

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, if Applicable

N	A		
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COMPANY INFORMATION

Company's Email Address

NA

Company's Telephone Number

(02)839-0011

Mobile Number

NA

No. of Stockholders

28

Annual Meeting (Month / Day)

May 3

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Manuel Del Barrio

Email Address

mtdelbarrio@shakeys.biz

Telephone Number/s

(02)839-0011

Mobile Number

NA

CONTACT PERSON'S ADDRESS

15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque
City 1700

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies





Juanito A. Fullecido, CPA
Finance, Accounting & Tax Services

Address:
Unit 900, National Life Insurance
Building, 6762 Ayala Avenue,
Makati City 1260

Telephone No: (02) 812-2877
Cel No:
+639189948120
Email Address:
juanito.a.fullecido@gmail.com

INDEPENDENT COMPILER'S REPORT

The Management
Shakey's Pizza Asia Ventures Inc.
15KM East Service Road corner Marian Road 2
Barangay San Martin de Porres, Paranaque City 1700

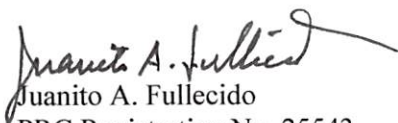
I have compiled the accompanying consolidated financial statements of Shakey's Pizza Asia Ventures Inc. and its subsidiaries based on information you have provided. These consolidated financial statements comprise the consolidated statement of financial position of Shakey's Pizza Asia Ventures Inc. and its subsidiaries as at December 31, 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS). I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These consolidated financial statements and the accuracy and completeness of the information used to compile them are your responsibility. Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to us to compile these consolidated financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these consolidated financial statements are prepared in accordance with PFRS.

JAF Accounting Services


Juanito A. Fullecido

PRC Registration No. 25543
BOA Certificate No. 6244

July 7, 2016, valid until December 31, 2018
Tax Identification No. 102-086-897-000
PTR No. 5927679, January 18, 2017, Makati City

March 31, 2017



SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
(Formerly International Family Food Services, Inc.)
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of **Shakey's Pizza Asia Ventures, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein as at December 31, 2016 and 2015, and each of the three years in the period ended December 31, 2016, in accordance with the Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Christopher T. Po
Chairman of the Board

Vicente L. Gregorio
President and Chief Executive Officer

Manuel T. Del Barrio
Vice President and Chief Financial Officer

Signed this 31st day of March, 2017

(Page 2 of Statement of Management's
Responsibility for Financial Statements)

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

SUBSCRIBED AND SWORN to before me this APRIL 12, 2017 affiant(s) exhibiting to me the
Passport Numbers, as follows:

Name	Passport No.	Date of Issue	Place of Issue
Christopher T. Po	EC3438983	Feb. 11, 2015	DFA NCR East
Vicente L. Gregorio	EC5496727	Sept. 26, 2015	DFA NCR South
Manuel T. Del Barrio	EC2774494	Nov. 19, 2014	DFA NCR East

Notary Public

Doc. No. 374
Page No. 76
Book No. 11
Series of 2017.

Melchor S.S. Manalo
Commission No. M-180
Notary Public for Makati City
Until December 31, 2018
8th floor, GT Tower International
6813 Ayala Avenue 1227 Makati City
Cell No. 62499
PTR No. 5912043/01/05/17; Makati
IDP No. 1057221/01/05/17; Makati City

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Shakey's Pizza Asia Ventures Inc.
15Km East Service Road corner Marian Road 2
Barangay San Martin de Porres, Parañaque City 1700



Opinion

We have audited the consolidated financial statements of Shakey's Pizza Asia Ventures Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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



Accounting for Investment Acquisitions

During the year, the Group completed its acquisitions of Bakemasters, Inc., Shakey's International Limited and Golden Gourmet Limited. The Group accounted for the acquisition of Bakemasters, Inc. as "business acquisition" and the acquisitions of Shakey's International Limited and Golden Gourmet Limited as "asset acquisitions". The goodwill arising from the business acquisition amounted to ₱1,078.6 million while the trademarks arising from the asset acquisitions amounted to ₱4,987.1 million. These transactions are significant to our audit as these are new and major acquisitions during the year and the amounts are material to the consolidated financial statements. In addition, accounting for these acquisitions required significant management judgments and estimates. These included whether the transaction is an acquisition of a business or an acquisition of assets, and allocating the purchase consideration to the assets acquired and liabilities assumed based on fair values.

Management engaged an external appraiser to assist in the valuation of the identifiable assets of the acquired entity.

The disclosures related to the investment acquisitions are included in Notes 5 and 6 to the consolidated financial statements.

Audit response

We evaluated management's judgment on whether these acquisitions qualify as businesses or assets by reference to the purchase agreements and documents related to these acquisitions. We reviewed the identification of the underlying assets and liabilities of the investees based on our understanding of the businesses. We assessed the competence, capabilities, and objectivity of the external appraiser who determined the fair value of the property and equipment based on market data approach. We involved our internal specialists in reviewing the underlying valuation methodology and compared the market value of selected items of property and equipment against the purchase price of similar recent acquisitions of the Group. We also reviewed the disclosures on the investment acquisitions in the notes to the consolidated financial statements.

Impairment Assessment of Goodwill and Trademarks

Under PFRS, the Group is required to annually test the amount of goodwill and trademarks for impairment. As at December 31, 2016, the Group's goodwill attributable to the acquisition of Bakemasters Inc. amounting to ₱1,078.6 million and trademarks acquired from Shakey's International Limited and Golden Gourmet Limited amounting to ₱4,987.1 million, are considered significant to the consolidated financial statements since these account for 63.4% of the Group's total assets. In addition, management's assessment required significant judgment and is based on assumptions, specifically forecasted long-term revenue growth rate, operating expenses, gross margin and discount rate, which are affected by expected future market or economic conditions. The Group's disclosures about goodwill and trademarks are included in Notes 5 and 6 to the consolidated financial statements.



Audit response

We obtained an understanding of the Group's impairment assessment process and related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include forecasted long-term revenue growth rate, operating expenses, gross margin and discount rate. We compared the key assumptions used, such as forecasted long-term revenue growth rate, operating expenses and gross margin against the historical performance of the cash generating units (CGU) and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosure about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and trademarks with indefinite life.

Other Information

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

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

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

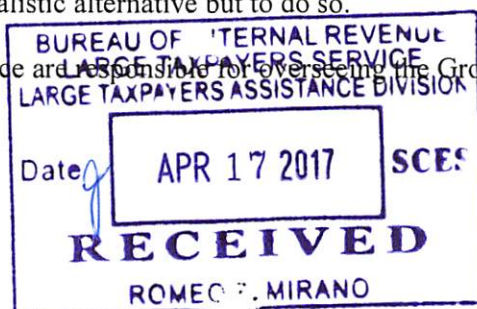
If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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



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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

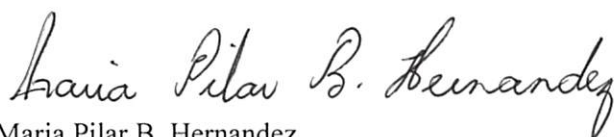


We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Maria Pilar B. Hernandez.

SYCIP GORRES VELAYO & CO.



Maria Pilar B. Hernandez

Partner

CPA Certificate No. 105007

SEC Accreditation No. 1558-A (Group A),

April 14, 2016, valid until April 14, 2019

Tax Identification No. 214-318-972

BIR Accreditation No. 08-001998-116-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 5908706, January 3, 2017, Makati City

March 31, 2017



SHAKEY'S PIZZA ASIA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 26)	₱328,531,651	₱388,872,392
Financial assets at fair value through profit or loss (Notes 9, 26 and 27)	—	36,084,300
Available-for-sale (AFS) investments (Notes 13, 26 and 27)	1,125,173,721	—
Trade and other receivables (Notes 10, 17, 26 and 27)	420,824,917	543,196,681
Current portion of loans to related parties (Notes 17, 26 and 27)	—	23,527,778
Inventories (Note 11)	256,285,224	238,738,578
Prepaid expenses and other current assets (Notes 12 and 15)	13,309,956	10,499,429
Total Current Assets	2,144,125,469	1,240,919,158
Noncurrent Assets		
Property and equipment (Note 14)	999,005,919	577,144,599
AFS investments (Notes 13, 26 and 27)	—	682,534,072
Goodwill (Note 6)	1,078,606,020	—
Trademarks (Note 6)	4,987,109,602	—
Loans to related parties - net of current portion (Notes 17, 26 and 27)	—	8,333,333
Deferred input value-added tax	40,257,683	32,175,398
Deferred tax assets - net (Note 25)	29,905,937	33,629,789
Rental and other noncurrent assets (Notes 12, 15, 26 and 27)	105,448,858	89,514,430
Total Noncurrent Assets	7,240,334,019	1,423,331,621
TOTAL ASSETS	₱9,384,459,488	₱2,664,250,779
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16, 17 and 26)	₱864,310,981	₱907,709,548
Current portion of loan payable (Note 18)	1,048,365,917	—
Income tax payable	64,438,143	57,997,039
Total Current Liabilities	1,977,115,041	965,706,587
Noncurrent Liabilities		
Loan payable - net of current portion (Note 18)	3,933,241,406	—
Accrued pension costs (Note 23)	34,334,511	36,712,202
Accrued rent (Note 28)	64,171,062	42,718,930
Dealers' deposits and other noncurrent liabilities	16,520,343	40,870,197
Total Noncurrent Liabilities	4,048,267,322	120,301,329
Total Liabilities	6,025,382,363	1,086,007,916
Equity		
Capital stock (Note 19)	1,531,321,053	768,614,050
Additional paid-in capital (Note 19)	1,353,554,797	—
Retained earnings (Note 19)	486,513,796	829,245,434
Other components of equity (Notes 13 and 23)	(12,312,521)	(19,616,621)
Total Equity	3,359,077,125	1,578,242,863
TOTAL LIABILITIES AND EQUITY	₱9,384,459,488	₱2,664,250,779

See accompanying Notes to Consolidated Financial Statements



SHAKEY'S PIZZA AS IA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
REVENUES			
Net sales (Notes 17 and 20)	₱5,738,977,478	₱5,075,991,280	₱4,553,499,817
Royalty and franchise fees	206,631,050	168,348,361	142,986,854
	5,945,608,528	5,244,339,641	4,696,486,671
COSTS OF SALES (Notes 17 and 21)	(4,158,600,507)	(4,048,378,689)	(3,638,500,150)
GROSS INCOME	1,787,008,021	1,195,960,952	1,057,986,521
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	(984,652,184)	(582,626,599)	(527,496,511)
INTEREST EXPENSE (Note 24)	(128,490,292)	—	—
OTHER INCOME - Net (Note 24)	262,353,688	45,610,763	50,400,313
INCOME BEFORE INCOME TAX	936,219,233	658,945,116	580,890,323
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	184,883,829	179,988,193	156,174,542
Deferred	(7,849,801)	(635,481)	(4,436,026)
	177,034,028	179,352,712	151,738,516
NET INCOME	759,185,205	479,592,404	429,151,807
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Disposal of AFS (Note 13)	2,888,071	2,756,485	10,264,004
Unrealized gain (loss) on changes in fair value of AFS investments (Note 13)	534,464	(3,466,255)	(10,034,129)
	3,422,535	(709,770)	229,875
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) -			
Actuarial gain (loss) on defined benefit obligation (Note 23)	4,878,542	(21,584,101)	160,536
Tax effect	(996,977)	6,475,230	(48,161)
	3,881,565	(15,108,871)	112,375
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	7,304,100	(15,818,641)	342,250
TOTAL COMPREHENSIVE INCOME	₱766,489,305	₱463,773,763	₱429,494,057
Basic/Diluted Earnings Per Share (Note 30)	₱0.88	₱0.62	₱1.16

See accompanying Notes to Consolidated Financial Statements.



SHAKEY'S PIZZA ASIA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Note 19)	Other Components of Equity Unrealized Gain (Loss) on Changes in Fair Value of AFS Investments (Note 13)	Cumulative Actuarial Loss - Net of Tax (Note 23)	Total
Balances at January 1, 2016	P768,614,050	P—	P829,245,434	(P2,888,071)	(P16,728,550)	P1,578,242,863
Proceeds from issuance of capital stock (Note 19)	762,707,003	1,353,554,797	—	—	—	2,116,261,800
Total comprehensive income	—	—	759,185,205	3,422,535	3,881,565	766,489,305
Cash dividends (Note 19)	—	—	(1,101,916,843)	—	—	(1,101,916,843)
Balances at December 31, 2016	P1,531,321,053	P1,353,554,797	P486,513,796	P534,464	(P12,846,985)	P3,359,077,125
Balances at January 1, 2015	P368,614,050	P—	P900,047,563	(P2,178,301)	(P1,619,679)	P1,264,863,633
Issuance of stock dividends (Note 19)	400,000,000	—	(400,000,000)	—	—	—
Total comprehensive income (loss)	—	—	479,592,404	(709,770)	(15,108,871)	463,773,763
Cash dividends (Note 19)	—	—	(150,394,533)	—	—	(150,394,533)
Balances at December 31, 2015	P768,614,050	P—	P829,245,434	(P2,888,071)	(P16,728,550)	P1,578,242,863
Balances at January 1, 2014	P368,614,050	P—	P593,275,621	(P2,408,176)	(P1,732,054)	P957,749,441
Total comprehensive income	—	—	429,151,807	229,875	112,375	429,494,057
Cash dividends (Note 19)	—	—	(122,379,865)	—	—	(122,379,865)
Balances at December 31, 2014	P368,614,050	P—	P900,047,563	(P2,178,301)	(P1,619,679)	P1,264,863,633

See accompanying Notes to Consolidated Financial Statements.



