unaudited)	December 2015 (Audited)
Net assets	P349,782,700	P318,863,873
Proportion of the Jollibee Group's ownership	33.33%	33.33%
	116,594,233	106,287,958
Impairment loss recognized in 2011	(16,660,000)	(16,660,000)
Cumulative translation adjustments	162,397	2,644,163
	P100,096,630	P92,272,121

12. Property, Plant and Equipment

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

	June 2016 (Unaudited)							Total
	Land and Land Improvements	Plant, Buildings, Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	
<i>(In Thousands)</i>								
Cost								
Balance at beginning of period	P669,735	P2,873,961	P14,912,782	P13,759,957	P1,123,037	P542,761	P1,267,898	P35,150,131
Additions	-	11,187	397,138	664,445	65,619	35,903	1,636,363	2,810,655
Retirements and disposals	-	(2,667)	(149,830)	(142,538)	(13,107)	(6,034)	(159,854)	(474,030)
Reclassifications (see Note 13)	-	17,827	853,374	592,098	55,357	3,159	(1,504,765)	17,050
Translation adjustments	-	(12,586)	(96,649)	(46,056)	(145)	(1,062)	(3,112)	(159,610)
Balance at end of period	669,735	2,887,722	15,916,815	14,827,906	1,230,761	574,727	1,236,530	37,344,196
Accumulated Depreciation and Amortization								
Balance at beginning of period	7,528	1,157,960	9,138,113	9,206,534	750,596	340,248	-	20,600,979
Depreciation and amortization (see Notes 21 and 22)	36	14,330	843,736	918,207	82,465	33,854	-	1,892,628
Retirements and disposals	-	-	(159,553)	(141,194)	(12,702)	(3,765)	-	(317,214)
Reclassifications (see Note 13)	-	17,050	(84)	194	(110)	-	-	17,050
Translation adjustments	-	(1,052)	(74,197)	(25,166)	(120)	(694)	-	(101,229)
Balance at end of period	7,564	1,188,288	9,748,015	9,958,575	820,129	369,643	-	22,092,214
Accumulated Impairment Losses								
Balance at beginning and end of period	-	-	-	2,000	-	-	-	2,000
Net Book Value	P662,171	P1,699,434	P6,168,800	P4,867,332	P410,632	P205,084	P1,236,530	P15,249,982

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

The cost of fully depreciated property, plant and equipment still in use amounted to ₱9,548.1 million and ₱8,690.3 million as at June 30, 2016 and December 31, 2015, respectively.

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 ₱124.0 million and ₱56.4 million for the periods ended June 30, 2016 and 2015, respectively.

No property, plant and equipment as at June 30, 2016 and December 31, 2015 have been pledged as security or collateral.

13. Investment Properties

The rollforward analysis of this account follows:

June 2016 (Unaudited)			
	Land	Buildings and Building Improvements	Total
<i>(In Thousands)</i>			
Cost			
Balance at beginning and end of period	₱983,428	₱199,951	₱1,183,379
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of period	983,428	182,901	1,166,329
Accumulated Depreciation and Amortization			
Balance at beginning of period	–	185,266	185,266
Depreciation (see Notes 21 and 22)	–	13,830	13,830
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of period	–	182,046	182,046
Net Book Value	₱983,428	₱855	₱984,283

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

In 2015, the Jollibee Group reclassified its buildings held as investment property with a carrying amount of ₱20.5 million as at December 31, 2015 to property, plant and equipment due to the change in its use to owner-occupied property.

The cost of fully depreciated buildings and building improvements still being leased out by the Jollibee Group amounted to ₱182.0 million as at June 30, 2016 and December 31, 2015, 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 2015. 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 new properties. Fair value hierarchy disclosures for investment properties have been provided in Note 31.

Rent income derived from income-generating properties amounted to ₱16.9 million and ₱8.6 million for the periods ended June 30, 2016 and 2015, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱8.5 million and ₱9.3 million for the periods ended June 30, 2016 and 2015, respectively.

No investment properties as at June 30, 2016 and December 31, 2015 have been pledged as security or collateral for the Jollibee Group's debts.

14. Goodwill and Other Intangible Assets

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Goodwill	₱6,822,526,341	₱6,822,526,341
Trademark	2,004,255,942	2,004,255,942
Computer software, net of accumulated amortization	531,558,793	559,241,901
Other intangible assets, net of accumulated amortization	25,136,459	26,110,015
	₱9,383,477,535	₱9,412,134,199

Goodwill and trademark

Goodwill and trademark acquired through business combinations are attributable to the following group of CGUs as at June 30, 2016 and December 31, 2015:

Goodwill:	
Hong Zhuang Yuan	₱2,497,252,906
Mang Inasal	1,781,266,639
Red Ribbon Bakeshop:	
Philippine operations	737,939,101
US operations	434,651,055
Yong He King:	
Yong He King	429,016,109
Hangzhou Yonghe	106,264,544
Chowking US operations	383,855,247
San Pin Wang (see Note 11)	292,141,532
Jinja Bar & Bistro	154,894,001
Burger King	5,245,207
Total goodwill	6,822,526,341
Trademark -	
Mang Inasal	2,004,255,942
Goodwill and trademark	₱8,826,782,283

Computer software

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

In 2015, the Jollibee Group conducted a reassessment of the useful life of its ERP system which resulted in a change in its expected usage. Considering the substantial amount of investment made by the Jollibee Group to implement the new application, the alternative applications currently available in the market and the Jollibee Group's historical experience with its previous ERP system, management now expects and intends to use the new ERP application for ten (10) years from commissioning date. Management has previously estimated the expected useful life of the new ERP application at five (5) years. This change will result to annual amortization expense to be lower by ₱58.0 million in 2015, by ₱64.0 million in 2016 to 2018, and by ₱33.0 million in 2019; and amortization expense which is higher by ₱58.0 million in 2020 thereafter.

The rollforward analysis of the Jollibee Group's computer software as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Cost:		
Balance at beginning of period	₱656,177,279	₱567,750,478
Additions	4,830,639	88,426,801
Balance at end of period	₱661,007,918	₱656,177,279
Accumulated amortization:		
Balance at beginning of period	₱96,935,378	₱31,458,784
Amortizations (see Note 22)	32,513,747	65,476,594
Balance at end of period	₱129,449,125	₱96,935,378
Net book value:		
At June 30, 2016 and December 31, 2015	₱531,558,793	₱559,241,901
At January 1	559,241,901	536,291,694

Other intangible assets

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

The rollforward analysis of other intangible assets as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Cost:		
Balance at beginning of period	₱47,862,825	₱36,309,205
Additions	3,138,734	11,553,620
Balance at end of period	₱51,001,559	₱47,862,825
Accumulated amortization:		
Balance at beginning of period	₱21,752,810	₱14,272,889
Amortizations (see Note 22)	4,112,290	7,479,921
Balance at end of period	₱25,865,100	₱21,752,810
Net book value:		
At June 30, 2016 and December 31, 2015	₱25,136,459	₱26,110,015
At January 1	26,110,015	22,036,316

Impairment Testing of Goodwill and Trademark

Goodwill acquired through business combinations have been allocated to nine (9) groups of CGUs, which are subsidiaries of the Parent Company, owned directly or indirectly. The recoverable amounts of the groups of CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by 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 Growth Rate
Hong Zhuang Yuan	PRC	11.7%	6.2%
Mang Inasal	Philippines	13.1%	6.5%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	12.9%	6.5%
US operations	USA	9.7%	2.5%
Yong He King	PRC	11.4%	6.2%
Chowking US operations	USA	9.5%	2.5%
San Pin Wang	PRC	11.7%	6.2%
Jinja Bar & Bistro	USA	7.9%	2.5%
Burger King	Philippines	12.4%	6.5%

Key assumptions with respect to the calculation of value in use of the groups of CGUs as at June 30, 2016 and December 31, 2015 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) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margin - 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.

