

Shakey's Pizza Asia Ventures Inc.  
*(Formerly International Family Food Services,  
Inc.)*  
and Subsidiaries

Consolidated Financial Statements  
December 31, 2017 and 2016  
and Years Ended December 31, 2017, 2016,  
and 2015

and

Independent Auditor's Report

# COVER SHEET

FS FOR FILING WITH SEC

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STAMPED "RECEIVED."

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

5 4 6 6 6

## COMPANY NAME

SHAKEKEY'S PIZZA ASIA VENTURES INC.  
(FORMERLY INTERNATIONAL FAMILY FOOD SERVICES, INC.)

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

15KM East Service Road corner  
Marian Road 2, Barangay San Ma  
rtin de Porres, Parañaque City  
1700

Form Type

A I F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N A

## 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@shakekeys.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



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

The management of Shakey's Pizza Asia Ventures Inc. (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein as at December 31, 2017 and 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company'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 & Chief Financial Officer

Signed this 10<sup>th</sup> day of April, 2018.

**SHAKEY'S PIZZA ASIA VENTURES INC.**  
Km. 15 East Service Road corner Marian Road 2, San Martin de Porres,  
Parañaque City


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

REPUBLIC OF THE PHILIPPINES )  
Quezon City ) S.S.

**SUBSCRIBED AND SWORN** to before me this APR 13 2018 affiant(s) exhibiting to me the  
Passport Numbers, as follows:

Name	Passport No./TIN	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

  
**ATTY. MARKNEIL S. COLLADO**  
NOTARY PUBLIC FOR AND IN QUEZON CITY  
Appellate Division, Legal Service, BIR National Office Building,  
Room 807, Diliman, Quezon City  
ADM. MATTER NO. MP-036  
Roll of Attorney No. 60141  
IOP No. 012320 (Lifetime Member); Leyte  
PTR No. 5353023; 11-9-17; Quezon City  
My Commission Expires on December 31, 2019

Doc. No. 735  
Page No. 147  
Book No. 3  
Series of 2018.



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Parent Company Financial Statements

#### Opinion

We have audited the parent company financial statements of Shakey's Pizza Asia Ventures Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended 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 Parent Company Financial Statements* section of our report. We are independent of the Company 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 parent company 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.

#### Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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



In preparing the parent company financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

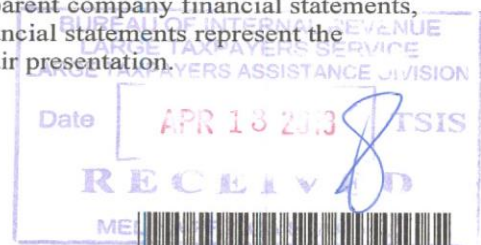
Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 parent company 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

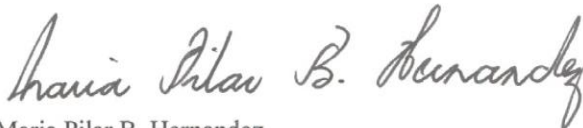
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15 2010 in Note 32 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Shakey's Pizza Asia Ventures Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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. 6621269, January 9, 2018, Makati City

April 10, 2018





## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE

The Board of Directors and Stockholders  
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 parent company financial statements of Shakey's Pizza Asia Ventures Inc. as at and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated April 10, 2018. 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 Parent Company Financial Statements are the responsibility of the Company'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  
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April 10, 2018

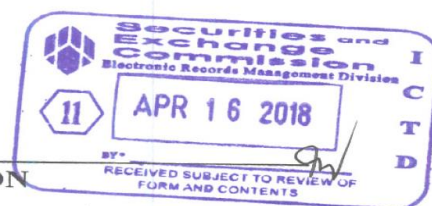


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**SHAKEY'S PIZZA ASIA VENTURES INC.**  
**(Formerly International Family Food Services, Inc.)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**