SHAKY'S PIZZA ASIA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

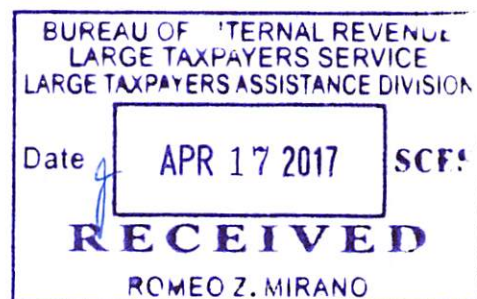
	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P936,219,233	P658,945,116	P580,890,323
Adjustments for:			
Gain on reversal of advances (Note 24)	(222,502,148)	—	—
Depreciation and amortization (Notes 14, 21 and 22)	137,985,368	209,946,662	164,048,040
Interest expense (Note 24)	128,490,292	—	—
Movements in:			
Accrued rent	21,452,132	2,220,035	7,108,891
Accrued pension costs	(1,642,783)	(14,649,237)	4,177,567
Accretion income (Notes 15 and 24)	(4,149,485)	(2,774,254)	(3,701,346)
Loss (gain) on disposal of AFS (Note 24)	4,056,548	2,756,485	(20,264,004)
Interest income (Note 24)	(3,291,346)	(3,878,652)	(3,127,170)
Dividend income (Note 24)	(486,897)	(1,160,729)	(187,074)
Gain on disposal of property and equipment	(238,591)	(418,432)	(477,707)
Unrealized foreign exchange gain (Note 24)	(194,819)	(71,189)	(26,032)
Unrealized loss on change in fair value of financial assets at FPVL (Note 24)	—	3,847,972	891,198
Income before working capital changes	995,697,504	854,763,777	729,332,686
Decrease (increase) in:			
Trade and other receivables	167,663,201	(142,990,519)	(94,010,416)
Inventories	855,740	16,534,408	(139,036,997)
Prepaid expenses and other current assets	(3,758,892)	251,547	(7,935,894)
Increase (decrease) in accounts payable and other current liabilities	(51,211,514)	(98,564,246)	168,146,895
Net cash generated from operations	1,109,246,039	629,994,967	656,496,274
Income taxes paid	(178,442,725)	(171,719,361)	(155,974,150)
Interest received	3,291,346	3,878,652	3,127,170
Net cash provided by operating activities	934,094,660	462,154,258	503,649,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Subsidiaries - net of cash acquired (Note 6)	(6,010,636,947)	—	—
AFS investments (Note 13)	(1,124,639,257)	(469,958,439)	(963,812,271)
Property and equipment (Note 14)	(417,637,547)	(349,503,801)	(294,931,045)
Financial assets at FVPL	—	(6,553,754)	(39,782,686)
Disposal of AFS investments (Note 13)	681,365,595	476,782,556	667,670,345
Sale of Financial assets at FVPL	36,084,300	—	—
Increase (decrease) in dealers' deposits and other noncurrent liabilities	(25,623,290)	9,340,860	11,379,268
Increases in deferred input value added tax	(8,082,285)	(6,142,348)	(8,220,068)
Increase in rental and other deposits	(5,572,608)	(11,725,183)	(7,448,793)
Proceeds from disposals of property and equipment	5,264,498	3,202,547	14,572,403
Dividends received	486,897	1,160,729	187,074
Intercompany loans granted	—	—	(25,000,000)
Collection of intercompany loans	—	24,138,889	19,500,000
Net cash used in investing activities	(6,868,990,644)	(329,257,944)	(625,885,773)

(Forward)



	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loan	₱4,975,000,000	₱—	₱—
Issuance of capital stock (Note 19)	2,116,261,800	—	—
Payments of:			
Dividends (Note 19)	(1,101,916,843)	(150,394,533)	(133,854,340)
Interest	(114,984,533)	—	—
Net cash provided by (used in) financing activities	5,874,360,424	(150,394,533)	(133,854,340)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	194,819	71,189	26,032
NET DECREASE IN CASH AND CASH EQUIVALENTS	(60,340,741)	(17,427,030)	(256,064,787)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 8)	388,872,392	406,299,422	662,364,209
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	₱328,531,651	₱388,872,392	₱406,299,422

See accompanying Notes to Consolidated Financial Statements



SHAKEY'S PIZZA ASIA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Shakey's Pizza Asia Ventures Inc. (SPAVI or the Parent Company), formerly International Family Food Services, Inc. or IFFSI, was incorporated and registered with the Philippine Securities and Exchange Commission on February 14, 1974 with registered office address at 15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque City 1700. The Parent Company is the exclusive franchise holder of the Shakey's Pizza Restaurant business ("Shakey's") in the Philippines. As the exclusive franchise holder to operate Shakey's Restaurant System in the country, the Parent Company is licensed to develop company-owned Shakey's outlets and sub-license the Shakey's brand to other entities in the Philippines.

On April 1, 2016, Shakey's Asia Food Holdings, Inc. (SAFHI or Posana Food Brands, Inc.), a company incorporated in the Philippines, acquired 100% ownership interest in the Company, thus making the Parent Company a wholly-owned subsidiary of SAFHI. SAFHI is a company owned by the Century Pacific Group, Inc. (CPGI), Arran Investments Private Limited (AIPL) and Prieto Family (the former majority owner of the Company) by 56%, 37% and 7%, respectively.

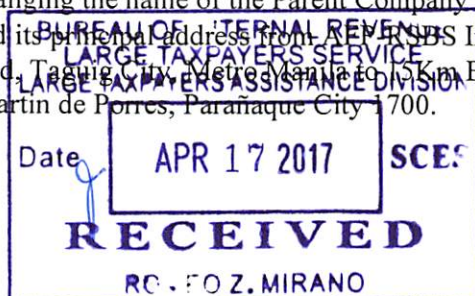
On June 29, 2016, the Parent Company acquired 100% interest in Shakey's Seacrest Incorporated (SSI, formerly, IFFSI Food Brand Trademark, Inc.), a newly incorporated company in the Philippines. SSI is a company engaged in the business of developing and designing, acquiring, selling, transferring, exchanging, managing, licensing, franchising to label marks, devices, brands, trademarks and all other form of intellectual property. As at December 31, 2016, SSI has not yet started its commercial operations.

On October 5, 2016, SAFHI transferred its 100% ownership interest in the Parent Company to CPGI, AIPL and Prieto Family at 56%, 37% and 7% ownership interest, respectively, thus making CPGI the ultimate Parent Company of SPAVI. On the same date, SPAVI acquired 100% ownership interest in Bakemasters, Inc. (BMI), Shakey's International Limited (SIL) and Golden Gourmet Limited (GGL).

BMI was incorporated with the Philippine Securities Exchange Commission (SEC) on May 4, 2005 primarily to engage in the manufacture and distribution of fresh, frozen pan-baked and baked breads, pastries, cakes, desserts, confectionery items, pie crusts and party shells. BMI's registered office address is at AFP-RSBS Industrial Park, C-5, KM12, ESR, Bicutan, Taguig City.

SIL and GGL are limited companies incorporated in Hong Kong. SIL and GGL's principal activity is to hold the trademarks of Shakey's Restaurant System. SIL and GGL's registered office is located at Room 505 Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Hong Kong.

On October 14, 2016, SEC approved the amendment of the Parent Company's Articles of Incorporation changing the name of the Parent Company from IFFSI to Shakey's Pizza Asia Ventures Inc. and its principal address from AFP-RSBS Industrial Park, C-5 Junction, Km. 12, East Service Road, Taguig City, Metro Manila to 15Km East Service Road corner Marian Road 2, Barangay San Martin de Porres, Parañaque City 1700.



On November 25, 2016, the Parent Company acquired 100% interest in Shakey's Pizza Regional Foods Limited (SPRFL), a newly incorporated company in Hong Kong. SPRFL is engaged to develop Shakey's restaurants in Kuwait under the area development agreement with SIL, which granted SPRFL exclusive right to sublicense Shakey's restaurants in the Middle East. SPRFL's registered office address is at 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

On December 15, 2016, the common shares of the Parent Company were listed and traded in the Philippine Stock Exchange (PSE) under the trading name "PIZZA".

Shakey's Pizza Asia Ventures Inc. and its subsidiaries are collectively referred to as "the Group".

Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on March 31, 2017.

2. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for held for trading investment (HFT) and available-for-sale (AFS) investments which are carried at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded off to the nearest million, except those otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its wholly-owned subsidiaries as at December 31. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and when it has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 statement of comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.



Upon consolidation, all intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions are eliminated in full.

Changes in the controlling ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as an equity transaction.

The 2016 consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

	Principal Activities	Percentage of Ownership (%)
Bakemasters, Inc. (BMI) ^a	Manufacturer of pizza dough and pastries	100%
Shakey's International Limited (SIL) ^a	Trademark	100%
Golden Gourmet Limited (GGL) ^a	Trademark	100%
Shakey's Seacrest Incorporated (SSI) ^b	Trademark	100%
Shakey's Pizza Regional Foods Limited (SPRFL)	Trademark	100%

^a Acquired on October 5, 2016 from SAFHI.

^b Incorporated on June 29, 2016.

^c Incorporated on November 25, 2016.

3. Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

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

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

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

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to 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.

- **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 comprehensive income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

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

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of comprehensive income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- **Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification 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.

- **Amendments to PAS 16 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.

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

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

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

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be 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. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to 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 arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

This amendment is applied prospectively and 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.



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

The amendment is applied retrospectively and 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 greater interim financial report (e.g., in the management commentary or risk report).

4. Summary of Significant Accounting and Financial Reporting Policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of comprehensive income. It is then considered in the determination of goodwill or gain on bargain purchase.

Acquisitions that do not constitute businesses are recognized as asset acquisitions. In such cases, the acquirer shall identify and recognize the individual identifiable assets acquired and liabilities assumed. The costs shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of acquisition. Such a transaction or event does not give rise to goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of comprehensive income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs), to which the goodwill relates. When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognized. When goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.



Current versus Noncurrent Classification

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

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

All other assets are classified as noncurrent. A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and noncurrent liabilities, respectively.

Financial Assets

Date of Recognition. The Group recognizes a financial asset in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial assets and financial liabilities are recognized initially at fair value plus, except for financial assets and financial liabilities at fair value through profit or loss (FVPL), any cost directly attributable to the acquisition or issuance. The Group categorizes financial assets as: financial assets at FVPL, differentiating those that are HFT and those designated as such, loans and receivables, held-to-maturity (HTM) investments and AFS investments. Financial liabilities are categorized into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The Group determines the classification of investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

Subsequent Measurement. The subsequent measurement of financial assets depends on their classification.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets or financial assets at FVPL. Such financial assets are carried at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account



any discount or premium on acquisition and fees that are integral part of the effective interest rate (EIR).

Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loan and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

This category includes the Group's cash and cash equivalents, trade and other receivables, rental and other deposits and loan to a related party (see Notes 8, 10, 15 and 17).

HFT investments. HFT investments include equity securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value, and gains and losses on these instruments are recognized as "Trading and securities gain - net" in the consolidated statement of comprehensive income. Quoted market prices, when available, are used to determine the fair value of these financial instruments.

This category includes the Group's financial assets at FVPL (see Note 9).

AFS Investments. AFS investments are those which are designated as such or are not classified in any of the three preceding categories. The Group designates financial assets as AFS investments if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gain and loss recognized as other comprehensive income in the consolidated statement of comprehensive income and in the consolidated statement of changes in equity until the investment is derecognized or determined to be impaired, at which the cumulative gain or loss previously recognized in equity is recognized in net income in the consolidated statement of comprehensive income (see Note 13).

Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS investments are reported as interest income using the EIR. Dividends earned on holding AFS investments are recognized in net income in the consolidated statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such financial assets are recognized in net income in the consolidated statement of comprehensive income. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within twelve months from the reporting date (see Note 13).

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the Group's right to receive cash flows from the asset has expired; or
- the Group has transferred its right 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right 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 asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the 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 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 Group could be required to repay.

Impairment of Financial Assets. The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that 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 when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net income in consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued 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 as part of finance income in net income in consolidated statement of comprehensive income. 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 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 future write-off is later recovered, the recovery is recognized in net income in the consolidated statement of comprehensive income.

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investment is impaired. Objective evidence of impairment for equity investments classified as AFS would include a significant or prolonged



decline in the fair value of the investment below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in net income in the consolidated statement of comprehensive income, is removed from equity and recognized in net income in the consolidated statement of comprehensive income. Impairment loss on equity investments is not reversed through the net income in the consolidated statement of comprehensive income; however, increases in their fair value after impairment are recognized in other comprehensive income in the statement of comprehensive income.

Financial Liabilities

Date of Recognition. The Group recognizes a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition. Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable costs.

The Group does not have any financial liabilities at FVPL as at December 31, 2016 and 2015.

Subsequent Measurement. The subsequent measurement of financial liabilities depends on their classification.

Loans and Borrowings. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the EIR. Gains and losses are recognized in net income in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. Loans and borrowings are included in current liabilities if maturity is within twelve months from the reporting date or the Group does not have an unconditional right to defer payment for at least twelve months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Group’s accounts payable and other current liabilities (excluding statutory liabilities) and loans payable (see Notes 16 and 18).

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, 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 net income in the consolidated statement of comprehensive income.



Debt Issue Costs

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

Prepayment Option

If the Group revises its estimates of payments or receipts, the Group shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated. The adjustment is recognized in profit or loss as income or expense.

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 to the 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 nonfinancial 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 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 of 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.

The fair value information is presented in Note 27.

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 set-off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The 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 Group and all of the counterparties.



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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- | | |
|----------------|---|
| Finished goods | - determined using the moving average method, cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs. |
| Raw materials | - determined using the moving average method. |

NRV of finished goods is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. NRV of raw materials is the current replacement cost.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to net income in the consolidated statement of comprehensive income in the year such 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

When each major repairs and maintenance is performed, its cost is recognized in the carrying amount of the item of property and equipment as a replacement if the recognition criteria are satisfied. Such major repairs and maintenance is capitalized and amortized over the next major repairs and maintenance activity.

Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item of property and equipment is depreciated separately.

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

Category	Number of year(s)
Leasehold improvements	2-10
Furniture, fixtures and equipment	1-10
Machinery and equipment	1-3
Transportation equipment	2-7
Cost of shops and maintenance tools	3-10
Glasswares and utensils	1



Construction in-progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and available for use.

The useful lives and depreciation and amortization method are reviewed at each reporting date, and adjusted prospectively, if appropriate.

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

Fully depreciated assets are retained in the account until they are no longer used although no further depreciation is charged to current operations.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Following initial recognition, intangible assets are carried at cost less any accumulated amortization in the case of intangible assets with finite lives, and any accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least each financial reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if an indication of impairment exists either individually or at the CGU level. Such intangibles are not amortized. Intangible asset with an indefinite life is reviewed annually to determine whether 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.

Impairment of Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that property and equipment, goodwill and trademarks. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.



Impairment losses are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each financial 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. The 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 the consolidated statement of comprehensive income. After such a reversal, the depreciation and amortization are 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.

The following criteria are also applied in assessing impairment of specific nonfinancial assets:

Intangible Assets with Indefinite Life. Goodwill and trademarks are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill and trademarks by assessing the recoverable amount of the CGU, to which the goodwill and trademarks relates. Where the recoverable amount of the cash-generating unit (or group of CGUs) is less than the carrying amount of the cash-generating unit (or group of CGUs) to which the goodwill and trademarks has been allocated, an impairment loss is recognized in the consolidated statement of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill and trademarks on December 31 of each year.

Dealers' Deposits

Dealers' deposits, included as part of "Other current liabilities" account in the consolidated statement of financial position, are initially recognized at fair value. The discount is recognized as deferred credits and amortized over the estimated remaining term of the deposits using the effective interest method.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

Retained Earnings. Retained earnings represent accumulated earnings, net of dividends declared.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises items of income and expense, including reclassification adjustments, actuarial gains and losses on pensions and unrealized fair value changes in AFS investments that are not recognized in net income in the consolidated statement of comprehensive income as required or permitted by other PFRS.

Additional Paid-in Capital (APIC). APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.



Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding discounts, rebates and sales taxes. The Group assesses its revenue against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific revenue criteria must also be met before revenue is recognized:

Sales. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery. The amount is recorded net of discount and sales taxes.

Royalty and Franchise Fees. Revenue is recognized as earned under the accrual basis in accordance with the terms of the agreements with the dealers.

Interest Income. Revenue is recognized as the interest accrues, using the EIR that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend Income. Dividend income is recognized when the Group's right to receive the payment is established.