A rise in the pre-tax discount rate for Jinja Bar & Bistro to 12.0% (+4.0%) will result in impairment.

A reduction by 6.0% in the long-term growth rate for Jinja Bar & Bistro to -3.5% long-term growth rate decline would result to impairment.

Decreased demand can lead to a decline in the gross margin. A decrease in the gross margin of -3.5% and -2.1% from 2016 onwards would result in impairment for Jinja Bar & Bistro, respectively.

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

No impairment losses were recognized for goodwill and trademark for the periods ended June 30, 2016 and 2015.

15. Other Noncurrent Assets

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Security and other deposits (see Notes 30 and 31)	₱1,900,178,275	₱1,794,988,953
Noncurrent portion of:		
Rent and other long-term prepayments	390,099,840	376,602,568
Employee car plan receivables (see Notes 30 and 31)	175,620,034	130,156,134
Market entry fee – net of accumulated amortization (see Notes 11 and 22)	96,767,125	93,870,000
Returnable containers and others	49,734,840	68,896,728
Deferred rent expense	49,195,580	58,751,612
Deferred compensation	13,196,517	13,196,517
Other assets	151,558,429	133,211,388
	₱2,826,350,640	₱2,669,673,900

Security and other deposits generally represent deposits for operating leases entered into by the Jollibee Group as lessee. The security deposits are recoverable from the lessors at the end of the lease terms, which range from three to twenty years. These are carried at amortized cost. The discount rates used range from 2.67%-5.50% in 2015 and 2014. 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.

Employees’ 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.

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 market entry fee as at June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱93,870,000	₱93,870,000
Amortizations (see Note 22)	(2,052,038)	–
Translation adjustment	4,949,163	–
Balance at end of period	₱96,767,125	₱93,870,000

Other assets include tools for repairs and maintenance of office and store equipment which were still unused as at June 30, 2016 and December 31, 2015.

Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱5.9 million and ₱6.1 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23).

16. Trade Payables and Other Current Liabilities

This account consists of:

	June 2016 (Unaudited)	December 2015 (Audited)
Trade	₱9,083,742,860	₱9,433,766,730
Accruals for:		
Salaries, wages and employee benefits	1,610,037,037	1,577,551,002
Local and other taxes	1,418,236,402	1,297,183,541
Store operations	1,041,117,445	1,062,570,902
Advertising and promotions	984,390,564	934,634,342
Rent	873,111,749	856,335,222
Utilities	359,192,721	351,679,763
Freight	283,435,069	335,996,262
Repairs and maintenance	274,517,955	255,114,294
Operating supplies	271,770,789	252,667,293
Professional fees	184,043,894	379,863,402
Corporate events	175,023,890	212,493,276
Security	104,897,009	105,173,678
Trainings and seminars	87,346,299	64,129,887
Communication	84,894,891	78,288,924
Interest (see Note 18)	48,055,285	36,766,361
Transportation and travel	38,809,115	39,609,756
Insurance	26,345,726	18,174,378
Service fees and others	795,670,871	811,325,174
Customers' deposits	625,194,715	764,790,680
Unearned revenue from gift certificates	72,585,985	108,845,361
Dividends payable	38,572,055	43,544,875
Other current liabilities	659,149,266	506,540,761
	₱19,140,141,592	₱19,527,045,864

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

Accrued expenses are noninterest-bearing and are normally settled within the next financial year.

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 ₱8.8 million and ₱9.4 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23).

17. Provisions

The Jollibee Group has outstanding provisions amounting to ₱30.5 million as at June 30, 2016 and December 31, 2015, consisting mainly of provisions for asserted claims.

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

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%, subject to monthly repricing. The principal of USD6.0 million (₱286.4 million) and interest amounting to ₱1.0 million were paid in full on February 5, 2016, the date of maturity.

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

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

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

Interest expense recognized on short-term debt amounted to ₱0.1 million and ₱32.9 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23).

Long-term Debt

The long-term debt consists of the following:

	June 2016 (Unaudited)	December 2015 (Audited)
Principal	₱10,334,588,000	₱9,726,068,000
Unamortized debt issue cost	(11,274,241)	(7,439,394)
	₱10,323,313,759	₱9,718,628,606

The details of long-term debt follow:

	June 2016 (Unaudited)	December 2015 (Audited)
USD-denominated:		
Loan 1	₱5,176,600,000	₱5,176,600,000
Loan 2	823,550,000	1,058,850,000
Loan 3	423,540,000	564,720,000
Loan 4	188,240,000	188,240,000
Loan 5	277,654,000	277,654,000
PHP-denominated:		
Loan 6	1,480,909,093	1,495,227,273
Loan 7	797,733,333	797,333,333
Loan 8	995,083,333	-
Loan 9	160,004,000	160,004,000
	10,323,313,759	9,718,628,606
Less current portion - net of debt issue costs of ₱47,727	1,215,505,109	927,916,273
	₱9,107,808,650	₱8,790,712,333

USD-denominated loans of JWPL. Loan 1 consists of a 10-year unsecured loan acquired from a local bank on October 21, 2015 amounting to USD110.0 million (₱5,111.7 million) subject to a variable interest rate based on three-month London Interbank Offered Rate (LIBOR) plus spread of 1.20% which is payable and is reset on a quarterly basis. The spread applies provided the Republic of the Philippines' 5-year credit default swap remains under 1.10%. As at June 30, 2016 and December 31, 2015, the carrying value of the loan amounted to ₱5,176.6 million.

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.

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 1.00%. 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, 2016 and December 31, 2015, the carrying value of the loan amounted to ₱823.6 million and ₱1,058.9 million, respectively.

Loan 3 consists of a 4-year unsecured loan acquired on October 25, 2013 amounting to USD18.0 million (₱777.8 million) with an interest rate based on three-month USD LIBOR plus spread of 1.00% 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, 2016 and December 31, 2015, the carrying value of the loan amounted to ₱423.5 million and ₱564.7 million, respectively.

The loan agreements above (Loans 2-3) 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 below and Debt Service Coverage ratio of at least 2.0. As at June 30, 2016 and December 31, 2015, JWPL is in compliance with the terms of its loan covenants.

USD-denominated loans of HBFPPPL. Loan 4 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 1.00% basis points subject to repricing every quarter. The principal is payable on May 7, 2018, the maturity date. As at June 30, 2016 and December 31, 2015, the carrying value of the loan amounted to ₱188.2 million.

Loan 5 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, 2016 and December 31, 2015, the carrying value of the loan amounted to ₱277.7 million.

The loan agreements above (Loans 4-5) 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, 2016 and December 31, 2015, the HBFPPPL is in compliance with the terms of its loan covenants.

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 6). 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, 2016 and December 31, 2015.

Loan 7 consists of a 5-year unsecured loan acquired from a local bank on April 21, 2014 amounting to ₱800.0 million. The loan is subject to a variable interest rate based on three-month PDST-F rate plus spread of 1.00%, and to an interest rate floor based on the BSP Special Deposit Account Rate plus spread of 1.00% or BSP Overnight Borrowing Rate plus spread of 1.0%. The Parent Company incurred debt issue costs of ₱4.0 million, representing documentary stamp tax, in relation to this loan in 2014. The principal is payable on April 21, 2019, the date of maturity.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 and below and Debt Service Coverage ratio of at least 3.0 and 1.3, respectively. The Parent Company is in compliance with these debt covenants as at June 30, 2016 and December 31, 2015.

Loan 8 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 loan will mature five (5) years from date of drawdown. 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's PHP denominated long-term debt (Loans 6 ,7 and 8) amounts to ₱3,273.7 million and ₱2,292.6 million, net of unamortized debt issue cost of ₱11.3 million and ₱7.4 million as at June 30, 2016 and December 31, 2015, respectively. The current portion is payable in 2017 amounting to ₱15.0 million, net of debt issue costs of ₱0.05 million as at June 30, 2016.