	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 8 and 25)	<b>₱244,994,340</b>	<b>₱328,531,651</b>
Available-for-sale (AFS) investments (Notes 12, 25 and 26)	<b>—</b>	<b>1,125,173,721</b>
Trade and other receivables (Notes 9, 16 and 25)	<b>586,496,825</b>	<b>420,824,917</b>
Inventories (Note 10)	<b>362,206,579</b>	<b>256,285,224</b>
Prepaid expenses and other current assets (Notes 11 and 14)	<b>61,438,393</b>	<b>13,309,956</b>
Total Current Assets	<b>1,255,136,137</b>	<b>2,144,125,469</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 13)	<b>1,538,385,394</b>	<b>999,005,919</b>
Goodwill (Note 6)	<b>1,078,606,020</b>	<b>1,078,606,020</b>
Trademarks (Note 6)	<b>4,987,109,602</b>	<b>4,987,109,602</b>
Deferred input value-added tax	<b>95,666,175</b>	<b>40,257,683</b>
Deferred tax assets - net (Note 24)	<b>25,100,727</b>	<b>29,905,937</b>
Rental and other noncurrent assets (Notes 12, 14, 25 and 26)	<b>128,843,614</b>	<b>105,448,858</b>
Total Noncurrent Assets	<b>7,853,711,532</b>	<b>7,240,334,019</b>
<b>TOTAL ASSETS</b>	<b>₱9,108,847,669</b>	<b>₱9,384,459,488</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 15, 16 and 25)	<b>₱1,005,167,485</b>	<b>₱864,310,981</b>
Current portion of loans payable (Note 17)	<b>48,411,689</b>	<b>1,048,365,917</b>
Income tax payable	<b>59,139,697</b>	<b>64,438,143</b>
Total Current Liabilities	<b>1,112,718,871</b>	<b>1,977,115,041</b>
<b>Noncurrent Liabilities</b>		
Loans payable - net of current portion (Note 17)	<b>3,885,420,461</b>	<b>3,933,241,406</b>
Accrued pension costs (Note 22)	<b>25,134,979</b>	<b>34,334,511</b>
Accrued rent (Note 27)	<b>76,181,330</b>	<b>64,171,062</b>
Dealers' deposits and other noncurrent liabilities	<b>35,150,922</b>	<b>16,520,343</b>
Total Noncurrent Liabilities	<b>4,021,887,692</b>	<b>4,048,267,322</b>
Total Liabilities	<b>5,134,606,563</b>	<b>6,025,382,363</b>
<b>Equity</b>		
Capital stock (Note 18)	<b>1,531,321,053</b>	<b>1,531,321,053</b>
Additional paid-in capital (Note 18)	<b>1,353,554,797</b>	<b>1,353,554,797</b>
Retained earnings (Note 18)	<b>1,095,525,015</b>	<b>486,513,796</b>
Other components of equity (Notes 12 and 22)	<b>(6,159,759)</b>	<b>(12,312,521)</b>
Total Equity	<b>3,974,241,106</b>	<b>3,359,077,125</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱9,108,847,669</b>	<b>₱9,384,459,488</b>

*See accompanying Notes to Consolidated Financial Statements.*

**\*SGVFS030126\***

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2017	2016	2015
<b>REVENUES</b>			
Net sales (Notes 16 and 19)	<b>₱6,750,949,174</b>	₱5,738,977,478	₱5,075,991,280
Royalty and franchise fees	<b>252,863,907</b>	206,631,050	168,348,361
	<b>7,003,813,081</b>	5,945,608,528	5,244,339,641
<b>COSTS OF SALES</b> (Notes 16 and 20)	<b>(4,937,716,670)</b>	(4,158,600,507)	(4,048,378,689)
<b>GROSS INCOME</b>	<b>2,066,096,411</b>	1,787,008,021	1,195,960,952
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 21)	<b>(905,415,529)</b>	(984,652,184)	(582,626,599)
<b>INTEREST EXPENSE</b> (Note 17)	<b>(177,304,646)</b>	(128,490,292)	—
<b>OTHER INCOME</b> - Net (Note 23)	<b>38,807,186</b>	262,353,688	45,610,763
<b>INCOME BEFORE INCOME TAX</b>	<b>1,022,183,422</b>	936,219,233	658,945,116
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 24)			
Current	<b>258,100,841</b>	184,883,829	179,988,193
Deferred	<b>1,939,257</b>	(7,849,801)	(635,481)
	<b>260,040,098</b>	177,034,028	179,352,712
<b>NET INCOME</b>	<b>762,143,324</b>	759,185,205	479,592,404
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Disposal of AFS (Note 12)	<b>(534,464)</b>	2,888,071	2,756,485
Unrealized gain (loss) on changes in fair value of AFS investments (Note 12)	—	534,464	(3,466,255)
	<b>(534,464)</b>	3,422,535	(709,770)
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 22)	<b>9,553,179</b>	4,878,542	(21,584,101)
Tax effect	<b>(2,865,953)</b>	(996,977)	6,475,230
	<b>6,687,226</b>	3,881,565	(15,108,871)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>6,152,762</b>	7,304,100	(15,818,641)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱768,296,086</b>	₱766,489,305	₱463,773,763
<b>Basic/Diluted Earnings Per Share</b> (Note 29)	<b>₱0.50</b>	₱0.88	₱0.62