Dividends on Capital Stock

The Group may pay dividends in cash, property, or by the issuance of shares of stock. All dividends are subject to the approvals of the BOD; however, property dividends need approval from SEC and stock dividends require approval of at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose, and by the SEC. The Group may declare dividends only out of its unrestricted retained earnings.

Cash and property dividends on common stock are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital.

Costs and Expenses Recognition

Costs 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 decrease in equity, other than those relating to distributions to equity participants. Costs of sales and general and administrative expenses are recognized in net income in the consolidated statement of comprehensive income in the period these are incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized in net income in the consolidated statement of comprehensive income on a straight line basis over the lease term.



Pension Costs

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its qualified employees. The plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Defined Benefit Plans. The net defined benefit 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, 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.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation 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 cost of sales and general and administrative expenses in the consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation 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.

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

Plan assets are assets that are held by a long-term employee benefit fund. 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).

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at reporting date.

Foreign Currency-denominated Transactions

Foreign currency-denominated transactions 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 exchange rate at reporting date. Exchange rate differences arising on the settlement and restatement of monetary items at rates different from those at which they were initially recorded are recognized in net income in the consolidated statement of comprehensive income in the year such differences arise. Nonmonetary items denominated in foreign currencies are measured on a historical cost basis and translated using the exchange rate at the date of transaction.



Income Tax

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or 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 the reporting date.

Deferred Tax. Deferred tax is provided, using the 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 liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the deductible 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 future taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets, if any, are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax 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 tax authority is included as part of receivables or payables in the consolidated statement of financial position.

Earnings Per Share (EPS)

Basic EPS is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted EPS is computed as if the stock options were exercised as at the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Group does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted EPS is the same as basic EPS.



Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 7 to the consolidated financial statements.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated 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 in the notes to the consolidated financial statements when an inflow of economic benefit is probable.

Events After the Reporting Period

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

5. 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 of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made judgments which have significant effect on the amounts recognized in the consolidated financial statements and accompanying notes. The judgments are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements.

Acquisition of Investments Qualified as a Business Combination. In applying the requirements of PFRS 3, Business Combinations, an entity or an asset being acquired has to be assessed whether it constitutes a business. The assessment requires identification of inputs and processes applied to these inputs to generate outputs or economic benefits. As discussed in Note 6, BMI was considered a business and was accounted for as business combination while SIL and GGL do not constitute businesses and were accounted for as asset acquisitions.



The fair values of the identifiable net assets acquired from BMI in 2016 amounted to ₱191.4 million. The acquisition of BMI has resulted in recognition of goodwill. The carrying value of goodwill as at December 31, 2016 amounted to ₱1,078.6 million (see Note 6).

Since SIL and GGL do not constitute as businesses, the Group accounted for the acquisition as acquisition of assets. The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of their fair values at acquisition date.

The fair values of the identifiable net assets acquired from acquisition of the assets amounted to ₱226.6 million. No goodwill was recognized. The carrying values of the trademarks acquired amounted to ₱4,987.1 million as at December 31, 2016 (see Note 6).

Purchase Price Allocation in Business Combinations. The Company accounts for the acquired business using the acquisition method which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill, a separate account in the consolidated statement of financial position (or subsumed in the investment for acquisition of an associate), or gain on bargain purchase in profit or loss. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial position and performance.

The Group's acquisition of BMI has resulted in recognition of goodwill. The carrying value of goodwill amounted to ₱1,078.6 million as at December 31, 2016 (see Note 6).

Evaluation of Operating Lease Commitments-Group as Lessee. The Group has entered into long-term leases of store spaces. Management has determined that all the significant risks and rewards of ownership of the property which the Group leases, remain with the lessor because of the following factors; (a) the Group will not acquire ownership of the leased property upon termination of the lease; (b) at the inception of the lease, the present value of the minimum lease payments by the Group is substantially lower than the fair value of the leased asset; and, (c) the Group has not given an option to purchase the asset at a price that is sufficiently lower than the fair value at the date the option becomes exercisable. Accordingly, the said leases are accounted for as operating leases.

Rent expense amounted to ₱341.6 million, ₱279.1 million and ₱259.2 million in 2016, 2015 and 2014, respectively (see Notes 21, 22 and 28).

Assessment of Impairment of AFS Investments - Significant and Prolonged Decline in Fair Value. The Group determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below their costs or where other objective evidence of impairment exists. The Group determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than twelve months is considered to be a prolonged decline. This determination of what is significant or prolonged decline requires judgment. In making this judgment, the Group evaluates the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

In 2016, 2015 and 2014, management has assessed that no impairment loss needs to be recognized on its AFS investments. The carrying value of AFS classified as current amounted to ₱1,125.5 million and nil in 2016 and 2015, respectively, while AFS investments classified as



noncurrent amounted to nil and ₱682.5 million as at December 31, 2016 and 2015, respectively (see Note 13).

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at reporting date that have 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 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 market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Determination of Fair Value of Financial Instruments. Where the fair value of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows 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. The 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 values of financial assets and financial liabilities are disclosed in Note 27.

Estimation of Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on the aging of receivables, past collection experience and other factors that may affect collectability. An evaluation of the receivables, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. The amount of recorded expenses and the timing of recording such expenses for any period would therefore differ based on the judgments or estimates made.

The Group recognized reversal of allowance for doubtful accounts amounting to ₱0.4 million in 2016 and recorded provision for doubtful accounts amounting to ₱1.4 million and ₱1.8 million in 2015 and 2014, respectively. The carrying values of trade and other receivables net of allowance for doubtful accounts amounting to ₱6.5 million and ₱6.6 million, amounted to ₱420.8 million and ₱543.2 million as at December 31, 2016 and 2015, respectively (see Note 10).

Estimation of Allowance for Unrecoverable Deposits. The Group reviews its deposits at each reporting date to assess whether an allowance should be recorded. Estimates of allowance is calculated through specific evaluation of information available, that the lessor is unable to meet their financial obligations. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required, including but not limited to, the length of relationship with lessor and their credit status based on known market factors. An evaluation of the deposits, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year.

Provision for unrecoverable deposits amounted to ₱1.9 million in 2016, nil in 2015 and ₱1.2 million in 2014 (see Note 22). Allowance for unrecoverable deposits amounted to ₱2.1 million and ₱1.2 million as at December 31, 2016 and 2015, respectively. The carrying value of rental and other deposits amounted to ₱105.4 million and ₱89.5 million as at December 31, 2016 and 2015, respectively (see Note 15).



Evaluation of Net Realizable Value of Inventories. The Group writes down the cost of inventories whenever net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in prices level or other causes. The lower of cost and net realizable value of inventories is reviewed at each reporting date. Inventory items identified to be obsolete and unusable are also written off and charged as expense in net income in the consolidated statement of comprehensive income.

Reversal of provision for inventory obsolescence amounting ₱3.2 million was recognized in 2016 while no provision nor reversal for inventory obsolescence was recognized in 2015 and 2014 (see Note 24). The carrying values of inventories amounted to ₱256.3 million and ₱238.7 million, net of allowance for inventory obsolescence of ₱4.5 million and ₱6.3 million as at December 31, 2016 and 2015, respectively (see Note 11).

Estimation of Useful Lives of Property and Equipment. The useful lives of property and equipment are estimated based on the economic lives of the property and equipment and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of the property and equipment are reviewed at reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

On January 1, 2016, the management revised the estimated useful lives of its property and equipment based on their experience in renewal of lease term and current practice of their related parties in the restaurant business. The change resulted in a decrease in depreciation of ₱123.4 million for the year ended December 31, 2016. The carrying value of property and equipment amounted to ₱999.0 million and ₱577.1 million as at December 31, 2016 and 2015, respectively (see Note 14). The effect of the change in useful lives in the future periods cannot be determined and is impracticable to estimate.

Impairment of Property and Equipment. Impairment review is performed when certain impairment indicators are present. Property and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the value in use of property and equipment, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements.

Based on the assessment of management, the Group's property and equipment do not have any indication of impairment as at December 31, 2016 and December 31, 2015. No impairment loss was recognized in 2016 and 2015. The carrying value of property and equipment amounted to ₱999.0 million and ₱577.1 million as at December 31, 2016 and 2015, respectively (see Note 14).

Recoverability of Goodwill and Trademarks. The Group performs recoverability testing annually or more frequently when there are indications of impairment for goodwill and trademarks with indefinite lives. Goodwill acquired through business combination has been allocated to one CGU which is also the operating entity acquired through business combination and to which the goodwill relates. The Group has identified that trademarks have indefinite lives. Recoverability testing requires an estimation of the value in use or fair value less cost of disposal of the CGU to which goodwill and trademarks allocated. Estimating the recoverable amount of the CGU involves significant assumptions about the future results of the business such as revenue growth



and gross margins in its manufacturing business, and discount rates which were applied to cash flow forecasts. The cash flow forecasts were based on financial budgets approved by the BOD covering a five-year period.

The impairment on goodwill and trademark is determined by comparing: (a) the carrying amount of the cash-generating unit; and (b) the present value of the annual projected cash flows for five years and the present value of the terminal value computed under the discounted cash flow method.

The key assumptions used in the impairment test of goodwill and trademarks are as follows:

a. Gross Revenue

On the average, gross revenue of the CGU over the next five years were projected to grow in line with the economy or with nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective industries will be flat on the assumption that the industries also grow at par with the economy. Historically, the business growth had a direct correlation with economic growth. A 5% perpetuity growth rate was assumed at the end of the five-year forecast period.

b. Operating Expenses

On the average, operating expenses were projected to increase in relation to revenue growth.

c. Gross Margins

Increased efficiencies over the next five years are expected to result in margin improvements.

d. Discount Rate

The discount rate used to arrive at the present value of future cash flows was the Group's Weighted Average Cost of Capital (WACC). WACC was based on the appropriate weights of debt and equity, which were multiplied with the assumed costs of debt and equity. The discount rates applied to the cash flow projections range from 12.2% to 13.4% in 2016.

The carrying amount of goodwill and trademark amounted to ₱1,078.6 million and ₱4,987.1 million, respectively, as at December 31, 2016. The carrying amount of the CGUs to which the goodwill and trademarks with indefinite lives are allocated is greater than its recoverable amount. No impairment loss was recognized on goodwill and trademark for the year ended December 31, 2016.

Determination of Pension Costs. The cost of defined benefit pension plans and present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension 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. Accrued pension costs amounted to ₱34.3 million and ₱36.7 million as at December 31, 2016 and December 31, 2015, respectively (see Note 23).

The discount rate is derived by discounting all expected benefit payments using interest rates of government bonds that correspond to the timing of benefit payments, after which, a single discount rate is computed considering the aggregate amount of all discounted values.



The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the Philippines.

Further details about the assumptions used are provided in Note 23.

Recoverability of Deferred Tax Assets. The Group performs an annual evaluation of the realizability of deferred tax assets in determining the portion of deferred tax assets which should be recognized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following period. This forecast is based on the Group's past results and future expectations on revenue and expenses.

Deferred tax assets recognized amounted to ₱46.6 million and ₱33.7 million as at December 31, 2016 and December 31, 2015, respectively (see Note 25).

Evaluation of Claims Under Legal Contingencies. The Group is involved in certain legal actions and claims. The Group's estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Group's defense in these matters and is based upon thorough analysis of potential results. Upon such consultation with outside legal counsel, management believes that the ultimate liability or loss, if any, with respect to such obligations, claims and disputes is not material to affect the Group's financial position and financial performance.

6. Business Combinations

Bakemasters, Inc.

On October 5, 2016, SPAVI purchased from SAFHI the entire outstanding shares of stocks of BMI. The purchase price consideration has been allocated on the based on relative fair values at date of acquisition as follows:

	Carrying Values	Fair Values Recognized
Current Assets:		
Cash	₱13,620,583	₱13,620,583
Receivables	78,036,652	78,036,652
Inventory	18,402,386	18,402,386
Other current assets	1,427,246	1,427,246
Total Current Assets	111,486,867	111,486,867
Noncurrent Assets		
Property, plant and equipment	110,245,137	147,430,365
Other noncurrent assets	6,212,336	6,212,336
Deferred income tax assets	578,892	578,892
Total Noncurrent Assets	117,036,365	154,221,593
Current Liabilities		
Accounts payable	55,604,216	55,604,216
Current portion of loan payable	1,000,000	1,000,000
Income and withholding taxes payable	2,375,612	2,375,612
Total Current Liabilities	58,979,828	58,979,828

(Forward)



	Carrying Values	Fair Values Recognized
Noncurrent Liabilities		
Accrued pension cost	₱4,143,634	₱4,143,634
Deferred tax liability on the excess of fair value over the cost of the net identifiable assets acquired	–	11,155,568
Identifiable Net Assets Acquired	₱165,399,770	₱191,429,430
Identifiable Net Assets Acquired		₱191,429,430
Goodwill from the acquisition		1,078,606,020
Purchase consideration transferred		₱1,270,035,450
Cash flows from an investing activity:		
Cash payment		₱1,270,035,450
Net cash acquired from subsidiary		(13,620,583)
Net cash outflow		₱1,256,414,867

The goodwill of ₱1,078.6 million reflects the expected growth in the Company's restaurant business. The goodwill is not deductible for tax purposes.

Shakey's International Limited and Golden Gourmet Limited

On October 5, 2016, SPAVI purchased from SAFHI the entire outstanding shares of stocks of SIL and GGL. Both Companies were incorporated in Hong Kong with limited liability.

Management has assessed that SIL and GGL do not qualify as businesses based on relevant accounting standards and therefore were accounted for as an acquisition of assets, i.e. trademarks, amounting to ₱4,987.1 million. The transaction did not give rise to goodwill. The consideration has been allocated to the identifiable assets and liabilities on the basis of their fair values as follows at date of acquisition:

	Carrying Values	Fair Values Recognized
Current Assets -		
Cash	₱6,277,921	₱6,277,921
Trade and other receivables	348,670	348,670
Total Current Assets	6,626,591	6,626,591
Current Liabilities		
Accounts payable	₱491,657	₱491,657
Due to a stockholder	232,744,536	232,744,536
Total Current Liabilities	233,236,193	233,236,193
Identifiable Net Liabilities Acquired	(₱226,609,602)	(₱226,609,602)
Identifiable Net Liabilities Acquired		(₱226,609,602)
Trademark from the acquisition		4,987,109,602
Purchase consideration transferred		₱4,760,500,000

(Forward)



	Carrying Values	Fair Values Recognized
Cash flows from an investing activity:		
Cash payment		₱4,760,500,000
Net cash acquired from subsidiary		(6,277,921)
Net cash outflow		₱4,754,222,079

Impact on consolidated financial statements had the acquisition actually taken place on January 1, 2016

The consolidated revenues, consolidated net income and consolidated net comprehensive income of the Parent Company and its subsidiaries would have increased by ₱68.7 million, ₱25.8 million and ₱24.0 million, respectively, for the year ended December 31, 2016 had the acquisition of BMI, SIL and GGL actually taken place on January 1, 2016. As such, the consolidated revenues, consolidated net income and consolidated net comprehensive income of the Parent Company and its subsidiaries would have been ₱6,014.3 million, ₱785.8 million and ₱791.0 million, respectively, for the year ended December 31, 2016.