PHP-denominated loan of PERF Restaurants, Inc.(PERF). Loan 9 is a 5-year unsecured USD3.4 million (₱149.2 million) bearing fixed interest rate of 5.32% per annum. The principal is payable on December 20, 2016.

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

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

As at June 30, 2016, PERF ratios of debt service coverage cost and debt to EBITDA is 0.10:1 and 1.83:1, respectively. The loan is part of the current portion of the long-term debt.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱115.9 million and ₱79.6 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23).

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

2016	₱536,484,000
2017	767,960,000
2018	598,544,000
2019 to 2025	8,431,600,000
	<hr/> 10,334,588,000
Less debt issue costs	(11,274,241)
	<hr/> <hr/> ₱10,323,313,759

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 contract 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, 2016 and December 31, 2015.

Freestanding Derivatives, Hedges and Hedge Effectiveness Testing

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

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

The fair value of the IRS amounted to ₱222.6 million and ₱34.9 million as at June 30, 2016 and December 31, 2015, respectively, which were presented as a derivative liability in the 2016 and 2015 statement 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 ₱187.7 million and ₱34.9 million were recognized under other comprehensive income in 2016 and 2015, respectively.

In 2012, Loan 9 was converted into a deliverable cross-currency swap transaction to hedge in full the foreign currency risk and interest rate risk on its floating rate. Under the cross-currency swap, PERF received at inception PHP notional amount of ₱149.2 million and paid USD notional amount of USD3.4 million based on the PHP/USD spot reference rate of ₱43.87. At every interest payment date, PERF will receive variable interest based on 3-month US Dollar LIBOR plus spread and will pay fix interest rate. At maturity date, PERF will receive USD notional amount of USD3.4 million and pay PHP notional amount of ₱149.2 million. The USD receipts from the cross-currency swap correspond to the expected interest fixed principal amount due on the hedged loan. Similar to the hedged loan, the cross-currency swap is non-amortizing and will mature on December 21, 2016.

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

The fair value of the cross-currency swap resulted to a derivative asset amounting to ₱0.2 million and ₱9.9 million as of June 30, 2016 and December 31, 2015, respectively.

Since the critical terms of the hedged loan and cross-currency swap matched, the hedge was assessed to be highly effective. As such, there was no ineffectiveness recognized in the profit or loss for the periods ended June 30, 2016 and 2015.

The movements in fair value of cash flow hedges relative to the cross-currency swap presented in equity under other comprehensive loss as of June 30, 2016 and December 31, 2015 are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱977,759	₱4,435,473
Changes in fair value of the cash flow hedge	7,743,486	(13,351,855)
Transfer to profit or loss	8,644,869	9,894,141
Net movement on cash flow hedge	16,388,355	(3,457,714)
Balance at end of period	17,366,114	977,759
Non-controlling interests' share	(7,988,413)	(449,770)
	₱9,377,701	₱527,989

The foreign exchange revaluation of the hedged loan, amounting to ₱8.6 million and ₱9.9 million, was recognized in other comprehensive loss on derivative liability in 2016 and 2015, respectively.

19. Equity

a. Capital Stock

The movements in the number of shares are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Authorized - ₱1 par value	₱1,450,000,000	₱1,450,000,000
Issued and subscribed:		
Balance at beginning of the period	₱1,086,149,410	₱1,081,040,314
Issuances during the period	3,731,169	5,109,096
Balance at end of period	1,089,880,579	1,086,149,410
Subscriptions receivable	(17,177,884)	(17,177,884)
	₱1,072,702,695	₱1,068,971,526

The total number of shareholders of the Parent Company is 3,102 and 3,118 as at June 30, 2016 and December 31, 2015, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid in capital pertain to the difference between the exercised prices of stock options exercised and the par value of Parent Company's shares. For the periods ended June 30, 2016 and December 31, 2015, stock options totaling 3,731,169 shares and 5,109,096 shares, respectively, were exercised (see Note 26). These resulted to an additional paid in capital amounting to ₱356.3 million and ₱429.9 million in 2016 and 2015, respectively.

Stock options expense, amounting to ₱117.0 million and ₱89.9 million for the periods ended June 30, 2016 and 2015, respectively, were also recognized as part of additional paid in capital (see Notes 22 and 26).

As at June 30, 2016 and December 31, 2015, total additional paid in capital amounted to ₱5,420.6 million and ₱5,055.3 million, respectively.

c. Treasury Shares

The cost of common stock of the Parent Company held in treasury of ₱180.5 million consists of 16,447,340 shares as at June 30, 2016 and December 31, 2015.

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

The amount of excess of cost over the carrying value of non-controlling interests acquired as at June 30, 2016 and December 31, 2015, recognized as part of “Equity Attributable to Equity Holders of the Parent Company” section in the consolidated statements of financial position, resulted from the following acquisitions of non-controlling interests:

	June 2016 (Unaudited)	December 2015 (Audited)
20% of Greenwich in 2006	₱168,257,659	₱168,257,659
15% of Belmont in 2007	375,720,914	375,720,914
40% of Adgraphix in 2010	(1,214,087)	(1,214,087)
30% of Mang Inasal in 2016	1,217,615,297	–
	₱1,760,379,783	₱542,764,486

e. Retained Earnings

The Jollibee Group has a cash dividend policy of declaring one-third of the Jollibee Group’s net income for the year as cash dividends. It uses best estimate of its net income as basis for declaring cash dividends. Actual cash dividends per share declared as a percentage of the EPS are 30.2%, 38.3% and 32.3% in 2016, 2015 and 2014, respectively.

The Parent Company’s retained earnings available for dividend declaration, computed based on the guidelines provided in SEC Memorandum Circular No. 11, amounted to ₱3,554.7 million and ₱11,409.3 million as at June 30, 2016 and December 31, 2015, respectively.

The Parent Company’s cash dividend declarations for 2016, 2015 and 2014 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
<u>2016</u>				
April 6	April 21	May 6	₱0.86	₱919,434,836
<u>2015</u>				
April 7	May 7	May 29	₱0.80	₱851,349,864
November 9	November 25	December 9	0.97	1,035,509,750
			₱1.77	₱1,886,859,614
<u>2014</u>				
April 7	May 8	May 30	₱0.75	₱788,176,867
November 12	November 27	December 18	0.89	945,305,674
			₱1.64	₱1,733,482,541

An important part of the Jollibee Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were acquisitions of 85% of Yonghe King in 2004 in PRC (₱1,200.0 million), 100% of Red Ribbon in 2005 (₱1,700.0 million), the remaining 20% minority share in Greenwich in 2007 (₱384.0 million), the remaining 15% share of Yonghe King in 2007 (₱413.7 million), 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million), 70% of Mang Inasal in 2010 (₱2,976.2 million), 100% of Chowking US operations in 2011 (₱693.3 million), 55% of San Pin Wang in 2012 (₱195.9 million plus a contingent consideration), 48% of WJ Investments Limited (₱98.0 million) in 2012, 40% of SJBF LLC, the parent company of the entities comprising the Smashburger business (₱4,812.8 million), including transaction costs, in 2015 and the remaining 30% minority share in Mang Inasal in 2016 (₱2,000.0 million).

The Jollibee Group plans to continue to make substantial acquisitions in the coming years. The Jollibee Group uses its cash generated from operations to finance these acquisitions and capital expenditures. These limit the amount of cash dividends that it can declare and pay, making the level of the retained earnings higher than the paid-up capital stock.

In support of the Jollibee Group's strategy, the BOD approved an additional appropriation of ₱8,000.0 million, ₱5,200.0 million, ₱3,800.0 million and ₱1,200.0 million on April 6, 2016, April 11, 2013, February 15, 2012 and in 2009, respectively, for future acquisitions and capital expenditures.