*See accompanying Notes to Consolidated Financial Statements.*

**\*SGVFS030126\***

**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, 2017, 2016 AND 2015**

	<b>Capital Stock</b> (Note 18)	<b>Additional Paid-in Capital</b> (Note 18)	<b>Retained Earnings</b> (Note 18)	<b>Other Components of Equity</b> <b>Unrealized Gain (Loss) on Changes in Fair Value of AFS Investments</b> (Note 12)	<b>Cumulative Actuarial Loss - Net of Tax</b> (Note 22)	<b>Total</b>
Balances at January 1, 2017	<b>₱1,531,321,053</b>	<b>₱1,353,554,797</b>	<b>₱486,513,796</b>	<b>₱534,464</b>	<b>(₱12,846,985)</b>	<b>₱3,359,077,125</b>
Total comprehensive income	—	—	<b>762,143,324</b>	<b>(534,464)</b>	<b>6,687,226</b>	<b>768,296,086</b>
Cash dividends (Note 18)	—	—	<b>(153,132,105)</b>	—	—	<b>(153,132,105)</b>
Balances at December 31, 2017	<b>₱1,531,321,053</b>	<b>₱1,353,554,797</b>	<b>₱1,095,525,015</b>	<b>₱—</b>	<b>(₱6,159,759)</b>	<b>₱3,974,241,106</b>
Balances at January 1, 2016	₱768,614,050	₱—	₱829,245,434	(₱2,888,071)	(₱16,728,550)	₱1,578,242,863
Proceeds from issuance of capital stock (Note 18)	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 18)	—	—	(1,101,916,843)	—	—	(1,101,916,843)
Balances at December 31, 2016	<b>₱1,531,321,053</b>	<b>₱1,353,554,797</b>	<b>₱486,513,796</b>	<b>₱534,464</b>	<b>(₱12,846,985)</b>	<b>₱3,359,077,125</b>
Balances at January 1, 2015	₱368,614,050	₱—	₱900,047,563	(₱2,178,301)	(₱1,619,679)	₱1,264,863,633
Issuance of stock dividends (Note 18)	400,000,000	—	(400,000,000)	—	—	—
Total comprehensive income (loss)	—	—	479,592,404	(709,770)	(15,108,871)	463,773,763
Cash dividends (Note 18)	—	—	(150,394,533)	—	—	(150,394,533)
Balances at December 31, 2015	<b>₱768,614,050</b>	<b>₱—</b>	<b>₱829,245,434</b>	<b>(₱2,888,071)</b>	<b>(₱16,728,550)</b>	<b>₱1,578,242,863</b>