The following table presents a summary of the reported financial information for the Parent Company and its subsidiaries, as well as financial information had the acquisition of BMI, SIL, and GGL actually taken place on January 1, 2016:

	Audited consolidated financial information	Consolidated financial information had the acquisitions taken place as at January 1, 2016
Revenues	₱5,945,608,528	₱6,014,346,214
Cost of sales	4,158,600,507	4,164,557,243
Gross profit	1,787,008,021	1,849,788,971
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,199,403,547	1,256,378,125
Net income before income tax	936,219,233	973,594,729
Provision for income tax	177,034,028	188,585,707
Net income after income tax	759,185,205	785,009,022
Net comprehensive income	766,489,305	790,463,945

7. Segment Information

Segment information is prepared on the following bases:

Business Segments

For management purposes, the Group is organized into three business activities - Restaurant sales, franchise and royalty fees and commissary sales. This segmentation is the basis upon which the Group reports its primary segment information.

- Restaurant sales comprise revenues from restaurant activities and sale of merchandise and equipment to franchisees.
- Franchise and royalty fees represents payment of subdealers for use of the Shakey's brand.
- Commissary sales comprise of third party sales other than aforementioned activities.



Inter-segment Transactions

Segment revenue, segment expenses and operating results include transfers among business segments. The transfers are accounted for at competitive market prices charged to unrelated customers for similar services. Such transfers are eliminated upon consolidation.

The Group's chief operating decision maker, monitors operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit and loss in the consolidated financial statements.

On a consolidated basis, the Group's performance is evaluated based on consolidated net income for the year EBITDA and EBITDA margin. EBITDA margin pertains to EBITDA divided by gross revenues.

EBITDA and EBITDA margin are non-PFRS measures.

The following table shows the reconciliation of the consolidated EBITDA to consolidated net income:

	Years Ended December 31,		
	2016	2015	2014
Consolidated EBITDA	₱1,199,403,547	₱865,013,126	₱739,090,861
Depreciation and amortization	(137,985,368)	(209,946,662)	(164,048,040)
Provision for income tax	(177,034,028)	(179,352,712)	(151,738,516)
Interest expense	(128,490,292)	—	—
Interest income	3,291,346	3,878,652	5,847,502
Consolidated net income	₱759,185,205	₱479,592,404	₱429,151,807



Business Segment Data

The following tables present revenue and income information and certain assets and liabilities information regarding business segments for each of the three years in the period ended December 31:

	Restaurant			Franchise and Royalty Fees			Commissary and Others			Eliminations			Consolidated		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenue	P5,738,457,815	P5,075,991,280	P4,553,499,817	P206,880,100	P168,348,361	P142,986,854	P110,657,643	P-	P-	(P110,387,030)	P-	P-	P5,945,608,528	P5,244,339,641	P4,696,486,671
Results															
Operating results	566,097,522	444,985,990	387,503,156	202,545,861	168,348,363	142,986,854	30,566,109	-	-	3,146,345	-	-	802,355,837	613,334,353	530,490,010
Depreciation and amortization	131,457,611	209,946,662	164,048,040	-	-	-	6,130,771	-	-	396,986	-	-	137,985,368	209,946,662	164,048,040
Income tax	(130,706,941)	(145,683,038)	(123,141,145)	(40,703,179)	(33,669,672)	(28,597,371)	(5,623,908)	-	-	-	-	-	(177,034,028)	(179,352,712)	(151,738,516)
Interest expense	(128,487,008)	-	-	-	-	-	(8,451)	-	-	5,167	-	-	(128,490,292)	-	-
Interest income	3,408,331	3,179,105	3,127,170	(124,024)	699,547	2,720,332	12,206	-	-	(5,167)	-	-	3,291,346	3,878,652	5,847,502
Net income	346,369,585	342,328,082	312,041,992	165,587,010	137,264,322	117,109,815	247,625,596	-	-	(396,986)	-	-	759,185,205	479,592,404	429,151,807
EBITDA	P733,612,814	P694,778,677	P596,104,007	P206,414,213	P170,234,449	P142,986,854	P259,376,520	P-	P-	P-	P-	P-	P1,199,403,547	P865,013,126	P739,090,861
EBITDA Margin													20.17%	16.49%	15.74%
Assets and Liabilities															
Operating assets	P9,104,296,697	P2,630,620,990	P2,396,152,126	P41,111,330	P-	P-	P331,453,446	P-	P-	(P122,307,922)	P-	P-	P9,354,553,551	P2,630,620,990	P2,396,152,126
Deferred tax assets – net	28,974,195	33,629,789	26,519,078	-	-	-	931,742	-	-	-	-	-	29,905,937	33,629,789	26,519,078
Total assets	P9,133,270,892	P2,664,250,779	P2,422,671,204	P41,111,330	P-	P-	P332,385,188	P-	P-	(P122,307,922)	P-	P-	P9,384,459,488	P2,664,250,779	P2,422,671,204
Operating liabilities	P1,041,399,890	P1,086,007,916	P1,157,807,571	P19,550,096	P-	P-	P140,945,814	P-	P-	(P158,120,760)	P-	P-	P1,043,775,040	P1,086,007,916	P1,157,807,571
Interest-bearing loans and borrowings	4,981,607,323	-	-	-	-	-	-	-	-	-	-	-	4,981,607,323	-	-
Total liabilities	P6,023,007,213	P1,086,007,916	P1,157,807,571	P19,550,096	P-	P-	P140,945,814	P-	P-	(P158,120,760)	P-	P-	P6,025,382,363	P1,086,007,916	P1,157,807,571



8. Cash and Cash Equivalents

	2016	2015
Cash on hand	₱54,795,138	₱45,765,282
Cash in banks	273,236,104	269,616,378
Short-term deposits	500,409	73,490,732
	₱328,531,651	₱388,872,392

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest ranging from 0.13% to 0.25% in 2016 and 0.63% to 1.88% in 2015 and 2014. Interest income on cash and cash equivalents amounted to ₱3.3 million, ₱3.9 million and ₱3.2 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

9. Financial Assets at Fair Value through Profit or Loss

The account consists of money market securities classified as HFT investments amounting to nil and ₱36.1 million as at December 31, 2016 and 2015, respectively.

In 2016, 2015 and 2014, the Group, through sale of the investments, realized gains amounting to ₱10.7 million, ₱3.3 million and ₱0.6 million, respectively, while the outstanding shares at each year end earned nil in 2016 and unrealized losses of ₱3.8 million and ₱0.9 million in 2015 and 2014, respectively (see Note 24).

Dividend income earned on these financial assets amounted to ₱0.5 million, ₱1.2 million and ₱0.2 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

10. Trade and Other Receivables

	2016	2015
Trade:		
Stores	₱195,113,110	₱201,220,359
Related parties (see Note 17)	2,934,997	20,029,977
Third parties	31,858,992	-
Advances:		
Suppliers	129,508,535	105,566,718
Related parties (see Note 17)	-	65,500,000
Third parties	226,477	-
Receivable from National Advertising Fund (NAF) (see Note 16)	11,763,847	44,722,424
Receivables from employees	15,281,774	24,653,549
Royalty receivable	19,712,775	16,791,772
Others:		
Stores	20,649,181	68,097,955
Related parties (see Note 17)	-	3,169,183
Third parties	241,080	-
	427,290,768	549,751,937
Less allowance for doubtful accounts	(6,465,851)	(6,555,256)
	₱420,824,917	₱543,196,681



Below are the terms and conditions of the financial assets:

- Trade receivables are non-interest bearing and are normally collectible within 10 days.
- Advances to suppliers represent payments to suppliers and contractors for items purchased or goods yet to be delivered or rendered.
- Royalty receivable is being collected from dealers on the 20th day of the following month.
- Receivables from employees, which represent mainly salary loan, are interest-free and are being collected through salary deduction for a period ranging from 6 months to 1 year.
- Receivable from NAF pertains to short-term advances provided by the Group for the advertising and promotional activities of Shakey's which are to be reimbursed from the fund.
- Other receivables consist mainly of receivables from various parties for transactions other than sale of goods such as management fees, freight and gas expenses, are non-interest bearing and generally have 30 to 45 days' term.
- For terms and conditions of related party receivables, refer to Note 17.

The movements of allowance for doubtful accounts are as follows:

	2016			2015		
	Trade and Others	Receivables from Employees	Total	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	₱5,184,105	₱1,371,151	₱6,555,256	₱4,413,459	₱695,049	₱5,108,508
Effects of business combination	775,884	—	775,884	—	—	—
Provision for (reversal of) allowance for doubtful accounts (see Notes 22 and 24)	(393,024)	—	(393,024)	770,646	676,102	1,446,748
Accounts written-off	(472,265)	—	(472,265)	—	—	—
Balance at year-end	₱5,094,700	₱1,371,151	₱6,465,851	₱5,184,105	₱1,371,151	₱6,555,256

11. Inventories

	2016	2015
At net realizable value:		
Finished goods	₱5,172,117	₱—
Merchandise	236,992,503	238,738,578
Raw materials:		
Food	9,398,646	—
Packaging	4,721,958	—
	₱256,285,224	₱238,738,578



The cost of the inventories carried at NRV follows:

	2016	2015
Finished goods	₱5,172,116	₱-
Merchandise	241,459,792	245,009,605
Raw materials:		
Food	9,439,487	-
Packaging	4,756,308	-
	₱260,827,703	₱245,009,605

The cost of merchandise and materials charged to cost of sales in the consolidated statement of comprehensive income amounted to ₱2,267.3 million in 2016, ₱2,173.7 million in 2015 and ₱1,939.0 million in 2014 (see note 21).

Allowance for inventory obsolescence amounted to ₱4.5 million and ₱6.3 million as at December 31, 2016 and 2015, respectively.

Reversal of provision for inventory obsolescence amounting ₱3.2 million was recognized in 2016 while no provision nor reversal for inventory obsolescence was recognized in 2015 and 2014 (see Note 24).

12. Prepaid Expenses and Other Current Assets

	2016	2015
Prepaid expenses	₱10,742,929	₱8,846,484
Current portion of prepaid rent (see Note 15)	2,467,730	1,652,945
Prepaid taxes	99,297	-
	₱13,309,956	₱10,499,429

Prepaid expenses pertain to advance payments for insurance and dues and subscription and are amortized monthly over a period of one year.



13. AFS Investments

Movements of the accounts are as follow:

	2016	2015
Acquisition cost:		
Balance at beginning of period	₱690,126,908	₱694,194,540
Additions	1,124,639,257	469,958,439
Disposal	(685,422,143)	(474,026,071)
Balance at end of period	1,129,344,022	690,126,908
Unrealized gain (loss) on changes in fair value of AFS investments:		
Balance at beginning of period	(2,888,071)	(2,178,301)
Unrealized gain (loss)	534,464	(3,466,255)
Disposal	2,888,071	2,756,485
Balance at end of period	534,464	(2,888,071)
Cumulative impairment loss on golf club shares	(4,704,765)	(4,704,765)
	1,125,173,721	682,534,072
Less AFS investment classified as current	(1,125,173,721)	—
Noncurrent AFS investment	₱—	₱682,534,072

As at December 31, 2016, the Group's AFS investments consist of investment in unit investment trust fund (UITF), which have no holding period and are callable any time, while as at December 31, 2015, the account consists of investments in mutual funds and golf club shares.

The changes in the fair value of AFS investments are recognized under "Unrealized gain (loss) on changes in fair value of AFS investments" shown as part of "Other components of equity" in the consolidated statements of financial position.

The AFS investment in UITF amounting to P1,100.0 million were subsequently redeemed in January 2017 and earned interest income amounting to P0.5 million.



14. Property and Equipment

	Leasehold Improvements	Furniture, Fixtures and Equipment	Machinery and Equipment	Transportation Equipment	Cost of Shops and Maintenance Tools	Glasswares and Utensils	Construction-In- Progress	Total
Cost								
At December 31, 2014	₱620,274,947	₱615,497,458	₱—	₱52,855,988	₱370,471	₱35,742,184	₱—	₱1,324,741,048
Additions	170,265,302	162,818,336	—	6,412,501	147,977	9,859,685	—	349,503,801
Disposal	(5,462,680)	(13,565,975)	—	(2,635,696)	—	(382,814)	—	(22,047,165)
At December 31, 2015	785,077,569	764,749,819	—	56,632,793	518,448	45,219,055	—	1,652,197,684
Additions through business combination (see Note 6)	21,346,000	749,415	99,667,393	2,774,000	—	—	22,893,557	147,430,365
Additions	142,803,445	243,236,246	599,542	3,071,389	75,730	11,467,970	16,383,225	417,637,547
Disposals	—	(2,035,893)	(360,714)	(8,275,071)	—	(7,526)	—	(10,679,204)
Balance at December 31, 2016	₱949,227,014	₱1,006,699,587	₱99,906,221	₱54,203,111	₱594,178	₱56,679,499	₱39,276,782	₱2,206,586,392
Accumulated Depreciation and Amortization								
At December 31, 2014	₱381,360,316	₱433,942,268	₱—	₱36,049,935	₱370,462	₱32,646,492	₱—	₱884,369,473
Depreciation and amortization (see Notes 21 and 22)	94,028,503	99,980,747	—	5,674,272	27,549	10,235,591	—	209,946,662
Disposals	(5,350,246)	(11,890,706)	—	(1,640,966)	—	(381,132)	—	(19,263,050)
At December 31, 2015	470,038,573	522,032,309	—	40,083,241	398,011	42,500,951	—	1,075,053,085
Depreciation and amortization (see Notes 21 and 22)	34,925,449	81,721,192	5,258,774	5,170,873	172,386	10,736,694	—	137,985,368
Disposals	—	(1,317,119)	(204,405)	(3,931,545)	—	(4,911)	—	(5,457,980)
Balance at December 31, 2016	₱504,964,022	₱602,436,382	₱5,054,369	₱41,322,569	₱570,397	₱53,232,734	₱—	₱1,207,580,473
Net Book Value								
Balance at December 31, 2016	₱444,262,992	₱404,263,205	₱94,851,852	₱12,880,542	₱23,781	₱3,446,765	₱39,276,782	₱999,005,919
Balance at December 31, 2015	315,038,996	242,717,510	—	16,549,552	120,437	2,718,104	—	577,144,599

The Group has fully depreciated property and equipment still used in the operations with cost of ₱819.2 million and ₱414.0 million as at December 31, 2016 and December 31, 2015, respectively. There are no idle assets as at December 31, 2016 and December 31, 2015.

Proceeds from sale of asset amounting to ₱0.2 million remains outstanding as of December 31, 2016.



15. Rental and Other Noncurrent Assets - Net

	2016	2015
Rental deposits	₱100,994,919	₱83,784,173
Prepaid rent - net of current portion	6,549,229	6,890,021
	107,544,148	90,674,194
Allowance for unrecoverable deposits	2,095,290	1,159,764
	₱105,448,858	₱89,514,430

The Group's rental deposits are refundable at the end of the lease term which ranges from 5 years to 15 years. Accordingly, rental deposits are discounted based on comparable rates for similar financial instruments with rates ranging from 2.36% to 8.13% for the years ended December 31, 2016 and 2015. The excess of the principal amount of the deposit over its fair value is accounted for as prepaid rent and amortized over the lease term on a straight-line basis while interest on the deposit is accounted for using the EIR method.