Details of the appropriated retained earnings as at June 30, 2016 and December 31, 2015 follow:

Projects	Timeline	June 2016 (Unaudited)	December 2015 (Audited)
Capital Expenditures	2013 - 2018	₱10,600,000,000	₱2,600,000,000
Acquisition of Businesses	2013 - 2018	7,600,000,000	7,600,000,000
		₱18,200,000,000	₱10,200,000,000

The unappropriated retained earnings of the Parent Company is also restricted to the extent of cost of common stock held in treasury amounting to ₱180.5 million in both years as well as the undistributed retained earnings of its subsidiaries which amounted to ₱3,539.5 million and ₱2,718.1 million as at June 30, 2016 and December 31, 2015, respectively.

In relation with the SRC Rule 68, as Amended (2011), Annex 68-D, below is the summary of the Parent Company's track record of registration of securities.

	Number of Shares registered	Issue/offer price	Date of approval	2016 (Unaudited) Number of holders of securities as of June 30	2015 (Audited) Number of holders of securities as of December 31
Common shares	75,000,000	₱9	June 21, 1993	3,102	3,118

20. Royalty, Franchise Fees and Others

This account consists of:

	June 2016 (Unaudited)	June 2015 (Unaudited)
Royalty fees	₱2,429,398,459	₱2,065,763,757
Franchise fees	119,303,375	73,117,033
Service fees	30,986,055	29,080,224
Scrap sales	43,067,571	48,349,057
Rent income (see Note 29)	42,992,268	38,563,034
Other revenues	149,068,967	90,406,138
	₱2,814,816,695	₱2,345,279,243

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 2016 (Unaudited)	June 2015 (Unaudited)
Cost of inventories	₱26,261,362,578	₱23,520,765,566
Personnel costs:		
Salaries, wages and other employee benefits	5,196,880,735	4,758,077,255
Pension expense	55,651,527	46,770,215
Rent (see Note 29)	3,860,744,657	3,518,433,873
Contracted services	1,971,434,543	1,476,226,910
Electricity and other utilities	1,932,157,349	1,858,705,067
Depreciation and amortization (see Notes 12 and 13)	1,727,382,998	1,513,281,309
Supplies	1,013,788,532	932,417,959
Repairs and maintenance	645,252,190	496,494,921
Security and janitorial	298,549,361	231,674,875
Communication	87,535,968	80,447,467
Entertainment, amusement and recreation	19,318,474	18,261,403
Professional fees	14,070,819	8,696,824
Others	1,235,441,766	1,106,346,066
	18,058,208,919	16,045,834,144
	₱44,319,571,497	₱39,566,599,710

22. General and Administrative Expenses

This account consists of:

	June 2016	June 2015
	(Unaudited)	(Unaudited)
Personnel costs:		
Salaries, wages and other employee benefits	₱2,742,533,562	₱2,237,608,642
Stock options expense (see Note 26)	117,022,203	89,903,901
Pension expense	62,459,917	45,388,565
Taxes and licenses	596,194,866	541,718,183
Professional fees	240,849,371	171,343,899
Transportation and travel	222,909,314	205,577,766
Rent (see Note 29)	222,273,510	195,416,646
Depreciation and amortization (see Notes 12, 13, 14 and 15)	217,753,817	198,297,295
Contracted services	209,953,261	93,468,693
Loss on retirement of assets	123,984,648	56,401,192
Corporate events	78,827,354	79,531,956
Donations	77,557,601	100,496,949
Repairs and maintenance	67,593,821	60,575,400
Training	60,541,543	39,335,401
Provisions for impairment losses on:		
Receivables (see Note 7)	46,021,986	12,155,839
Inventories (see Note 8)	7,540,343	13,121,645
Communication	50,397,503	63,845,548
Supplies	35,017,999	34,136,544
Entertainment, amusement and recreation	28,820,071	33,186,480
Electricity and other utilities	25,804,449	26,673,836
Association dues	24,915,377	26,805,086
Security and janitorial	9,403,147	10,209,861
Insurance	6,418,995	6,594,839
Reversals of provision for impairment losses on:		
Receivables (see Note 7)	(3,149,051)	(4,563,870)
Inventories (see Note 8)	(4,812,823)	(2,866,856)
Others	244,190,381	150,710,959
	₱5,511,023,165	₱4,485,074,399

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

	June 2016 (Unaudited)	June 2015 (Unaudited)
Interest income:		
Cash and cash equivalents and short-term investments (see Note 6)	₱44,219,771	₱48,058,673
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	5,916,063	6,088,076
Loans and advances (see Note 11)	64,050,296	56,960,599
	₱114,186,130	₱111,107,348
Interest expense:		
Long-term debt (see Note 18)	(₱115,947,085)	(₱79,562,695)
Short-term debt (see Note 18)	(132,049)	(32,945,993)
Accretion of interest on the liability and remeasurement of contingent consideration from acquisition of businesses and accretion of customers' deposits (see Notes 11 and 16)	(8,766,790)	(9,425,236)
	(124,845,924)	(121,933,924)
Other income (expense):		
Write-off of other liabilities	₱369,971,798	₱405,868,543
Rebates and suppliers' incentives	100,987,200	118,172,988
Foreign exchange gain (loss) - net	(37,018,994)	6,501,751
Penalties and charges	26,948,061	14,332,014
Charges to franchisees	8,091,726	11,028,040
Other rentals	5,865,267	6,791,117
Pre-termination of operating leases	-	2,957,793
Bank charges, insurance claims and others	4,476,314	(33,662,606)
	₱479,321,372	₱531,989,640

24. Income Taxes

The Jollibee Group's provision for current income tax consists of the following:

	June 2016 (Unaudited)	June 2015 (Unaudited)
Final tax withheld on:		
Royalty and franchise fee income	₱541,088,639	₱457,461,263
Interest income	7,106,771	4,068,369
RCIT:		
With itemized deduction	330,252,755	257,170,560
With Optional Standard Deduction (OSD)	138,545,432	80,198,824
MCIT	100,475,798	74,598,730
	₱1,117,469,395	₱873,497,746

For the period ended June 30, 2016 and year ended December 31, 2015, 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 ₱38.2 million and ₱40.4 million for the period ended June 30, 2016 and year ended December 31, 2015, respectively.

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

	June 2016 (Unaudited)	December 2015 (Audited)
Deferred tax assets:		
NOLCO:		
Philippine-based entities	₱864,185,958	₱596,843,454
PRC-based entities	209,165,953	185,766,984
Pension liability	454,491,358	420,940,255
Operating lease payables	434,014,909	434,947,435
Excess of MCIT over RCIT	412,669,290	318,340,224
Accumulated impairment loss in value of receivables, property, plant and equipment, investment properties, and other nonfinancial assets	169,077,428	164,750,267
Unrealized foreign exchange loss	97,999,366	106,324,834
Unamortized past service costs	21,998,794	25,459,340
Unaccreted discount on security deposits and employee car plan receivables	12,487,931	13,849,282
Others	7,966,614	7,966,614
Total	2,684,057,601	2,275,188,689
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	678,654,256	682,326,007
Unrealized foreign exchange gain	91,808,601	118,662,126
Prepaid rent	61,366,658	42,854,387
Unaccreted discount on employee car plan receivable, security and product security deposits	9,935,146	11,139,822
Deferred rent expense	8,913,747	10,645,399
Operating lease receivables	4,287,398	1,072,412
	854,965,806	866,700,153
Deferred tax assets - net	₱1,829,091,795	₱1,408,488,536

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

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱1,408,488,536	₱740,587,390
Additions	428,434,638	537,470,070
Income tax effect of other remeasurements of net defined benefit plan	-	104,824,523
Translation adjustments	(7,831,379)	25,606,553
	₱1,829,091,795	₱1,408,488,536

OSD

The availment of the OSD method also affected the recognition of several deferred tax assets and liabilities. Deferred tax assets and liabilities, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which the Jollibee Group expects to recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result to any future tax consequence under the OSD method. Meanwhile, deferred tax assets and liabilities, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under OSD method. Hence, the tax base of these deferred tax assets and liabilities is reduced by the 40% allowable deduction provided for under the OSD method.