*See accompanying Notes to Consolidated Financial Statements.*

**\*SGVFS030126\***

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱1,022,183,422</b>	<b>₱936,219,233</b>	<b>₱658,945,116</b>
Adjustments for:			
Gain on reversal of advances (Note 23)	–	(222,502,148)	–
Depreciation and amortization (Notes 13, 20 and 21)	<b>208,930,640</b>	137,985,368	209,946,662
Interest expense	<b>177,304,646</b>	128,490,292	–
Movements in:			
Accrued rent	<b>12,010,268</b>	21,452,132	2,220,035
Accrued pension costs	<b>353,647</b>	(1,642,783)	(14,649,237)
Accretion income (Notes 14 and 23)	<b>(2,731,459)</b>	(4,149,485)	(2,774,254)
Gain on disposal of property and equipment (Note 23)	<b>(1,734,824)</b>	(238,591)	(418,432)
Loss (gain) on disposal of AFS (Note 23)	<b>(1,436,223)</b>	4,056,548	2,756,485
Interest income (Note 23)	<b>(1,186,755)</b>	(3,291,346)	(3,878,652)
Unrealized foreign exchange gain (Note 23)	<b>(97,122)</b>	(194,819)	(71,189)
Dividend income	–	(486,897)	(1,160,729)
Unrealized loss on change in fair value of financial assets at FPVL	–	–	3,847,972
Income before working capital changes	<b>1,413,596,240</b>	995,697,504	854,763,777
Decrease (increase) in:			
Trade and other receivables	<b>(165,671,908)</b>	167,663,201	(142,990,519)
Inventories	<b>(105,921,355)</b>	855,740	16,534,408
Prepaid expenses and other current assets	<b>(48,128,437)</b>	(3,758,892)	251,547
Increase (decrease) in accounts payable and other current liabilities	<b>140,713,580</b>	(51,211,514)	(98,564,246)
Net cash generated from operations	<b>1,234,588,120</b>	1,109,246,039	629,994,967
Income taxes paid	<b>(263,399,287)</b>	(178,442,725)	(171,719,361)
Interest received	<b>1,186,755</b>	3,291,346	3,878,652
Net cash provided by operating activities	<b>972,375,588</b>	934,094,660	462,154,258
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
Property and equipment (Note 13)	<b>(768,164,192)</b>	(417,637,547)	(349,503,801)
Subsidiaries - net of cash acquired	–	(6,010,636,947)	–
AFS investments (Note 12)	–	(1,124,639,257)	(469,958,439)
Financial assets at FVPL	–	–	(6,553,754)
Disposal of AFS investments (Note 12)	<b>1,126,609,944</b>	681,365,595	476,782,556
Sale of financial assets at FVPL	–	36,084,300	–
Increase (decrease) in dealers' deposits and other noncurrent liabilities	<b>21,362,038</b>	(25,623,290)	9,340,860
Increase in deferred input value added tax	<b>(55,408,492)</b>	(8,082,285)	(6,142,348)
Increase in rental and other deposits	<b>(23,394,756)</b>	(5,572,608)	(11,725,183)
Proceeds from disposals of property and equipment	<b>21,588,901</b>	5,264,498	3,202,547
Dividends received	–	486,897	1,160,729
Collection of intercompany loans	–	–	24,138,889
Net cash provided by (used in) investing activities	<b>322,593,443</b>	(6,868,990,644)	(329,257,944)

(Forward)

**\*SGVFS030126\***



	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Dividends (Note 18)	<b>(P153,132,105)</b>	(P1,101,916,843)	(P150,394,533)
Loan	<b>(1,050,000,000)</b>	—	—
Interest	<b>(175,813,487)</b>	(114,984,533)	—
Proceeds from:			
Loan	—	4,975,000,000	—
Issuance of capital stock (Note 18)	—	2,116,261,800	—
Net cash provided by (used in) financing activities	<b>(1,378,945,592)</b>	5,874,360,424	(150,394,533)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>439,251</b>	194,819	71,189
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(83,537,312)</b>	(60,340,741)	(17,427,030)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 8)</b>	<b>328,531,651</b>	388,872,392	406,299,422
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)</b>	<b>P244,994,339</b>	P328,531,651	P388,872,392

*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**

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**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. (CGPI), 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.

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 32 Arturo Drive, Brgy. Bagumbayan, 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

**\*SGVFS030126\***

granted SPRFL exclusive right to sublicense Shakeys'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".

On July 28, 2017, SSI entered into an asset purchase agreement with GGL to acquire from GGL, free from any encumbrances, all of GGL's rights, title and interest in and to the Shakey's System (trademark) on an "as-is and where-is" basis for a total consideration of ₱1,260.5 million, on account. On August 4, 2017, the BOD of the Group approved the assignment of SSI's liability to GGL amounting to ₱1,260.5 million to SPAVI, the Parent Company. These transactions have been eliminated in the consolidated financial statements.

On August 18, 2017, SPAVI applied the assigned liability as additional investment to SSI amounting to ₱75.0 million with the excess recognized as additional paid-in capital. Simultaneously, the BOD approved GGL's application for deregistration in the Hong Kong registry. As at April 10, 2018, the application for GGL's deregistration is not yet approved.

On November 22, 2017, the Parent Company acquired 100% interest in Shakey's Pizza Commerce, Inc. (SPCI), a newly incorporated company in the Philippines. SPCI is engaged in the business of buying, selling, distributing and marketing, at wholesale or retail, goods, commodities and merchandise of every kind and description, and to carry on and undertake business transaction or operation which is necessary, incidental or ancillary to the objectives of the business, trader, importer, exporter, distributor, manufacturer's representative or commercial and general agents. The Company has started commercial operations on December 1, 2017. SPCI's registered office address is 15 KM East Service Road, corner Marian Road 2, Brgy San Martin de Porres, Parañaque City

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 April 10, 2018.