Provisions for unrecoverable deposits amounted to ₱1.9 million in 2016, nil in 2015 and ₱1.2 million in 2014 (see Note 22). Unrecoverable deposits amounting to ₱0.9 million and nil was written off in 2016 and 2015, respectively.

Outstanding rental deposits and unamortized prepaid rent are shown below:

	2016		2015	
	Rental deposits	Prepaid Rent	Rental deposits	Prepaid Rent
Beginning fair value of rental deposits/prepaid rent	₱83,784,173	₱6,890,021	₱69,517,973	₱ 9,051,042
Additional rental deposits during the period:				
Addition through business combination	2,226,923	-	-	-
Principal amounts of rental deposits	16,342,501	-	13,576,436	-
Excess of principal amount over fair value recorded as prepaid rent	(4,123,645)	4,123,645	(2,084,490)	2,084,490
Fair value of rental deposits/prepaid rent at initial recognition	98,229,952	11,013,666	81,009,919	11,135,532
Accretion income (see Note 24)	2,764,967	-	2,774,254	-
Amortization of prepaid rent (see Notes 21 and 22)	-	(1,996,707)	-	(2,592,566)
Current portion of prepaid rent (see Note 12)	-	(2,467,730)	-	(1,652,945)
Ending fair value of rental deposits/noncurrent portion of prepaid rent	₱100,994,919	₱6,549,229	₱83,784,173	₱6,890,021



16. Accounts Payable and Other Current Liabilities

	2016	2015
Trade:		
Suppliers	₱320,037,962	₱372,046,779
Related parties (see Note 17)	131,580	21,306,125
Nontrade	290,842,222	251,572,947
Accrued expenses:		
Utilities	48,747,325	38,921,692
Suppliers	33,319,368	34,060,758
Customers Loyalty	27,215,981	21,414,662
Salaries and wages	10,902,991	19,846,791
Interest	5,625,000	—
Payable to NAF	32,531,643	31,551,137
Others	94,956,909	116,988,657
	₱864,310,981	₱907,709,548

Below are the terms and conditions of the financial liabilities:

- Trade payables are non-interest bearing and are normally settled within the following year.
- Nontrade payables consist mainly of reimbursable expenses to officers and employees and payable to contractors and employment agencies which are normally settled in 30 to 90 days' term.
- Accrued expenses, which consist mainly of accrual of rent expense of stores, utilities, employee benefits and incentives, freight, commissions and storage costs are normally settled in 30 to 90 days' term.
- Payable to NAF pertains to remittances from dealers equivalent to 4.4% of gross sales of the previous month. This is to be used exclusively in implementing the national advertising and promotions programs of the Shakey's System in the country. Payable to NAF is remitted to the fund within 20 days of the following month of collection.
- Other payables are normally settled in 15 to 45 days' term.

Other payables consist of the following:

	2016	2015
Salaries payable	₱28,449,332	₱12,023,969
Output VAT - net of input VAT amounting to ₱425.4 million in 2016 and ₱350.8 million in 2015, respectively	26,007,722	31,265,437
Withholding tax payable	13,266,973	18,693,685
Fun certificates payable	10,899,405	21,295,357
Customers' deposits	6,059,778	5,708,635
SSS, Philhealth and Pag-ibig payable	4,951,799	3,312,244
Due to cooperative	4,321,082	3,949,119
Service charge payable	—	19,789,302
Others	1,000,818	950,909
	₱94,956,909	₱116,988,657



17. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Group; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2015, 2014 and 2013, the Group has not recorded any impairment of receivables on amounts owed by the related parties. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Group, in the normal course of business, has significant transactions with the following companies which have common members of BOD and stockholders as the Group:

Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance Receivable	Payable	Terms	Conditions
Century Pacific Group Inc. (CPGI, Ultimate Parent Company) (i)							
Management fee	Management fee of CPGI from July to December 2016	2016 2015	₱13,295,320 —	₱— —	₱3,473,907 —	30-day; non-interest bearing	Unsecured
Bakemasters, Inc. (BMI) (ii)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2016 2015	5,023,479 7,407,247	— 6,678,978	— —	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods and rental storage at agreed prices usually on a cost plus basis	2016 2015	194,980,376 330,451,507	— —	— 12,821,272	30-day; non-interest bearing	Unsecured
Loan to a related party	Extended in 2011 amounting to ₱82.0 million payable monthly at ₱1.63 million beginning April 2012 until the full amount is settled.	2016 2015	— —	— 14,500,000	— —	4.0% per annum interest bearing loan on the first year and 6% per annum beginning April 2012	Unsecured; not impaired

(Forward)



Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance Receivable	Payable	Terms	Conditions
Interest income	Pertains to the interest income on the remaining balance of loan to a related party at 4% per annum	2016 2015	₱387,667 1,478,667	₱ -	₱ -	4.0% per annum	Unsecured
Golden Gourmet Ltd. (GGL) (ii)							
License fee	Annual remittance of royalty fee amounting to \$20,000 USD	2016 2015	693,950 933,000	- -	- 933,000	360-day; non-interest bearing	Unsecured
Service income	Pertains to professional fees, freight expense, audit fee, courier expense and other services (see Note 27)	2016 2015	750,518 5,385	- 5,385	- -	30-day; non-interest bearing	Unsecured; not impaired
Shakey's International Limited (SIL) (ii)							
Management fee	Provides services (normally on cost plus basis) mutually agreed upon by both parties to manage the onshore transactions of SIL	2016 2015	9,529,973 3,921,526	- 4,968,578	- -	30-day; non-interest bearing	Unsecured; not impaired
Shakey's Seacrest Inc. (SSI) (ii)							
Advances	Pertains to cash advances for payment of SEC registration fees and other tax expenses.	2016 2015	15,075 -	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
The Pacific Meat Company Inc. (PMCI) (iv)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2016 2015	701,786 -	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
Century Canning Corporation (CCC) (iv)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2016 2015	426,270 -	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
DBE Project Inc. (DBE) (iii)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2016 2015	53,381,960 97,920,254	2,934,997 13,806,461	- -	30-day; non-interest bearing	Unsecured; not impaired

(Forward)



Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2016	₱1,142,181	₱-	₱131,580	30-day; non-interest bearing	Unsecured; not impaired
		2015	82,118	-	-	30-day; non-interest bearing	Unsecured; not impaired
Advances	Pertains to cash advances for working capital purposes. Amount advanced in 2015 was converted into an interest bearing loan in 2016.	2016	24,000,000	-	-	30-day; non-interest bearing	Unsecured; not impaired
		2015	65,500,000	65,500,000	-		
Loans	Loan extended to the company. Please see succeeding discussion for the details.	2016	70,500,000	-	-	Payable monthly beginning January 2015 for 36 months and bears a 6% annual interest to be paid together with the principal amount.	Unsecured; not impaired
		2015	-	17,361,111	-	4.0% per annum	Unsecured
Interest income	Pertains to the interest income on the remaining balance of loan to a related party at 4% per annum	2016	1,420,833	-	-		
		2015	687,500	-	-		
Shakey’s Asia Food Holdings, Inc. (SAFHI) (iii)							
Advances	Cash advance for the sole purpose of SAFHI’s repayment of external debt	2016	5,000,000,000	-	-	Payable on demand, non-interest bearing	Unsecured; not impaired
		2015	-	-	-		
Management fees	Provides services (normally on cost plus basis) mutually agreed upon by both parties	2016	91,857,382	-	-	30-day; non-interest bearing	Unsecured; not impaired
		2015	-	-	-		
Century Pacific Food Inc. (CPFI) (iv)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2016	5,665,365	-	-	30-day; non-interest bearing	Unsecured; not impaired
		2015	-	-	-		
Golden Donuts, Inc. (GDI) (v)							
Rental income	Rental income on store lease	2016	258,311	-	-	30-day; non-interest bearing	Unsecured; not impaired
		2015	911,813	153,757	-		
Cavallino, Inc. (CI) (v)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2016	2,722,729	-	-	30-day; non-interest bearing	Unsecured; not impaired
		2015	4,909,891	2,157,120	-		

(Forward)



Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance Receivable	Payable	Terms	Conditions
Purchases	Purchase of raw materials and goods and rental storage at agreed prices usually on a cost plus basis	2016 2015	<u>P-</u> 32,411	<u>P-</u> -	<u>P-</u> -	30-day; non-interest bearing	Unsecured
Mix Plant, Inc. (MPI) (v)							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2016 2015	11,954,128 53,127,882	- -	- 7,287,994	30-day; non-interest bearing	Unsecured
Tencav Corp. (TC) (v)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2016 2015	13,500 654,545	- 47,735	- -	30-day; non-interest bearing	Unsecured; not impaired
Golden Pizza, Inc. (GPI)/Cowboy Grill (v)							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2016 2015	310,752 1,873,664	- 349,724	- -	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods and dues subscription at agreed prices usually on a cost plus basis	2016 2015	244,000 867,200	- -	- 263,859	30-day; non-interest bearing	Unsecured
Golden Pie Realty & Development Corporation (GPRDC) (v)							
Rent expense	Rental income on store sublease and utilities	2016 2015	536,400 245,850	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
Parkside Realty & Development Corporation (PRDC) (v)							
Rent expense	Rental income on store sublease and utilities	2016 2015	16,316,974 15,384,680	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
		2016 2015		P2,934,997 125,528,849	P3,605,487 21,306,125		

(i) Ultimate parent company effective October 5, 2016.

(ii) Considered related parties as at and for the year ended December 31, 2015 and for the period from January 1 to October 4, 2016. Became wholly-owned subsidiaries of SPAVI starting October 5, 2016.

(iii) Considered related parties as at December 31, 2016 and 2015. The entities were also acquired by CPGI on April 1, 2016.

(iv) Pertains to entities that are within the same Group (CPGI). Considered related parties starting April 1, 2016.

(v) Considered related parties until March 31, 2016 only. Due to change in ownership effective April 1, 2016, the entities were no longer affiliated with the Company. 2016 amount/volume of transactions pertains only to transactions from January 1, 2016 to March 31, 2016. Balances as at December 31, 2016 are nil since as at April 1, 2016, they are no longer considered related parties.



The above transactions are recorded in the Group's books as follows:

	For the year ended December 31, 2016								As at December 31, 2016	
	Purchases (see Note 21)	Trade sales and service income (see Note 20)	Interest income (see Note 24)	Rental income	Rent expense	Loans/ Advances	License Fees (see Note 22)	Management Fee (see Note 22)	Trade Payables and Accrued Expenses (see Note 16)	Trade and Other Receivables (see Note 10)
CPGI	P-	P-	P-	-	-	P-	P-	₱13,295,320	₱3,473,907-	P-
BMI	194,980,376	5,023,479	387,666	-	-	-	-	-	-	-
GGL	-	943,000	-	-	-	-	693,950	-	-	-
SIL	-	-	-	-	-	-	-	9,529,973	-	-
SSI	-	-	-	-	-	20,100	-	-	-	-
PMCI	701,786	-	-	-	-	-	-	-	-	-
CCC	426,270	-	-	-	-	-	-	-	-	-
DBE	1,142,181	53,381,960	1,420,833	-	-	94,500,000	-	-	131,580	2,934,997
SAFHI	-	-	-	-	-	-	-	91,857,382	-	-
CPFI	5,665,365	-	-	-	-	-	-	-	-	-
GDI	-	-	-	258,311	-	-	-	-	-	-
CI	-	2,722,729	-	-	-	-	-	-	-	-
MPI	11,954,128	-	-	-	-	-	-	-	-	-
TC	-	13,500	-	-	-	-	-	-	-	-
GPI	244,000	310,752	-	-	-	-	-	-	-	-
GPRDC	-	-	-	-	536,400	-	-	-	-	-
PRDC	-	-	-	-	16,316,974	-	-	-	-	-
	₱215,114,106	₱62,395,420	₱1,808,499	₱258,311	₱16,853,374	₱94,520,100	₱693,950	₱114,682,675	₱3,605,487	₱2,934,997



For the year ended December 31, 2015

As at December 31, 2015

	Purchases (see Note 21)	Trade sales and service income (see Note 20)	Interest income (see Note 24)	Rental Income	Rent expense	Loans/ Advances	License Fees (see Note 22)	Management Fee (see Note 22)	Trade Payables and Accrued Expenses (see Note 16)	Trade and Other Receivables (see Note 10)	Advances to Related Parties (see Note 10)	Loan to a Related Party
BMI	₱330,451,507	₱7,407,247	₱1,478,667	₱-	₱-	₱-	₱-	₱-	12,821,272	6,678,978	-	14,500,000
GGL	-	5,385	-	-	-	-	933,000	-	933,000	5,385	-	-
SIL	-	-	-	-	-	-	-	3,921,526	-	4,968,578	-	-
DBE	82,118	97,920,254	687,500	-	-	65,500,000	-	-	-	13,806,461	65,500,000	17,361,111
GDI	-	-	-	911,813	-	-	-	-	-	153,757	-	-
CI	32,411	4,909,891	-	-	-	-	-	-	-	2,157,120	-	-
MPI	53,127,882	-	-	-	-	-	-	-	7,287,994	-	-	-
TC	-	654,545	-	-	-	-	-	-	-	47,735	-	-
GPI	867,200	1,873,664	-	-	-	-	-	-	263,859	349,724	-	-
GPRDC	-	-	-	-	245,850	-	-	-	-	-	-	-
PRDC	-	-	-	-	15,384,680	-	-	-	-	-	-	-
	₱384,561,118	₱112,770,986	₱2,166,167	₱911,813	₱15,630,530	₱65,500,000	₱933,000	₱3,921,526	₱21,306,125	₱28,167,738	₱65,500,000	₱31,861,111



Compensation of Key Management Personnel

The salaries and pension costs of key management personnel in 2016 and 2015 are as follows:

	2016	2015
Salaries	₱154,631,509	₱126,279,370
Pension costs	13,142,827	7,515,251
	₱167,774,336	₱133,794,621

There are no other short-term and long-term benefits given to the key management personnel.

18. Loan Payable

As at December 31, 2016, this account consists of:

Principal	₱5,000,000,000
Less unamortized debt issue costs	18,392,677
	4,981,607,323
Less current portion of long-term loan	1,048,365,917
Noncurrent portion	₱3,933,241,406

On June 8, 2016, the Group entered into an Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (the Lender) and SAFHI. The lender provided a term loan facility in the principal amount of ₱5,000.0 million for the purpose of refinancing the bridge loan of SAFHI. SAFHI shall in turn pledge its 100% ownership shares of all of its subsidiaries.

The loan is payable within 10 years to commence on the 12th month following the availment date. Payments shall be made in 18 consecutive semi-annual installments of ₱25.0 million and a final payment of ₱4,550.0 million.

The loan's interest is to be fixed at the higher of 5-year PDST-R2 plus a spread of 0.75% or 4.5% floor rate for the first 5 years, to be repriced at the last 5 years. Management has assessed that the interest rate floor on the loan is an embedded derivative which is not for bifurcation since the market rate approximates the floor rate at the transaction date.