Accordingly, the Jollibee Group's deferred tax assets and liabilities, which were not recognized due to the use of the OSD method, are as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Deferred tax assets:		
Pension liability	₱10,449,920	₱9,696,538
Allowance for impairment losses on receivables	6,009,062	6,009,062
Operating lease payables	2,170,322	9,562,295
Unamortized past service cost	322,000	383,003
Unaccreted discount on financial instruments	238,757	279,918
Others	28,645	26,316
	19,218,706	25,957,132
Deferred tax liabilities:		
Operating lease receivables	2,670,790	4,772,417
Deferred rent expense	66,520	82,338
Others	176,508	200,959
	2,913,818	5,055,714
	₱16,304,888	₱20,901,418

As at June 30, 2016, NOLCO and excess of MCIT over RCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carry Forward Benefit up to	NOLCO	Excess of MCIT over RCIT
2016	December 31, 2019	₱927,745,281	₱94,329,066
2015	December 31, 2018	1,042,330,392	167,318,506
2014	December 31, 2017	1,269,523,632	138,387,628
2013	December 31, 2016	79,089,765	12,634,090
		3,318,689,070	₱412,669,290
Utilized during the period		(58,778,345)	-
		₱3,259,910,725	₱412,669,290

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at June 30, 2016, NOLCO of the PRC-based entities that can be claimed as deductions from taxable income are as follows:

Year Incurred	Carry Forward Benefit Up to	Tax Losses	Deferred Tax at 25%
2016	December 31, 2021	₱93,595,877	₱23,398,969
2015	December 31, 2020	234,392,612	58,598,153
2014	December 31, 2019	157,497,816	39,374,454
2013	December 31, 2018	145,788,888	36,447,222
2012	December 31, 2017	133,737,020	33,434,255
2011	December 31, 2016	71,651,599	17,912,900
		₱836,663,812	₱209,165,953

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

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱782,610,438	₱544,952,592
Additions	306,713,170	365,752,990
Utilized during the period	(10,981,079)	(126,173,592)
Write-offs and expirations	-	(4,221,281)
Translation adjustments	(4,990,618)	2,299,729
	₱1,073,351,911	₱782,610,438

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

	June 2016 (Unaudited)	December 2015 (Audited)
Balance at beginning of period	₱318,340,224	₱160,357,672
Additions	94,329,066	167,318,506
Write-offs and expirations	-	(9,335,954)
	₱412,669,290	₱318,340,224

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 by the Jollibee Group in writing, the Jollibee Group directs 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 government securities and bonds, term loans, short-term fixed income securities and other loans and investments.

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 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2015	₱2,329,211,722	₱1,496,821,472	₱832,390,250
Pension expense:			
Current service cost	244,819,845	–	244,819,845
Net interest	136,917,250	69,101,351	67,815,899
	381,737,095	69,101,351	312,635,744
Benefits paid	(85,855,905)	(85,855,905)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	(47,445,163)	47,445,163
Actuarial changes arising from changes in financial assumptions	(367,215,450)	–	(367,215,450)
Actuarial changes due to experience adjustment	741,274,687	–	741,274,687
	374,059,237	(47,445,163)	421,504,400
Contributions	–	100,000,000	(100,000,000)
At December 31, 2015	₱2,999,152,149	₱1,532,621,755	₱1,466,530,394

Changes in pension liability of the Jollibee Group in 2014 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2014	₱2,405,920,441	₱1,473,079,332	₱932,841,109
Pension expense:			
Current service cost	195,996,581	–	195,996,581
Net interest	125,947,807	76,360,661	49,587,146
	321,944,388	76,360,661	245,583,727
Benefits paid	(144,682,477)	(144,682,477)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	104,557,655	(104,557,655)
Actuarial changes arising from changes in financial assumptions	224,517,003	–	224,517,003
Actuarial changes due to experience adjustment	(478,487,633)	–	(478,487,633)
	(253,970,630)	104,557,655	(358,528,285)
Contributions	–	58,300,000	(58,300,000)
Other adjustments	–	(70,793,699)	70,793,699
At December 31, 2014	₱2,329,211,722	₱1,496,821,472	₱832,390,250

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 2016 (Unaudited)	December 2015 (Audited)
Cash and cash equivalents	₱144,031,697	₱202,421,524
Investments in government and corporate debt securities	1,175,114,351	1,097,109,433
Investments in quoted equity securities		
Holding firms	120,878,560	125,772,547
Food, beverage and tobacco	67,339,962	58,378,590
Property	66,412,475	55,849,704
Banks	44,516,438	37,093,701
Electricity, energy, power and water	26,151,931	19,903,050
Telecommunications	29,113,520	17,092,000
Others	10,407,475	13,941,890
Interest and dividends receivable	25,374,264	16,367,289
Fund liabilities	(136,352,737)	(111,307,973)
	₱1,572,987,936	₱1,532,621,755

The plan assets consist of the following:

- Investments in government securities which consist of retail treasury bonds that bear interest ranging from 2.35%-8.13% and have maturities from February 2015 to August 2037 and fixed-rate treasury notes that bear interest ranging from 2.88%-11.70% and have maturities from September 2016 to October 2037.
- Investments in equity securities consist of investments in listed equity securities, including equity securities of the Parent Company, for certain retirement plans of the Jollibee Group (see Note 27).
- Investments in debt securities consist of long-term corporate bonds in the power sector, which bear interest ranging from 6.30%-7.75% maturing from April 2017 to April 2037.
- 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, 2015	December 31, 2014	January 1, 2014
Discount rate	5.00% - 5.10%	4.60% - 4.70%	5.00% - 6.00%
Salary increase rate	6.00%	7.00%	6.50% - 7.11%

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, 2015	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50 %	(₱144,519,317)
	-0.50 %	156,998,632
Future salary increases	+0.50%	₱154,737,578
	-0.50%	(143,898,307)
	December 31, 2014	
	Increase (Decrease)	Philippine Plan
Discount rates	+0.50 %	(₱757,777,465)
	-0.50 %	1,029,419,507
Future salary increases	+0.50%	₱1,015,034,231
	-0.50%	(778,272,017)

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2015:

Less than 1 year	₱424,284,936
More than 1 year to 5 years	904,330,471
More than 5 years to 10 years	1,687,578,041
More than 10 years to 15 years	2,066,460,644
More than 15 years to 20 years	2,136,735,329
More than 20 years	6,678,572,246

The Jollibee Group does 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 Jollibee Group ensures 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 Jollibee Group expects to contribute ₱424.3 million to the defined benefit pension plans in 2016.

The average duration of the defined benefit obligation is 10 years as at December 31, 2015 and 2014.

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.

The contributions made to the scheme and recognized as part of other employee benefits amounted to ₱516.5 million in 2015.

26. **Stock Option Plans**

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 may be exercised starting July 1, 2005 and expired on June 30, 2012. From July 1, 2005 to 2015, the Compensation Committee granted series of MSOP grants under the 2nd to 12th MSOP cycle to eligible participants.

On August 25, 2015, the Compensation Committee granted 3,142,600 options under the 12th MSOP cycle to eligible participants. These options are similar to the 1st MSOP cycle. The 2nd, 3rd, 4th and 5th MSOP cycles expired on June 30, 2013, 2014, 2015 and 2016, respectively.