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## **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 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 consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

	Principal Activities	Percentage of Ownership (%)
Bakemasters, Inc. (BMI) <sup>a</sup>	Manufacturer of pizza dough and pastries	100%
Shakey's International Limited (SIL) <sup>a</sup>	Trademark	100%
Golden Gourmet Limited (GGL) <sup>a</sup>	Trademark	100%
Shakey's Seacrest Incorporated (SSI) <sup>b</sup>	Trademark	100%
Shakey's Pizza Regional Foods Limited (SPRFL) <sup>c</sup>	Trademark	100%
Shakey's Pizza Commerce Inc. (SPCI) <sup>d</sup>	Trading of goods	100%

<sup>a</sup> Acquired on October 5, 2016 from SAFHI.

<sup>b</sup> Incorporated on June 29, 2016.

<sup>c</sup> Incorporated on November 25, 2016

<sup>d</sup> Incorporated on November 25, 2017



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### 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, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

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

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

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

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Adoption of these amendments did not have any impact on the Group's financial position, performance or disclosures as the Group does not have liabilities arising from financing activities.

- 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 upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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### 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 held for trading 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 and rental and other deposits (see Notes 8, 9, 14 and 16).

*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 12).

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.

*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, 2017 and 2016.

*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 15 and 17).

*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 and merchandise | - | 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)
Building	15-20
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.

*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.

*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.

### 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.

### 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.

### 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.

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## **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, 2017 and 2016 amounted to ₱1,078.6 million (see Note 6).

Since SIL and GGL do not constitute 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, 2017 and 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, 2017 and 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 was 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 ₱382.0 million, ₱341.6 million and ₱279.1 million in 2017, 2016 and 2015, respectively (see Notes 20, 21 and 27).

*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.

As at December 31, 2016, management has assessed that no impairment loss needs to be recognized on its AFS investments. The carrying value of AFS amounted ₱1,125.5 million as at December 31, 2016. The AFS investments were subsequently redeemed in January 2017 (see Note 12).

#### 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 26.

*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 ₱1.2 million and ₱1.4 million in 2017 and 2015, respectively. The carrying values of trade and other receivables (net of allowance for doubtful accounts amounting to ₱7.5 million and ₱6.5 million as at December 31, 2017 and 2016, respectively) amounted to ₱586.5 million and ₱420.8 million as at December 31, 2017 and 2016, respectively (see Note 9).

*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 nil in 2017, ₱1.9 million in 2016 and nil in 2015 (see Note 21). Allowance for unrecoverable deposits amounted to ₱2.1 million as at December 31, 2017 and 2016, respectively. The carrying value of rental and other noncurrent assets amounted to ₱128.8 million and ₱105.4 million as at December 31, 2017 and 2016, respectively (see Note 14).

*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.

Provision for inventory obsolescence amounting to ₱2.6 million was recognized in 2017 while reversal of provision for inventory obsolescence amounting ₱3.2 million was recognized in 2016. There was no provision nor reversal for inventory obsolescence recognized in 2015 (see Note 23). The carrying values of inventories amounted to ₱362.2 million and ₱256.3 million, net of allowance for inventory obsolescence of ₱4.3 million and ₱4.5 million as at December 31, 2017 and 2016, respectively (see Note 10).

*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 ₱1,538.4 million and ₱999.0 million as at December 31, 2017 and 2016, respectively (see Note 13). 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, 2017 and December 31, 2016. No impairment loss was recognized in 2017 and 2016. The carrying value of property and equipment amounted to ₱1,538.4 million and ₱999.0 million as at December 31, 2017 and 2016, respectively (see Note 13).

*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 are 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 11.7% to 13.8% and 12.2% to 13.4% in 2017 and 2016, respectively.

The carrying amount of goodwill and trademark amounted to ₱1,078.6 million and ₱4,987.1 million, respectively, as at December 31, 2017 and 2016. The recoverable amount of the CGUs to which the goodwill and trademarks with indefinite lives are allocated is greater than its carrying amount. No impairment loss was recognized on goodwill and trademark for the year ended December 31, 2017 and 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 P25.1 million and P34.3 million as at December 31, 2017 and December 31, 2016, respectively (see Note 22).

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 22.

*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 P41.3 million and P46.6 million as at December 31, 2017 and December 31, 2016, respectively (see Note 24).