The loan facility also contains a prepayment provision which allows the Group to make optional prepayment in the amount calculated by the lender comprising (i) the outstanding principal amount of the Loan to be prepaid, and (ii) any accrued interest on the principal amount of the Loan being prepaid computed as of the date of prepayment. The prepayment option was assessed as closely related to the loan and thus, was not bifurcated.

Interest expense amounting to ₱127.2 million was recognized for the year ended December 31, 2016. Current portion of the loan amounted to ₱1,048.4 million, net of ₱1.6 million unamortized debt issue cost while noncurrent portion amounted to ₱3,933.2 million, net of ₱16.8 million unamortized debt issue cost.

On December 22, 2016, the Group notified BDO of its intention to prepay the loan amounting to ₱1,000.0 million. The exercise of the prepayment option resulted in the revision of estimated future payments and change in the carrying amount of the financial liability.



So long as any portion of the loan is outstanding and until payment in full of all amounts payable by the Group under the loan documents are made, the Group covenants and agrees that, unless the Lender shall otherwise consent in writing, it shall among others comply with the following affirmative covenants:

- a. Ensure that at all times its obligations will constitute its secured, direct, unconditional and unsubordinated obligations, and any of its residual obligation not satisfied out of the proceeds of the Collateral shall rank and will rank at all times at least pari passu in priority of payment and in all other respects with all its unsecured obligations, save for such obligations in respect of which a statutory preference is established solely by operation of law.
- b. The net proceeds from the loan shall be used for the purpose of refinancing the bridge loan.
- c. Financial covenant during the term of the Term Loan:
 - i. its Debt Service Coverage Ratio is at least 1.2x. Debt Service Coverage Ratio is as of the date of determination, the ratio of EBITDA less regular dividends and advances to shareholders over Debt Service. For purposes hereof, "EBITDA" means operating profit before interest, taxes, depreciation and amortization, each item determined in accordance with PFRS, and the term "Debt Service" means the aggregate amount of the succeeding year's principal amortization for the Loan, interest, fees and other financial charges made or due in respect thereof payable by the Borrower, provided that one (1) year prior to the maturity of the Loan, "Debt Service Coverage Ratio" shall mean the ratio of sum of the beginning cash balance and EBITDA less regular dividends and advances to shareholders over Debt Service;
 - ii. its Debt to Equity Ratio does not exceed 5.0x within the first two years from the Borrowing under the Term Loan and 4.0x thereafter.

The foregoing financial covenant shall be tested every six months based on annual audited or unaudited semi-annual consolidated financial statements. On January 27, 2017, the OLSA was amended to include June 30, 2017 as the commencement date for the testing for the financial covenant ratios.

- d. Within the period required, open and establish the Debt Service Reserve Account (DSRA); and ensure that the funds deposited in the DSRA is at all times maintained in accordance with the agreement.
- e. Prior to the assignment or transfer of any trade names, copyrights, trademarks, patents and other intellectual property rights or licenses currently held by the Group or any wholly-owned subsidiary of the Group, the Group shall pledge in favor of the Lender, under the terms and conditions of the Pledge under the Omnibus loan and security Agreement, all the outstanding shares of the Group in such wholly-owned subsidiary.

As of December 31, 2016, the Group is in compliance with the aforementioned affirmative covenants. Accordingly, the non-current portion of the loan remains as noncurrent liability in the consolidated statement of financial position as of December 31, 2016.



19. Equity

Capital Stock

On October 14, 2016, SEC approved the Parent Company's application to increase its authorized capital stock from ₱1,000.0 million to ₱2,000.0 million. Details of the movement in capital stock are as follows:

	2016		2015	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock - ₱1 par value				
Beginning	1,000,000,000	₱1,000,000,000	400,000,000	₱400,000,000
Increase in capital stock	1,000,000,000	1,000,000,000	600,000,000	600,000,000
	2,000,000,000	₱2,000,000,000	1,000,000,000	₱1,000,000,000
Issued and outstanding capital stock - ₱1 par value				
Beginning	768,614,050	₱768,614,050	368,614,050	₱368,614,050
Issuance	762,707,003	762,707,003	-	-
Issued stock dividend	-	-	400,000,000	400,000,000
	1,531,321,053	₱1,531,321,053	768,614,050	₱768,614,050

Below is the Parent Company's track record of the registration of securities:

Date of SEC Order Rendered Effective or Permit to Sell	Event	Authorized Capital Stock	Issued Shares	Issue Price
	Registered and Listed Shares (Original Shares)	2,000,000,000	1,179,321,053	₱1.00
December 1, 2016	Initial Public Offering (IPO)			
	Primary	2,000,000,000	104,000,000	11.26
	Secondary	2,000,000,000	202,000,000	11.26
	Over-allotment Option	2,000,000,000	46,000,000	11.26

The issued and outstanding shares as at December 31, 2016 are held by 28 equity holders.

Retained Earnings

On April 7, 2015, the BOD declared stock dividends amounting to ₱400.0 million, which were issued upon approval of the increase in authorized capital stock.

Details of cash dividends declared in 2015 and 2016 are as follows:

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	
April 1, 2014	₱0.04	₱15,297,483	March 31, 2014
July 1, 2014	0.04	15,297,483	July 1, 2014
October 1, 2014	0.04	15,297,483	October 1, 2014
December 4, 2014	0.04	15,297,483	December 1, 2014
April 1, 2015	0.02	18,799,317	March 31, 2015
July 1, 2015	0.02	18,799,317	July 1, 2015
October 1, 2015	0.02	18,799,317	October 1, 2015
December 4, 2015	0.12	93,996,582	December 1, 2015
February 29, 2016	0.06	46,116,843	March 29, 2016
February 29, 2016	1.22	940,800,000	March 30, 2016
October 4, 2016	0.15	115,000,000	September 30, 2016

There are no outstanding dividends payable as at December 31, 2016 and December 31, 2015. Cash declared and paid for 2016 amounted to ₱1,101.9 million.



Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱247.8 million as at December 31, 2016 are not currently available for dividend distribution.

APIC

Amount received in excess of the par values of the shares issued amounting to ₱1,436.5 million were recognized as "APIC" in the 2016 consolidated statement of changes in equity. Directly attributable transaction costs incurred on the initial public offering of 104.0 million primary shares amounting to ₱83.0 million were charged to APIC in 2016.

20. Net Sales

	2016	2015	2014
Gross sales (see Note 17)	₱5,962,159,794	₱5,238,539,745	₱4,684,594,869
Less:			
Sales discount	217,620,529	161,333,628	130,156,897
Sales returns	5,561,787	1,214,837	938,155
	223,182,316	162,548,465	131,095,052
	₱5,738,977,478	₱5,075,991,280	₱4,553,499,817

21. Costs of Sales

	2016	2015	2014
Inventory costs (see Notes 11 and 17)	₱2,267,285,026	₱2,173,726,913	₱1,939,042,181
Salaries, wages and benefits	710,437,976	541,998,043	524,982,161
Rent (see Notes 15 and 28)	327,017,640	268,017,532	248,404,769
Utilities	242,626,829	223,236,496	219,014,930
Outside services	160,453,191	178,247,253	128,232,496
Supplies	120,947,735	220,304,821	177,598,245
Depreciation and amortization (see Note 14)	78,002,315	192,792,572	149,313,956
Gas expenses	71,311,165	65,562,151	87,253,962
Delivery call fees	60,786,862	54,676,038	50,124,973
Repairs and maintenance	39,627,593	40,825,608	36,965,125
Card charges	22,520,656	21,006,159	19,511,419
Commissary costs	13,520,764	20,370,090	19,274,625
Pension costs (see Note 23)	8,913,977	10,503,858	14,617,902
Linen and uniform	4,612,335	5,491,833	4,442,822
Dues and subscription	4,491,709	2,101,566	2,596,613
Seminar and training	4,127,122	3,611,013	3,895,663
Others	21,917,612	25,906,743	13,228,308
	₱4,158,600,507	₱4,048,378,689	₱3,638,500,150



22. General and Administrative Expenses

	2016	2015	2014
Advertising and promotions	₱213,284,979	₱194,411,485	₱203,454,052
Outside services	164,737,392	78,686,531	59,154,775
Salaries, wages and benefits	162,093,307	93,996,131	81,952,266
Management fees (see Note 17)	114,682,675	3,921,526	—
Taxes and licenses	95,299,806	62,534,075	49,338,637
Depreciation and amortization (see Note 14)	59,983,053	17,154,090	14,734,084
Supplies	57,301,237	20,776,590	22,443,401
Transportation and travel	38,577,866	34,248,469	28,730,714
Rent (see Notes 15 and 28)	14,592,382	11,112,275	10,838,712
Utilities	13,475,890	10,945,560	10,599,013
Pension costs (see Note 23)	13,443,240	12,846,905	1,559,665
Insurance	4,742,013	4,359,104	2,217,375
Provision for unrecoverable deposit (see Note 15)	1,857,819	—	1,159,764
License fees (see Note 17)	693,950	933,000	906,000
Gas expenses	297,506	4,441,512	5,241,044
Directors' fees	154,767	1,630,000	1,625,000
Repairs and maintenance	—	2,621,535	2,571,530
Provision for doubtful accounts (see Note 10)	—	1,446,748	1,798,602
Others	29,434,302	26,561,063	29,171,877
	₱984,652,184	₱582,626,599	₱527,496,511

23. Pension Costs

The Group has a funded, noncontributory defined benefit pension plan covering substantially all of its qualified employees. The benefits are based on years of service and percentage of compensation during the last year of employment.

The following tables summarize the components of net pension costs in the consolidated statements of comprehensive income in 2016, 2015 and 2014 and accrued pension costs in the consolidated statements of financial position as at December 31, 2016 and 2015. The latest actuarial valuation is at December 31, 2016.

	2016	2015	2014
Pension costs:			
Current service cost	₱20,416,249	₱21,992,916	₱14,971,985
Net interest cost	1,940,968	1,357,847	1,205,582
	₱22,357,217	₱23,350,763	₱16,177,567
Accrued pension costs:			
Present value of benefit obligation (PVBO)	₱143,782,350	₱145,510,413	₱101,165,879
Fair value of plan assets (FVPA)	109,447,839	(108,798,211)	(71,388,541)
	₱34,334,511	₱36,712,202	₱29,777,338



Movements in the PVBO are as follows:

	2016	2015
Balance at beginning of period before effect of business combination	₱145,510,413	₱101,165,879
Effect of business combination	8,185,959	–
Balance at beginning as restated	153,696,372	101,165,879
Current service cost	20,416,249	21,992,916
Interest cost	7,457,037	4,613,164
Net actuarial loss (gain)	(7,870,939)	18,979,254
Benefits paid	(29,916,369)	(1,240,800)
Balance at end of period	₱143,782,350	₱145,510,413

Movements in the FVPA are as follows:

	2016	2015
Balance at beginning of period before effect of business combination	₱108,798,211	₱71,388,541
Effect of business combination	4,042,325	–
Balance at beginning as restated	112,840,536	71,388,541
Interest income	5,516,069	3,255,317
Contributions	24,000,000	38,000,000
Net actuarial loss	(2,992,397)	(2,604,847)
Benefits paid	(29,916,369)	(1,240,800)
Balance at end of period	₱109,447,839	₱108,798,211

Movements in the accrued pension costs are as follows:

	2016	2015
Balance at beginning of period before effect of business combination	₱36,712,202	₱29,777,338
Effect of business combination	4,143,634	–
Balance at beginning as restated	40,855,836	29,777,338
Pension costs	22,357,217	23,350,763
Contributions	(24,000,000)	(38,000,000)
Actuarial loss (gain)	(4,878,542)	21,584,101
Balance at end of period	₱34,334,511	₱36,712,202

Amount recognized in OCI are as follows:

	2016	2015	2014
Actuarial gain (loss) - PVBO	₱7,870,939	(₱18,979,254)	₱292,926
Actuarial loss - FVPA	(2,992,397)	(2,604,847)	(453,462)
Deferred income tax	(996,977)	6,475,230	48,161
	₱3,881,565	(₱15,108,871)	(₱112,375)



The details of the market value of the Group's plan assets are shown below:

	2016	2015
Investments:		
Government securities	₱35,000,000	₱95,900,000
Stocks	12,115,964	11,804,317
Other securities	62,404,223	1,059,993
Deposit in banks	24,680	8,747
Total investments	109,544,867	108,773,057
Others assets:		
Due from broker	31,207	—
Interest receivables	69,484	63,771
Dividend receivables	36,142	3,559
Total other assets	136,833	67,330
Total assets	109,681,700	108,840,387
Less		
Due to broker	193,001	—
Portfolio fees payable	40,860	42,176
Net asset value	₱109,447,839	₱108,798,211

The plan assets were invested in fixed income securities and equity investments. All equity and debt instruments held have quoted prices in active market. Investment activities entered by the plan asset/ liability matching strategy during the year consist of, but is not limited to, buying and selling of securities. All investments are considered as high grade based on its performance in the market.

The management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

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

	2016	2015
Discount rates at beginning of period	5.07%	4.56%
Rate of compensation increase	5.00%	5.00%
Average future working years of service	22	22

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation assuming if all other assumptions were held constant:

	2016		2015	
	Increase (decrease)	Amount	Increase (decrease)	Amount
Discount rates	5.69% (4.69%)	(₱10,339,943) 12,686,451	5.57% (4.57%)	(₱9,432,622) 11,251,544
Salary increase rate	6.00% (4.00%)	25,900,599 (17,643,253)	6.00% (4.00%)	22,923,051 (15,989,985)



The defined benefit retirement plan is funded by other participating companies, which are related parties of the Group. The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation. The net defined benefit cost and the contributions to the plan are specifically identifiable, such that, the Group's PVBO pertains only to the benefit of the Group's employees and the FVPA, pertains only to the contributions made by the Group. The Group shall contribute to the Fund such amounts as shall be required, under actuarial principles, to provide the benefits and the expenses incident to the operation and administration of the Fund.

24. Other Income (Expenses) and Interest Expense

Other Income (Expense)

	2016	2015	2014
Gain on reversal of liabilities	₱222,502,148	₱—	₱—
Service fee	15,557,935	23,393,384	2,476,012
Trading securities gain - net:			
Gain on sale of financial assets at FVPL (see Note 9)	10,747,479	3,306,288	555,901
Dividend income (see Note 9)	486,897	1,160,729	187,074
Unrealized gain on financial assets at FVPL (see Note 9)	—	(3,847,972)	(891,198)
Gain (loss) on disposal of AFS (see Note 13)	(4,056,548)	(2,756,485)	20,264,004
Interest income (see Notes 8 and 17)	3,291,346	3,878,652	5,847,502
Reversal of allowance for:			
Inventory obsolescence (see Note 11)	3,167,359	—	—
Doubtful accounts (see Note 10)	393,024	—	—
Accretion income from:			
Rental deposit (see Note 15)	2,764,967	2,774,254	3,701,346
Dealers' deposit	1,384,518	—	—
Gain on disposal of property and equipment	238,591	418,432	477,707
Unrealized foreign exchange gain	194,819	71,189	26,032
Early payment discount and income from penalty charges	—	—	3,557,525
Others – net	5,681,153	17,212,292	14,198,408
	₱262,353,688	₱45,610,763	₱50,400,313

Gain on reversal of liabilities pertains to write off of advances of SIL and GGL from previous stockholders.