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

	June 2016 (Unaudited)		December 2015 (Audited)		December 2014 (Audited)	
	Number of Options	WAEP	Number of Options	Number of Options	Number of Options	WAEP
Total options granted as at end of period	40,120,794	₱82.22	40,120,794	₱82.22	36,863,194	₱73.58
Outstanding at beginning of period	14,868,437	₱133.32	13,609,275	₱117.51	16,915,937	₱83.77
Options granted during the period	-	-	3,257,600	179.99	3,459,000	178.66
Options exercised during the period	(1,616,169)	73.07	(1,380,628)	100.42	(6,765,662)	63.57
Options forfeited during the period	-	-	(617,810)	104.73	-	-
Outstanding at end of period	13,252,268	₱140.67	14,868,437	₱133.32	13,609,275	₱117.51
Exercisable at end of period	7,802,335	₱113.25	8,262,670	₱100.95	6,865,265	₱79.42

The weighted average share price of the Parent Company common shares is ₱222.96, ₱206.05 and ₱181.34 in 2016, 2015 and 2014, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2015, 2014 and 2013 is 5.19 years, 5.83 years and 4.83 years, respectively.

The weighted average fair value of stock options granted in 2015, 2014 and 2013 is ₱26.13, ₱32.39 and ₱30.55, respectively. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because the option plan allows exercise before the expiry date. The inputs in the valuation of the options granted on the dates of grant for each MSOP cycle are shown below:

MSOP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2 nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3 rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4 th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5 th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6 th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7 th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8 th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9 th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10 th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11 th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00

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 minimum 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 upcoming 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 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.

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. The options will vest at the rate of one-third of the total options granted on each anniversary date which will start after the goals were achieved. One-third of the options granted, or 7,583,333 options, vested and may be exercised starting July 1, 2007 and 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 periods ended June 30, 2016, December 31, 2015 and 2014 follow:

	June 2016 (Unaudited)		December 2015 (Audited)		December 2014 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options given as at end of period	78,969,999	₱74.58	78,969,999	₱74.58	67,499,999	₱56.66
Outstanding at beginning of period	38,344,999	₱117.74	31,270,560	₱90.06	37,186,110	₱82.51
Options granted during the period	-	-	11,470,000	180.00	-	-
Options exercised during the period	(2,115,000)	63.93	(3,728,468)	79.46	(5,665,977)	39.85
Options forfeited during the period	-	-	(667,093)	105.00	(249,573)	105.00
Outstanding at end of period	36,229,999	₱120.88	38,344,999	₱117.74	31,270,560	₱90.06
Exercisable at end of period	8,693,048	₱72.21	10,808,048	₱70.59	7,170,133	₱39.85

The weighted average remaining contractual life for the stock options outstanding as of 2015, 2014 and 2013 is 4.85 years, 4.85 years and 5.30 years, respectively.

The fair value of stock options granted is ₱26.13 in 2015 and ₱22.96 in 2014. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date. The stock options granted under the 2nd, 3rd and 4th ELTIP cycles will expire on April 30, 2017, 2020 and 2023, respectively.

The inputs to the model used for the options granted on the dates of grant for each ELTIP cycle are shown below:

ELTIP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1 st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2 nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3 rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4 th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00

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

The cost of the stock options expense charged to operations for both MSOP and ELTIP in the “General and administrative expenses” account amounted to ₱117.0 million and ₱89.9 million for the periods ended June 30, 2016 and 2015, 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 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Salaries and short-term benefits	₱798,882,199	₱687,549,458	₱584,663,115
Stock options expense	173,211,693	166,490,888	150,418,741
Net pension expense	47,583,693	59,134,502	46,292,773
Employee car plan and other long-term benefits	42,803,342	41,335,689	34,443,875
	₱1,062,480,927	₱954,510,537	₱815,818,504

Transactions with the Retirement Plans

As at June 30, 2016 and December 31, 2015, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	June 2016 (Unaudited)	December 2015 (Audited)
Number of shares	191,330	188,390
Market value	₱46,223,560	₱41,257,410
Cost	8,814,222	8,205,035
Unrealized gain	₱37,409,338	₱33,052,375

The Jollibee Group's receivable from retirement fund amounted to ₱128.2 million and ₱109.6 million as at June 30, 2016 and December 31, 2015, respectively.

Transactions with a Joint Venture

As at June 30, 2016 and December 31, 2015, the Jollibee Group has outstanding advances to SuperFoods Group. The terms of these advances are disclosed in Note 11.

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at market prices and are normally settled in cash.

28. Earnings Per Share

Basic and diluted EPS are computed as follows:

	June 2016 (Unaudited)	June 2015 (Unaudited)
(a) Net income attributable to the equity holders of the Parent Company	₱3,054,237,380	₱2,600,247,393
(b) Weighted average number of shares - basic	1,070,809,575	1,065,314,584
Weighted average number of shares outstanding under the stock option plan	52,105,931	44,158,225
Weighted average number of shares that would have been purchased at fair market value	(30,271,254)	(21,571,380)
(c) Adjusted weighted average shares - diluted	1,092,644,252	1,087,901,429
EPS:		
Basic (a/b)	₱2.852	₱2.441
Diluted (a/c)	2.795	2.390

There were no anti-dilutive options outstanding as at June 30, 2016 and December 31, 2015.

29. Commitments and Contingencies

a. Operating lease commitments - Jollibee Group as lessee

The Jollibee Group has various operating lease commitments for quick service restaurant outlets and offices. The noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Some of the leases contain escalation clauses. The lease contracts on certain sales outlets provide for the payment of additional rentals based on certain percentages of sales of the outlets. Contingent rent expense amounted to ₱806.7 million and ₱670.1 million for the periods ended June 30, 2016 and 2015, respectively.

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

	2015	2014	2013
Within one year	₱1,532,583,258	₱1,669,685,553	₱2,500,831,215
After one year but not more than five years	5,581,731,024	6,449,433,284	8,090,153,478
More than five years	6,443,630,529	4,897,338,004	3,911,301,278
	₱13,557,944,811	₱13,016,456,841	₱14,502,285,971

Rent expense recognized on a straight-line basis amounted to ₱4,083.0 million and ₱3,713.8 million for the periods ended June 30, 2016 and 2015, respectively (see Notes 21 and 22). The difference of rent expense recognized under the straight-line method and the rent amounts due in accordance with the terms of the lease agreements are charged to “Operating lease payables” account which amounted to ₱14.7 million and ₱24.5 million for the periods ended June 30, 2016 and 2015, respectively.

b. Operating lease commitments - Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units and various sublease agreements. Noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Leases generally include a clause to enable upward revision of the rent charges on an annual basis based on prevailing market conditions.

The future minimum lease payments for the noncancellable periods of the operating leases, wherein Jollibee Group is the lessor, follow:

	2015	2014	2013
Within one year	₱63,358,455	₱55,256,411	₱46,453,095
After one year but not more than five years	244,123,192	199,537,668	157,623,110
More than five years	598,950,095	432,616,032	359,274,585
	<u>₱906,431,742</u>	<u>₱687,410,111</u>	<u>₱563,350,790</u>

Rent income recognized on a straight-line basis amounted to ₱43.0 million and ₱38.6 million for the periods ended June 30, 2016 and 2015, respectively (see Note 20). The difference of rent income recognized under the straight-line method and the rent amounts in accordance with the terms of the lease are included under “Operating lease receivables” which amounted to ₱2.5 million and ₱1.3 million for the periods ended June 30, 2016 and 2015, respectively.

c. Contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. Management believes that the ultimate liability, if any, with respect to these litigations, claims and disputes will not materially affect the financial position and financial performance of the Jollibee Group. Thus, other than the provisions in Note 17, there were no other provisions made for contingencies.

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 Jollibee Group does not engage in any long-term debt and foreign currency-denominated transactions that may cause exposure to interest rate risk and foreign currency risk, respectively. The policies for managing each of these risks are summarized as follows:

Interest Rate Risk

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

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

To manage the interest rate risk related to the Jollibee Group's long-term debt, the Jollibee Group used a derivative instrument to fix the interest rate over the term of two of its long-term debts (see Note 18).