Other income pertains mostly to cash overages, fees charged by the Group to its franchisees for the new module of the point-of-sale machines, rental income and incentives given by a supplier for high volume purchases.



Interest Expense

	2016	2015	2014
Loan payable (see Note 18)	₱127,216,856	₱-	₱-
Amortization of dealers' deposits	1,273,436	-	-
	₱128,490,292	₱-	₱-

25. Income Taxes

The details of the Group's net deferred tax assets are as follows:

	2016	2015
Deferred tax assets:		
Accrued rent	₱19,251,318	₱12,815,679
Accrued pension costs	10,300,353	11,013,660
Loyalty points	8,164,794	-
Unamortized past service cost	5,650,184	5,625,993
Allowance for doubtful accounts	1,541,032	1,966,577
Allowance for inventory obsolescence	1,038,289	1,881,308
Allowance for unrecoverable deposits	628,587	347,929
Unrealized foreign exchange loss	4,751	-
	46,579,308	33,651,146
Deferred tax liabilities:		
Excess of fair value over cost of net identifiable assets acquired in business combination	11,155,568	-
Debt issuance cost	5,517,803	-
Unrealized foreign exchange gain	-	21,357
	16,673,371	21,357
	₱29,905,937	₱33,629,789

The deferred tax assets were measured using the appropriate corporate income tax rate on the year these are expected to be reversed.

The provision for current income tax represents regular corporate income tax (RCIT) and final withholding taxes on royalty and franchise fees as follow:

	2016	2015	2014
RCIT	₱144,554,399	₱146,318,519	₱127,577,171
Final withholding taxes	40,329,430	33,669,674	28,597,371
	₱184,883,829	₱179,988,193	₱156,174,542



The reconciliation between the provision for income tax computed at statutory income tax rate and the provision for income tax as shown in net income in the consolidated statements of comprehensive income is as follows:

	2016	2015	2014
Provision for income tax computed at statutory income tax rate of 30%	₱280,865,770	₱197,683,535	₱174,267,097
Final tax on royalty and franchise fees	40,329,430	33,669,674	28,597,371
Tax effects of:			
Gain on reversal of liabilities	(66,750,644)	—	—
Income subject to final tax			
Royalty and franchise fees	(60,494,144)	(50,504,508)	(42,896,056)
Nontaxable loyalty points	(8,164,794)	—	—
Application of Optional Standard Deduction	(3,839,380)	—	—
Interest accretion	(3,227,043)	(832,276)	(1,110,404)
Gain on sale of HFT and AFS	(1,965,213)	(1,818,832)	(5,978,612)
Interest income	(986,647)	(1,553,595)	(1,240,021)
Dividend income	(146,069)	(348,219)	(56,122)
Difference in RCIT and foreign tax rate applied on foreign subsidiaries	65,153	—	—
Other nondeductible expenses	1,347,609	3,056,933	155,263
	₱177,034,028	₱179,352,712	₱151,738,516

26. Financial Risks Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments and loan to a related party. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, rental deposit, accounts payable and other current liabilities arising directly from operations and dividends payable.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and equity price risk on AFS investment. The BOD reviews and approves policies for managing each of these risks and they are summarized below:

Credit Risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and equity price risk on AFS investment. The BOD reviews and approves policies for managing each of these risks and they are summarized below:



The table below shows the maximum exposure to credit risk for the Group's financial assets, without taking account of any collateral and other credit enhancements:

	2016	2015
Cash and cash equivalents*	₱273,736,513	₱343,107,110
Trade and other receivables:		
Trade receivables	225,293,314	216,144,709
Advances to related parties	—	65,500,000
Receivable from NAF	11,763,847	44,722,424
Receivables from employees	13,910,623	23,282,398
Royalty receivable	19,712,775	16,791,772
Other receivables	20,409,346	71,188,660
Loan to a related party	—	31,861,111
Rental deposits	98,899,629	82,624,409
Total credit risk exposure	₱663,726,047	₱895,222,593

*Excluding cash on hand.

An aging analysis of financial assets per class are as follows:

	2016					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1-180 Days	181-360 Days	Subtotal		
Cash and cash equivalents*	₱273,736,513	₱—	₱—	₱—	₱—	₱273,736,513
Trade and other receivables:						
Trade receivables	142,448,747	78,403,964	4,440,603	82,844,567	4,613,785	229,907,099
Receivable from NAF	11,763,847	—	—	—	—	11,763,847
Receivables from employees	1,939,329	7,445,694	4,525,600	11,971,294	1,371,151	15,281,774
Royalty receivable	18,772,775	940,000	—	940,000	—	19,712,775
Other receivables	2,174,257	14,116,635	4,118,453	18,235,088	480,915	20,890,260
Rental deposits	98,899,629	—	—	—	2,095,290	100,994,919
	₱549,735,097	₱100,906,293	₱13,084,656	₱113,990,949	₱8,561,141	₱672,287,187

*Excluding cash on hand.

	2015					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1-180 Days	181-360 Days	Subtotal		
Cash and cash equivalents*	₱343,107,110	₱—	₱—	₱—	₱—	₱343,107,110
Trade and other receivables:						
Trade receivables	196,813,736	11,246,940	8,084,033	19,330,973	5,105,627	221,250,336
Advances to related party	65,500,000	—	—	—	—	65,500,000
Receivable from NAF	44,722,424	—	—	—	—	44,722,424
Receivables from employees	9,063,090	10,685,010	4,905,449	15,590,459	1,371,151	26,024,700
Royalty receivable	16,791,772	—	—	—	—	16,791,772
Other receivables	62,373,865	8,814,795	—	8,814,795	78,478	71,267,138
Loan to a related party	31,861,111	—	—	—	—	31,861,111
Rental deposits	82,624,409	—	—	—	1,159,764	83,784,173
	₱852,857,517	₱30,746,745	₱12,989,482	₱43,736,227	₱7,715,020	₱904,308,764

*Excluding cash on hand.

A financial asset is considered past due when a counterparty has failed to make a payment when contractually due. "Past due but not impaired" financial assets are items with history of frequent default. Nevertheless, the amounts due are still collectible. Lastly, "Impaired" items are those that are long outstanding and have been specifically identified as impaired. The table below shows the credit quality of the Group's neither past due nor impaired financial assets based on their historical experience with the corresponding debtors:



2016				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	₱273,736,513	₱—	₱—	₱273,736,513
Trade and other receivables:				
Trade receivables	100,986,464	13,027,211	28,435,072	142,448,747
NAF	—	—	11,763,847	11,763,847
Receivables from employees	—	—	1,939,329	1,939,329
Royalty receivable	18,772,775	—	—	18,772,775
Other receivables	431,214	1,743,043	—	2,174,257
Rental deposits	—	—	98,899,629	98,899,629
	₱393,926,966	₱14,770,254	₱141,037,877	₱549,735,097

*Excluding cash on hand.

2015				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	₱343,107,110	₱—	₱—	₱343,107,110
Trade and other receivables:				
Trade receivables	161,648,186	2,622,910	32,542,640	196,813,736
Advances to related party	—	—	65,500,000	65,500,000
NAF	—	—	44,722,424	44,722,424
Receivables from employees	—	—	9,063,090	9,063,090
Royalty receivable	16,791,772	—	—	16,791,772
Other receivables	5,667,975	33,541	56,672,349	62,373,865
Loan to a related party	—	—	31,861,111	31,861,111
Rental deposits	—	—	82,624,409	82,624,409
	₱527,215,043	₱2,656,451	₱322,986,023	₱852,857,517

*Excluding cash on hand.

Financial assets classified as “high grade” are those cash and cash equivalents transacted with reputable local banks and financial assets with no history of default on the agreed contract terms while “medium grade” includes those financial assets being collected on due dates with an effort of collection. Financial instruments classified as “standard grade” are those financial assets with little history of default on the agreed terms of the contract.

Liquidity Risk. Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet or settle its obligations at a reasonable price.

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of advances to related parties. The Group maintains sufficient cash to finance its operations.

The Group manages its liquidity risk by maintaining strength and quality on financial position where debt-to-equity ratio is at a manageable level. The Group also maintains a financial strategy that the scheduled debts are within the Group’s ability to generate cash from its business operations.



The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table also analyses the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments and liquidity.

2016						
	Due and Demandable	< 90 Days	91-180 Days	181-365 Days	Over 365 Days	Total
Cash and cash equivalents	₱328,531,651	₱-	₱-	₱-	₱-	₱328,531,651
Financial assets at fair value through profit or loss	24,639,257	-	-	-	-	24,639,257
Trade and other receivables						
Trade	142,448,747	40,336,242	42,508,325	-	-	225,293,314
Receivable from NAF	11,763,847	-	-	-	-	11,763,847
Receivables from employees	1,939,329	7,672,171	-	4,299,123	-	13,910,623
Royalty receivables	-	19,712,775	-	-	-	19,712,775
Other receivables	976,730	6,316,077	8,998,085	4,118,453	-	20,409,345
Rental deposits	56,896,569	-	-	-	42,003,060	98,899,629
AFS investment	1,100,534,464	-	-	-	-	1,100,534,464
	1,667,730,594	74,037,265	51,506,410	8,417,576	42,003,060	1,843,694,905
Accounts payable and other current liabilities:						
Trade payables	-	219,891,073	153,502,882	-	-	373,393,955
Nontrade payables	-	266,424,816	24,417,407	-	-	290,842,223
Accrued expenses	-	125,615,034	195,631	-	-	125,810,665
Other payables*	-	67,250,759	-	-	-	67,250,759
Payable to NAF	-	32,531,643	-	-	-	32,531,643
Dealers' deposit and other noncurrent payables*	-	-	-	-	16,520,343	16,520,343
Loan payable**	-	-	-	1,048,365,917	3,933,241,406	4,981,607,323
	-	711,713,325	178,115,920	1,048,365,917	3,949,761,749	5,887,956,911
Liquidity gap	₱1,667,730,594	(₱637,676,060)	(₱126,609,510)	(₱1,039,948,341)	(₱3,907,758,689)	(₱4,044,262,006)

*excluding statutory payables.

**Including future interest payments.

2015						
	Due and Demandable	< 90 Days	91-180 Days	181-365 Days	Over 365 Days	Total
Cash and cash equivalents	₱388,872,392	₱-	₱-	₱-	₱-	₱388,872,392
Financial assets at fair value through profit or loss	36,084,300	-	-	-	-	36,084,300
Trade and other receivables						
Trade	196,813,736	14,149,732	8,084,033	-	-	219,047,501
Advances to related parties	65,500,000	-	-	-	-	65,500,000
Receivable from NAF	44,722,424	-	-	-	-	44,722,424
Receivables from employees	-	9,063,090	14,219,308	-	-	23,282,398
Royalty receivables	-	16,791,772	-	-	-	16,791,772
Other receivables	-	62,373,865	8,814,795	-	-	71,188,660
Loan to a related party	-	8,083,333	10,967,804	4,166,667	8,333,333	31,551,137
Rental deposits	51,939,433	-	-	-	30,684,976	82,624,409
AFS investments	-	-	-	-	682,534,072	682,534,072
	783,932,285	110,461,792	42,085,940	4,166,667	721,552,381	1,662,199,065
Accounts payable and other current liabilities:						
Trade payables	-	340,564,670	52,788,234	-	-	393,352,904
Nontrade payables	-	172,060,242	79,512,705	-	-	251,572,947
Accrued expenses	-	72,086,520	42,157,383	-	-	114,243,903
Other payables*	-	104,587,488	-	-	-	104,587,488
Payable to NAF	31,551,137	-	-	-	-	31,551,137
Dealers' deposit and other noncurrent payables*	-	-	-	-	46,578,832	46,578,832
	31,551,137	689,298,920	174,458,322	-	46,578,832	941,887,211
Liquidity gap	₱752,381,148	(₱578,837,128)	(₱132,372,382)	₱4,166,667	₱674,973,549	₱720,311,854

*excluding statutory payables.



Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can to provide returns to stockholders and benefits to others stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. The Group's debt-to-equity ratios is as follows:

	2016	2015
Total liabilities	₱6,025,382,363	₱1,086,007,916
Total equity	3,359,077,125	1,578,242,863
	1.79:1	0.69:1

27. Fair Value Information

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Financial Instruments Whose Carrying Amounts Approximate Fair Value. Management has determined that the carrying amounts of cash, trade and other receivables, accounts payable and other current liabilities and dividends payable, based on their notional amounts, reasonably approximates their fair values because these are mostly short-term in nature or are repriced frequently.

Other Financial Instruments. Set out below is a comparison by category of carrying amounts and estimated fair values of the Group's financial instruments other than those described above:

As at December 31, 2016				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Asset for which fair value are disclosed:				
AFS investments	December 31, 2016	₱1,125,173,721	₱1,125,173,721	₱-
Rental deposits	December 31, 2016	100,879,622	-	94,539,912
		₱1,226,053,343	₱1,125,173,721	₱94,539,912
Liabilities for which fair value are disclosed:				
Loan payable	December 31, 2016	₱4,981,607,323	₱-	₱4,672,841,275
Dealers' deposits	December 31, 2016	10,624,906	-	9,952,746
		₱4,992,232,229	₱-	₱4,682,794,021



As at December 31, 2015				
	Date of Valuation	Carrying Value	Fair Value	
			Level 1 Quoted	Level 2 Significant Observable Input
Asset for which fair value are disclosed:				
AFS investments	December 31, 2015	₱682,534,072	₱682,534,072	₱—
Financial assets at FVPL	December 31, 2015	36,084,300	36,084,300	—
Rental deposits	December 31, 2015	83,784,173	—	104,548,029
Loans receivable from related parties	December 31, 2015	31,861,111	—	30,371,807
		₱834,263,656	₱718,618,372	₱134,919,836
Liability for which fair value is disclosed -				
Dealers' deposits	December 31, 2015	₱32,113,367	₱30,081,790	₱—

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Rental Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 3.88% to 6.71% as at December 31, 2016 and 4.30% to 6.31% as at December 31, 2015.

AFS Investments. The fair values are based on quoted shares as at reporting date.

Advances to related parties. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 4.76% and 5.02% as at December 31, 2015 for Bakemasters Inc. and DBE Project, Inc., respectively.

Loans Payable. The fair value of loan payable which was discounted using prevailing market rate of 6.61% as at December 31, 2016 approximates the carrying value since these bear interest at current market rates. Fair value category is Level 2, significant observable inputs.

Dealers' Deposits. The fair values were obtained by discounting the instruments' expected cash flows using interest rates of 4.74% to 4.89% as at December 31, 2016 and 2015.

As at December 31 2016 and December 31, 2015, there were no transfers between Level 1 and 2 fair value measurements.

28. Lease Commitments

Under existing operating lease contracts, the Group is committed to pay the following minimum annual rentals:

Within one year	₱321,574,848
After one year but not more than five years	853,461,225
More than five years	379,201,164
	₱1,554,237,237

The lease contracts are effective for varying periods ranging from 5 to 15 years up to 2030. In a number of lease contracts, the Group is also committed to pay an amount equivalent to a certain percentage of its sales as additional rental. The Group is also required to pay rental deposits. Rental deposits as at December 31, 2016 and 2015 amounted to ₱105.4 million and ₱89.5 million, respectively (see Note 15). Accrued rental arising from recording rent expense



using the straight line method of amortization amounted to ₱64.2 million and ₱42.7 million as at December 31, 2016 and 2015, respectively.

Rental expense charged against net income in the consolidated statements of comprehensive income amounted ₱341.6 million, ₱279.1 million and ₱259.2 million in 2016, 2015 and 2014, respectively (see Notes 21 and 22).

29. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

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

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as



appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

Effective beginning on or after January 1, 2018

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The amendments do not have any impact on the Group's financial position and results of operation.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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



The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of adopting this standard.

- **PFRS 9, *Financial Instruments***

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

- **Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)**

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The amendments do not have any impact on the Group's financial position and results of operation.

- **Amendments to PAS 40, *Investment Property, Transfers of Investment Property***

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.



The amendments do not have any impact on the Group's financial position and results of operation.

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

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

The amendments do not have any impact on the Group's financial position and results of operation.

Effective beginning on or after January 1, 2019

- **PFRS 16, *Leases***

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

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

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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

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



however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

30. Earnings per Share (EPS)

Basic EPS is computed based on the weighted average number of issued and outstanding common shares during each year. Diluted EPS is computed as if the potential common share or instrument that may entitle the holder to common share were exercised as of the beginning of the year. When there are no potential common shares or other instruments that may entitle the holder to common shares, diluted EPS, is the same as the basic EPS.

There are no dilutive financial instruments as of December 31, 2016 and 2015, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	2016	2015	2014
(a) Net income	₱759,185,205	₱479,592,404	₱429,151,807
(b) Weighted average number of shares outstanding	861,602,113	768,614,050	368,614,050
Basic/ diluted EPS (a/b)	₱0.88	₱0.62	₱1.16

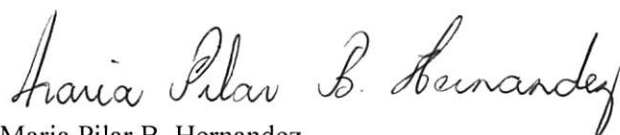


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Shakey's Pizza Asia Ventures Inc.
15Km East Service Road corner Marian Road 2
Barangay San Martin de Porres, Parañaque City 1700

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Shakey's Pizza Asia Ventures Inc. and Subsidiaries (the Group) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 included in this Form 17-A and have issued our report thereon dated March 31, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Maria Pilar B. Hernandez

Partner

CPA Certificate No. 105007

SEC Accreditation No. 1558-A (Group A),

April 14, 2016, valid until April 14, 2019

Tax Identification No. 214-318-972

BIR Accreditation No. 08-001998-116-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 5908706, January 3, 2017, Makati City

March 31, 2017



SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
(Formerly International Family Food Services, Inc.)
Schedule A. Financial Assets
December 31, 2016

Name of Issuing Entity and Association of each Issue	Number of Shares or Principal Amount of Bonds and Notes		Amount Shown in the Balance Sheet		Value Based on Market Quotations at Balance Sheet Date		Income Received and Accrued
Available for Sale Investments							
Shakey's Seacrest Incorporated -							
BDO PESO MONEY MARKET FUND	16,282	P	24,639,257	P	24,639,257	P	139,257
	16,282	P	24,639,257	P	24,639,257	P	139,257
Available for Sale Investments							
Shakey's Pizza Asia Ventures, Inc. -							
BDO PESO MONEY MARKET FUND	727,261	P	1,100,534,464	P	1,100,534,464	P	534,464
	727,261	P	1,100,534,464	P	1,100,534,464	P	534,464

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2016

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions			Current	Non Current	Balance at End of Period
			Amount Collected	Amount Reclassified	Amount Written-Off			
Bakemasters, Inc. (BMI)	2,094,062	1,597,072	18,854,715	-	-	22,545,849	-	22,545,849
Cavallino, Inc. (CI)	786,293	-	-	-	-	786,293	-	786,293
Golden Donut Inc.	153,757	-	-	-	-	153,757	-	153,757
DBE Project Inc. (DBE)	65,855,891	272,512	82,861,111	-	-	148,989,514	-	148,989,514
Golden Gourmet Ltd. (GGL)	-	1,475,497	-	-	-	1,475,497	-	1,475,497
Shakeys International Limited	4,968,578	12,449,284	-	-	-	17,417,862	-	17,417,862
IFFSI Food Brands Trademark/Seacrest Inc.	-	357,676	-	-	-	357,676	-	357,676
ABAD, CAYETANO O	187,693	42,388	134,482	-	-	95,599	-	364,563
ALVAREZ, EMILY M	-	32,048	20,760	-	-	11,287	-	52,808
ANCHORES, MANOLITO JUAN M	128,344	117,650	245,994	-	-	-	-	491,989
ARELLANO, SARAH MEI	287,939	11,135	299,074	-	-	-	-	598,148
BELGICA, EDWIN R	246,801	180,881	239,962	-	-	187,721	-	667,644
BERNARTE, MICHAEL JOHN G	190,682	5,980	85,696	-	-	110,966	-	282,359
BONIFACIO, ROLANDO H	-	54,035	29,341	-	-	24,694	-	83,376
CANIZARES, ROWENA R	101,607	20,272	93,141	-	-	28,738	-	215,020
CRUZ, CLARINDA	519,940	199,000	603,188	-	-	115,752	-	1,322,128
CUNANAN, JIGSAW G	239,671	59,620	124,939	-	-	174,353	-	424,230
DALISAY, DONATO M	-	57,922	47,189	-	-	10,734	-	105,111
DAVID, JEROME	966,229	490,083	1,096,746	-	-	359,566	-	2,553,059
DE MESA, LIXLES	533,212	146,294	444,709	-	-	234,796	-	1,124,215
DEL ROSARIO, JONAS	516,866	399,635	443,172	-	-	473,330	-	1,359,674
DIVINAGRACIA, ELMER S	375,793	367,310	638,540	-	-	104,563	-	1,381,644
FERNANDEZ, WILFREDO	259,340	99,396	358,736	-	-	-	-	717,472
ISAGUIRRE, MELODINA	227,500	-	227,500	-	-	-	-	455,000
KAMIYAMA, JOSEPHINE B	203,189	5,338	61,669	-	-	146,858	-	270,195
LEBRILLO, ANA LIZA	-	12,352	9,555	-	-	2,797	-	21,907
LORESCO, JULIUS M	139,439	17,309	81,007	-	-	75,741	-	237,755
LOSANDE, JOSE ROY	312,500	-	312,500	-	-	-	-	625,000
MADALANSACAY, JANE	263,586	708,126	663,049	-	-	308,663	-	1,634,761
MALAGAYO, ROLAND F.	679,050	452,079	907,112	-	-	224,018	-	2,038,241
MANGUBAT, IMELDA S	230,222	67,301	109,942	-	-	187,582	-	407,465
MARQUESES, NOEL S	446,683	10,812	457,495	-	-	-	-	914,990
MENOR, ELENA S	167,099	30,302	104,688	-	-	92,713	-	302,089
MERCADO, MA VERONICA P	994,348	518,977	1,207,772	-	-	305,553	-	2,721,097
MNABAT, NOEL	150,000	-	150,000	-	-	-	-	300,000
NAPIZA, NOMER M	110,812	-	-	-	-	110,812	-	110,812
NG, ROMUALDO Y	113,807	214,757	328,564	-	-	-	-	657,128

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
(Formerly International Family Food Services, Inc.)
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2016

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions			Current	Non Current	Balance at End of Period
			Amount Collected	Amount Reclassified	Amount Written-Off			
NOVELLES, EVANGELINE	623,150	262,639	724,648	-	-	161,141	-	1,610,436
OLIVAREZ, ARMINDA B.	230,000	-	230,000	-	-	-	-	460,000
PARAISO, MICHAEL ANGELO M	-	111,889	54,841	-	-	57,048	-	166,731
QUERUBIN, ERIC M	365,596	156,737	477,633	-	-	44,700	-	999,966
QUINTOS, ARMIE M	115,728	361,172	439,169	-	-	37,732	-	916,070
RAMOSO, CHERYL ANN D	351,990	28,671	136,153	-	-	244,509	-	516,814
REODIQUE, RYAN R	155,321	5,775	57,381	-	-	103,715	-	218,478
ROBLES, CARLOS S	-	107,224	107,224	-	-	0	-	214,449
ROXAS, VICTOR	490,661	335,053	619,030	-	-	206,684	-	1,444,745
SANTOS, MARIA ELMA C	248,584	32,978	127,964	-	-	153,598	-	409,526
SAULOG, SHERWIN	1,034,729	-	1,034,729	-	-	-	-	2,069,458
SILVESTRE, FLODELIZA Z.	956,606	787,699	1,460,931	-	-	283,373	-	3,205,236
TUBU, CELESTE	790,579	691,167	1,187,103	-	-	294,642	-	2,668,849
VASQUEZ, KAREN	978,549	486,490	1,251,861	-	-	213,178	-	2,716,900
VILLANUEVA, MARIA CORAZON P	156,923	24,497	88,599	-	-	92,821	-	270,019
VISPERAS, JONATHAN	-	309,744	188,767	-	-	120,977	-	498,510
	P 88,949,351	P 24,174,780	P 119,428,382	- P	-	P 197,127,401	P -	P 232,552,512

**This consists of various small amount of receivable per employee.*

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

December 31, 2016

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			
Shakey's Seacrest Inc. (SSI)	P 357,676	P -	P -	P -	P 357,676	P -	P 357,676
Shakey's International Ltd. (SIL)	12,456,800	-	-	-	12,456,800	-	12,456,800
Golden Gourmet Ltd. (GGL)	1,020,522	-	-	-	1,020,522	-	1,020,522
Bakemasters, Inc. (BMI)	85,645,283	-	-	-	85,645,283	-	85,645,283
	P 99,480,281	P -	P -	P -	P 99,480,281	P -	P 99,480,281

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule D. Intangible Assets - Other Assets

December 31, 2016

Description	Beginning Balance	Additions At Cost	Deductions		Other Changes- Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Trademark from the acquisition of SIL	P 3,577,911,666	P -	P -	P -	P -	P 3,577,911,666
Trademark from the acquisition of GGL	1,409,197,936	-	-	-	-	1,409,197,936
Goodwill from the acquisition of BMI	1,078,606,020					1,078,606,020
	P 6,065,715,622	P -	P -	P -	P -	P 6,065,715,622

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule E. Long-Term Debt

December 31, 2016

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under Caption "Current Portion of Long-Term Debt" in related Balance Sheet	Amount shown under Caption "Long-Term Debt" in related Balance Sheet
Omnibus Loan and Security Agreement- BDO Unibank Inc.	P 5,000,000,000	P 1,050,000,000	P 3,950,000,000
Unamortized debt issue costs	(18,392,677)	(1,634,083)	(16,758,594)
	P 4,981,607,323	P 1,048,365,917	P 3,933,241,406

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule F.

Indebtedness to Related Parties (Long-Term Loans from Related Companies)

December 31, 2016

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Not applicable: The Company has no indebtedness to related parties as at December 31, 2016.		
	p -	p -

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule G. Guarantees of Securities of Other Issuers

December 31, 2016

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee
Not applicable: The Company has no guarantees of securities of other issuers as at December 31, 2016.				
		P	-	P
			-	

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Schedule H. Capital Stock

December 31, 2016

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Shares	2,000,000,000	1,531,321,053	-	1,179,421,046	7	351,900,000

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
(Formerly International Family Food Services, Inc.)
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

Retained earnings, at December 31, 2015	829,245,434
Less:	
Deferred Tax Assets	<u>26,481,767</u>
Unappropriated retained earnings, as adjusted, as at December 31, 2015	802,763,667
Add (less):	
Net Income	511,431,049
Changes in deferred tax assets	<u>(13,205,717)</u>
	<u>498,225,332</u>
	<u>1,300,988,999</u>
Dividends declared during the year	(1,101,916,843)
Retained earnings available for additional dividend distribution as at December 31, 2016	<u>199,072,156</u>

SHAKEY'S PIZZA ASIA VENTURES INC.
(Formerly International Family Food Services, Inc.)
AND SUBSIDIARIES

**SCHEDULE OF ALL THE EFFECTIVE STANDARDS
AND INTERPRETATIONS
DECEMBER 31, 2016**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share- based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Changes in Method of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture			✓
	Amendments to PFRS 10: Applying the Consolidation Exception	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Not Early Adopted		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	Not Early Adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	Not Early Adopted		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not Early Adopted		
PFRS 16	Leases	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements of comparative information	Not Early Adopted		
	Amendments to PAS 1: Disclosure Initiative			✓
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative	Not Early Adopted		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture			✓
	Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendments to PAS 34: Disclosure of Information Elsewhere in the Interim Financial Report			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of acceptable methods of amortization			✓
	Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property			✓
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES
(Formerly International Family Food Services, Inc.)
FINANCIAL SOUNDNESS INDICATORS-FINANCIAL RATIOS

	As at December 31, 2016	As at December 31, 2015
Net income (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	643,048,309	479,592,404
Total Assets	9,384,459,488	2,664,250,779
Return on Assets (Net income / Total Assets)	6.9%	18.0%
Net income (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	643,048,309	479,592,404
Average stockholders' equity (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	2,410,591,546	1,421,553,248
Return on Equity (Net Income / Stockholders' Equity)	26.7%	33.7%
Net income	759,185,205	479,592,404
No. of Shares	861,602,113	768,614,050
Earnings per share (Net income / Total no. of shares outstanding)	0.88	0.62
Total current assets	2,144,125,469	1,240,919,158
Total current liabilities	1,977,115,041	965,706,587
Current Ratio (Total Current assets / Total Current Liabilities)	1.08	1.28
Total current assets	2,144,125,469	1,240,919,158
Total current liabilities	1,977,115,041	965,706,587
Net working capital (Total Current Assets - Total Current Liabilities)	167,010,428	275,212,571
Total liabilities	6,025,382,363	1,086,007,916
Total Equity (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	3,242,940,229	1,578,242,863
Debt to equity ratio (Total Liabilities / Stockholders' Equity)	1.86	0.69
Depreciation	137,985,368	209,946,662
Net income (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	643,048,309	479,592,404
Net Income + depreciation expense	781,033,677	689,539,066
Short Term + long term liabilities	6,025,382,363	1,086,007,916
Solvency ratio (Net Income + Depreciation Expense / Short and Long Term Liabilities)	0.13	0.63
Total assets	9,384,459,488	2,664,250,779
Total Equity (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	3,242,940,229	1,578,242,863
Asset to equity ratio (Total assets / total equity)	2.89	1.69
Earnings before interest expense and income taxes (EBIT) (excluding 2016 one-offs - extra ordinary income and IPO related expenses)	990,866,391	653,766,464
Interest expense	128,490,292	-
Interest coverage ratio (EBIT / Interest Expense)	7.71	NOT APPLICABLE

SHAKEY'S PIZZA ASIA VENTURES, INC. AND SUBSIDIARIES

(Formerly International Family Food Services, Inc.)

Map of Relationships of the Companies within the Group