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, short-term investments, refundable deposits and employees' car plan receivables.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's equity as at December 31, 2015 and 2014. The impact on the Company's equity is due to changes in the fair value of cross-currency swaps designated as cash flow hedges, floating rate investments and interest rate swaps.

Derivative Instrument

Derivative asset – put/call rights

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax	Effect in Equity Before Income Tax
2015			
USD	+30	(₱33)	₱1,530
	-30	34	(1,598)
PHP	+100	(23,625)	(3,127,521)
	-100	22,113	2,916,423

Derivative asset – cross-currency swap

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax	Effect in Equity Before Income Tax
2015			
USD	+100	(₱203)	₱110,192
	-100	215	(114,914)
PHP	+100	(26,800)	(4,927,786)
	-100	27,802	5,138,954

Long-term Debt with Floating Interest Rates

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax
2015		
USD	+100	(72,660,640)
	-100	72,660,640
PHP	+100	(24,525,646)
	-100	24,525,646
2014		
USD	+100	(27,010,880)
	-100	27,010,880
PHP	+100	(22,903,970)
	-100	22,903,970

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 8.28% and 6.23% of the consolidated net assets of the Jollibee Group as at June 30, 2016 and December 31, 2015, respectively, and the businesses have been rapidly growing.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from the Jollibee Group's Philippine operations' cash and cash equivalents, receivables and long-term debt in foreign currencies.

The following table shows the Jollibee Group's Philippine operations' foreign currency-denominated monetary assets and liabilities and their peso equivalents as at June 30, 2016 and December 31, 2015:

	June 2016 (Unaudited)			December 2015 (Audited)		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	1,082,668	8,078	51,007,544	569,392	8,076	26,854,314
Receivables	348,760	-	16,412,624	269,926	-	12,702,717
Liability						
Long-term debt	-	-	-	-	-	-
Net exposure	1,431,428	8,078	67,420,168	839,318	8,076	39,557,031

Foreign Currency Risk Sensitivity Analysis

The Jollibee Group has recognized in profit or loss, foreign currency exchange gains (losses) included under “Other income” account which amounted to a net foreign exchange gain (loss) of (₱37.0 million) and ₱6.5 million for the periods ended June 30, 2016 and 2015, respectively (see Note 23). This resulted from the movements of the Philippine peso against the USD and RMB as shown in the following table:

	Peso to	
	USD	RMB
June 30, 2016	47.06	7.07
June 30, 2015	45.09	7.28

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, 2016 and December 31, 2015:

Appreciation (Depreciation) of ₱ against Foreign Currency	June 2016 (Unaudited)		December 2015 (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
<i>(In Thousands)</i>				
USD				
₱1.50	(₱2,147)	(₱2,147)	(₱1,259)	(₱1,259)
(1.50)	2,147	2,147	1,259	1,259
1.00	(1,431)	(1,431)	(839)	(839)
(1.00)	1,431	1,431	839	839
RMB				
0.95	7.7	7.7	(7.7)	(7.7)
(0.95)	(7.7)	(7.7)	7.7	7.7
0.63	5.1	5.1	(5.1)	(7.7)
(0.63)	(5.1)	(5.1)	5.1	5.1

Equity Price Risk

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

Credit Risk

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

The Jollibee Group has a strict credit policy. Its credit transactions are with franchisees and customers that have gone through rigorous screening before granting them the franchise. The credit terms are very short, while deposits and advance payments are also required before rendering the service or delivering the goods, thus, mitigating the possibility of non-collection. In cases of non-collection, defaults of the debtors are not tolerated; the exposure is contained the moment a default occurs and transactions that will further increase the exposure of the Jollibee Group are discontinued.

The Jollibee Group has no significant concentration of credit risk with counterparty. The Jollibee Group’s franchisee profile is such that no single franchisee accounts for more than 5% of the total system wide sales of the Jollibee Group.

The aging analysis of loans and receivables as at June 30, 2016 and December 31, 2015 are as follows:

June 2016 (Unaudited)							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Cash and cash equivalents*	₱12,586.8	₱12,586.8	₱-	₱-	₱-	₱-	₱-
Short-term investments	1,442.4	1,442.4	-	-	-	-	-
Receivables:							
Trade	3,663.6	1,443.5	419.0	128.7	130.4	1,008.6	533.4
Employee car plan receivables**	242.9	242.9	-	-	-	-	-
Advances to employees	142.0	142.0	-	-	-	-	-
Other receivables***	164.2	164.2	-	-	-	-	-
Other noncurrent assets:							
Security and other deposits	1,900.2	1,900.2	-	-	-	-	-
Operating lease receivables	21.7	21.7	-	-	-	-	-
	20,163.8	17,943.7	419.0	128.7	130.4	1,008.6	533.4
AFS Financial Assets	21.5	21.5	-	-	-	-	-
	₱20,185.3	₱17,965.2	₱419.0	₱128.7	₱130.4	₱1,008.6	₱533.4
December 2015 (Audited)							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Cash and cash equivalents*	₱11,204.8	₱11,204.8	₱-	₱-	₱-	₱-	₱-
Short-term investments	922.3	922.3	-	-	-	-	-
Receivables:							
Trade	5,575.2	2,646.5	711.8	183.0	416.7	1,097.1	520.1
Employee car plan receivables**	197.6	197.6	-	-	-	-	-
Advances to employees	154.7	154.7	-	-	-	-	-
Other receivables***	145.2	145.2	-	-	-	-	-
Other noncurrent assets:							
Security and other deposits	1,795.0	1,795.0	-	-	-	-	-
Operating lease receivables	12.5	12.5	-	-	-	-	-
	20,007.3	17,078.6	711.8	183.0	416.7	1,097.1	520.1
AFS Financial Assets	21.5	21.5	-	-	-	-	-
	₱20,028.8	₱17,100.1	₱711.8	₱183.0	₱416.7	₱1,097.1	₱520.1

*Excluding cash on hand amounting to ₱324.6 million and ₱292.8 million in 2016 and 2015, respectively.

**Including noncurrent portion of employee car plan receivables.

***Excluding receivables from government agencies amounting to ₱15.2 million and ₱10.3 million in 2016 and 2015, respectively.

Credit Risk Exposure. The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2015 and 2014 without considering the effects of collaterals and other credit risk mitigation techniques:

	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*	₱11,204.8	₱223.3	₱10,981.5**
Short-term investments	922.3	-	922.3
Receivables:			
Trade	5,055.1	137.7	4,917.4***
Employee car plan receivables	197.6	-	197.6
Advances to employees	154.7	-	154.7
Other receivables****	145.2	-	145.2
Other noncurrent assets:			
Security and other deposits	1,795.0	-	1,795.0
Operating lease receivables	12.5	-	12.5
AFS financial asset	21.5	-	21.5
	₱19,508.7	₱361.0	₱19,147.7
<hr/>			
	2014		
	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*	₱7,214.8	₱149.6	₱7,065.2**
Receivables:			
Trade	7,586.5	197.6	7,388.9***
Employee car plan receivables	195.6	-	195.6
Advances to employees	157.1	-	157.1
Other receivables****	121.6	-	121.6
Other noncurrent assets:			
Security and other deposits	1,522.9	-	1,522.9
Operating lease receivables	21.1	-	21.1
AFS financial asset	21.5	-	21.5
	₱16,841.1	₱347.2	₱16,493.9

* Excluding cash on hand amounting to ₱292.8 million and ₱403.7 million in 2015 and 2014, 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 ₱10.3 million and ₱6.9 million in 2015 and 2014, 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, 2016 and December 31, 2015.

	June 2016 (Unaudited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Receivables					
Trade	₱3,663.6	₱866.8	₱253.1	₱323.6	₱2,220.1
Employee car plan receivables*	242.9	242.9	-	-	-
Advances to employees	142.0	142.0	-	-	-
Other receivables**	164.2	164.2	-	-	-
AFS financial asset	21.5	21.5			
	₱4,234.2	₱1,437.4	₱253.1	₱323.6	₱2,220.1

	December 2015 (Audited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Receivables					
Trade	₱5,575.2	₱1,684.0	₱422.4	₱540.1	₱2,928.7
Employee car plan receivables*	197.6	197.6	-	-	-
Advances to employees	154.7	154.7	-	-	-
Other receivables**	145.2	145.2	-	-	-
AFS financial asset	21.5	21.5			
	₱6,094.2	₱2,203.0	₱422.4	₱540.1	₱2,928.7

*Including noncurrent portion of employee car plan receivables.

**Excluding receivables from government agencies amounting to ₱15.2 million and ₱10.3 million in 2016 and 2015, respectively.

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

- A - For counterparty that is not expected by the Jollibee Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes financial institutions, related parties and customers who pay on or before due date.
- B - For counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Jollibee Group. The delays may be due to cut-off differences and/or clarifications on contracts/billings.
- C - For counterparty who consistently defaults in settling its obligation, but with continuing business transactions with the Jollibee Group, and may be or actually referred to legal and/or subjected to cash before delivery (CBD) scheme. Under this scheme, the customer's credit line is suspended and all subsequent orders are paid in cash before delivery. The CBD status will only be lifted upon full settlement of the receivables and approval by management. Thereafter, the regular credit term and normal billing and collection processes will resume.

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, 2016 and year ended December 31, 2015.

The Jollibee Group's financial assets, which have maturity of less than 12 months and are used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and trade receivables amounting to ₱12,911.4 million, ₱1,442.4 million and ₱3,130.1 million, respectively, as at June 30, 2016 and cash and cash equivalents, short-term investments and trade receivables amounting to ₱11,497.6 million, ₱922.3 million and ₱5,055.1 million, respectively, as at December 31, 2015.

The tables below summarize the maturity profile of the Jollibee Group's financial liabilities based on the contractual undiscounted cash flows as at June 30, 2016 and December 31, 2015:

	June 2016 (Unaudited)				Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	
Financial Liabilities					
Trade payables and other current liabilities*	₱-	₱17,579,154,715	₱-	₱-	17,579,154,715
Long-term debt (including current portion)	-	730,933,851	5,445,352,738	5,490,591,850	11,666,878,439
Operating lease payables	-	205,976,178	486,815,789	919,776,175	1,612,568,142
Total Financial Liabilities	₱-	₱18,516,064,744	₱5,932,168,527	₱6,410,368,025	₱30,858,601,296

	December 2015 (Audited)				Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	
Financial Liabilities					
Trade payables and other current liabilities*	₱-	₱16,543,465,961	₱-	₱-	16,543,465,961
Long-term debt (including current portion)	-	1,385,129,936	4,374,187,586	5,490,591,850	11,249,909,372
Liability for acquisition of businesses	-	94,852,231	-	-	94,852,231
Operating lease payables	-	205,976,178	486,815,789	922,847,531	1,615,639,498
Total Financial Liabilities	₱-	₱18,229,424,306	₱4,861,003,375	₱6,413,439,381	₱29,503,867,062

*Excluding statutory obligations such as accrued local and other taxes, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates.

Capital Management Policy

Capital includes equity attributable to equity holders of the Parent Company.

The primary objective of the Jollibee Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Jollibee Group has sufficient capitalization.

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing at least one-third of its consolidated net income, a ratio that would still leave some additional cash for future expansion. If needed, the Jollibee Group would borrow money for acquisitions of new businesses.

As at June 30, 2016 and December 31, 2015, the Jollibee Group's debt ratio and net debt ratio are as follows:

Debt Ratio

	June 2016 (Unaudited)	December 2015 (Audited)
Total debt (a)	₱33,161,636,110	₱33,006,458,507
Total equity attributable to equity holders of the Parent Company	31,598,099,811	30,623,224,057
Total debt and equity attributable to equity holders of the Parent Company (b)	₱64,759,735,921	₱63,629,682,564
Debt ratio (a/b)	51%	52%

Net Debt Ratio

	June 2016 (Unaudited)	December 2015 (Audited)
Total debt	₱33,161,636,110	₱33,006,458,507
Less cash and cash equivalents and short-term investments	14,353,798,445	12,419,876,641
Net debt (a)	18,807,837,665	20,586,581,866
Total equity attributable to equity holders of the Parent Company	31,598,099,811	30,623,224,057
Net debt and equity attributable to equity holders of the Parent Company (b)	₱50,405,937,476	₱51,209,805,923
Net debt ratio (a/b)	37%	40%

31. Fair Value of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

Financial Instruments Whose Carrying Amounts Approximate Fair Value. Management has determined that the carrying amounts of cash and cash equivalents, short-term investments, receivables, operating lease receivables, trade payables and other current liabilities, short-term debt, operating lease payables, current portion of liability for acquisition of businesses, 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, Liability for acquisition of Business 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, liability for acquisition of business (contingent consideration) and derivative assets or liability are based on the discounted value of future cash flows using applicable rates as follows:

	2015	2014
Security and other deposits	2.37%-7.25%	0.48%-5.44%
Employee car plan receivables	2.14%-6.55%	0.35%-9.37%
Derivative asset	0.81%-2.78%	–
Long-term debt	3.43%-3.71%	1.48%-3.31%
Derivative liability	0.96%-1.00%	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, 2015:

	Carrying Value	Fair Value Measurement Using			
		Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	₱21,462,462	₱21,462,462	₱–	₱21,462,462	₱–
Derivative asset – cross currency swap	9,868,242	9,868,242	–	9,868,242	–
Derivative asset – put/call rights	75,031,052	75,031,052	–	–	75,031,052
Assets for which fair values are disclosed:					
Investment properties:					
Land	998,113,494	1,414,303,072	–	1,414,303,072	–
Buildings	983,427,880	1,311,229,072	–	1,311,229,072	–
Other noncurrent assets:	14,685,614	103,074,000	–	103,074,000	–
Security and other deposits	1,794,988,953	1,894,451,261	–	1,894,451,261	–
Employee car plan receivables	130,156,134	138,22,669	–	138,22,669	–

Quantitative fair value measurement hierarchy for assets as at December 31, 2014:

	Carrying Value	Fair Value Measurement Using			
		Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	₱21,479,461	₱21,479,461	₱–	₱21,479,461	₱–
Assets for which fair values are disclosed:					
Investment properties:					
Land	1,025,645,035	1,414,303,072	–	1,414,303,072	–
Buildings	983,427,880	1,311,229,072	–	1,311,229,072	–
Other noncurrent assets:	42,217,155	103,074,000	–	103,074,000	–
Security and other deposits	1,522,942,799	1,545,877,698	–	1,545,877,698	–
Employee car plan receivables	130,234,889	139,690,838	–	139,690,838	–

Quantitative 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	₱34,921,275	₱-	₱34,921,275	₱-
Contingent consideration	December 31, 2015	23,635,513	-	-	23,635,513
Liabilities disclosed at fair value:					
Long-term debt	December 31, 2015	10,558,419,087	-	10,558,419,087	-

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2014:

	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, 2014	₱1,545,472	₱-	₱1,545,472	₱-
Contingent consideration	December 31, 2014	72,176,257	-	-	72,176,257
Liabilities disclosed at fair value:					
Long-term debt	December 31, 2014	8,194,850,283	-	8,194,850,283	-

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 contingent consideration as at December 31, 2015 is as follows:

	Valuation Technique	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value
Contingent consideration	Multiple-scenario weighted-probability approach	Revenue growth rate used to forecast EBITDA	7.8% to 25.0%	Increase (decrease) in the revenue growth rate would increase (decrease) the fair value.
Derivative asset – put/call rights	Binomial pricing option model	Long-term growth rate used to calculate equity value	7.0% to 8.0%	Increase (decrease) in the long-term rate would increase (decrease) the fair value.