*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 Combination

### *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 based on relative fair values at date of acquisition as follows:

	Carrying Values	Fair Values Recognized
Current Assets:		
Cash	P13,620,583	P13,620,583
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
(Forward)		

**\*SGVFS030126\***



	Carrying Values	Fair Values Recognized
Current Liabilities		
Accounts payable	P55,604,216	P55,604,216
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
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	P165,399,770	P191,429,430
Identifiable Net Assets Acquired		P191,429,430
Goodwill from the acquisition		1,078,606,020
Purchase consideration transferred		P1,270,035,450
Cash flows from an investing activity:		
Cash payment		P1,270,035,450
Net cash acquired from subsidiary		(13,620,583)
Net cash outflow		P1,256,414,867

The goodwill of P1,078.6 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 P4,987.1 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	P6,277,921	P6,277,921
Trade and other receivables	348,670	348,670
Total Current Assets	6,626,591	6,626,591
Current Liabilities		
Accounts payable	P491,657	P491,657
Due to a stockholder	232,744,536	232,744,536
Total Current Liabilities	233,236,193	233,236,193
Identifiable Net Liabilities Acquired	(P226,609,602)	(P226,609,602)
Identifiable Net Liabilities Acquired		(P226,609,602)
Trademark from the acquisition		4,987,109,602
Purchase consideration transferred		P4,760,500,000

(Forward)

**\*SGVFS030126\***

	Carrying Values	Fair Values Recognized
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, 2017 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:

	<b>Years Ended December 31,</b>		
	<b>2017</b>	2016	2015
Consolidated EBITDA	<b>₱1,407,231,953</b>	₱1,199,403,547	₱865,013,126
Depreciation and amortization	<b>(208,930,640)</b>	(137,985,368)	(209,946,662)
Provision for income tax	<b>(260,040,098)</b>	(177,034,028)	(179,352,712)
Interest expense	<b>(177,304,646)</b>	(128,490,292)	—
Interest income	<b>1,186,755</b>	3,291,346	3,878,652
Consolidated net income	<b>₱762,143,324</b>	₱759,185,205	₱479,592,404

### 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		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
<b>Revenue</b>	<b>P6,780,352,195</b>	P5,738,457,815	P5,075,991,280	<b>P252,863,907</b>	P206,880,100	P168,348,361	<b>P458,932,054</b>	P110,657,643	P-	<b>(P488,335,075)</b>	(P110,387,030)	P-	<b>P7,003,813,081</b>	P5,945,608,528	P5,244,339,641
<b>Results</b>															
Operating results	<b>710,806,995</b>	566,097,522	444,985,990	<b>330,271,430</b>	202,545,861	168,348,363	<b>104,022,182</b>	30,566,109	-	<b>15,580,275</b>	3,146,345	-	<b>1,160,680,882</b>	802,355,837	613,334,353
Depreciation and amortization	<b>(181,928,304)</b>	(131,457,611)	(209,946,662)	-	-	-	<b>(27,002,336)</b>	(6,130,771)	-	-	396,986	-	<b>(208,930,640)</b>	137,985,368	209,946,662
Income tax	<b>(173,322,181)</b>	(130,706,941)	(145,683,038)	<b>(66,963,718)</b>	(40,703,179)	(33,669,672)	<b>(19,754,199)</b>	(5,623,908)	-	-	-	-	<b>(260,040,098)</b>	(177,034,028)	(179,352,712)
Interest expense	<b>(177,304,646)</b>	(128,487,008)	-	-	-	-	-	(8,451)	-	-	5,167	-	<b>(177,304,646)</b>	(128,490,292)	-
Interest income	<b>1,132,280</b>	3,408,331	3,179,105	-	(124,024)	699,547	<b>54,475</b>	12,206	-	-	(5,167)	-	<b>1,186,755</b>	3,291,346	3,878,652
Net income	<b>548,579,503</b>	346,369,585	342,328,082	<b>269,883,943</b>	165,587,010	137,264,322	<b>78,357,172</b>	247,625,596	-	<b>(134,677,294)</b>	(396,986)	-	<b>762,143,324</b>	759,185,205	479,592,404
<b>EBITDA</b>	<b>P1,080,002,351</b>	P733,612,814	P694,778,677	<b>P336,847,661</b>	P206,414,213	P170,234,449	<b>P125,059,232</b>	P259,376,520	P-	<b>(P134,677,294)</b>	P-	P-	<b>P 1,407,231,953</b>	P1,199,403,547	P865,013,126
<b>EBITDA Margin</b>													<b>20.09%</b>	20.17%	16.49%
<b>Assets and Liabilities</b>															
Operating assets	<b>P9,020,828,315</b>	P9,104,296,697	P2,630,620,990	<b>P1,396,519,678</b>	P41,111,330	P-	<b>P408,880,337</b>	P331,453,446	P-	<b>(P1,742,481,388)</b>	(P122,307,922)	P-	<b>P9,083,746,942</b>	P9,354,553,551	P2,630,620,990
Deferred tax assets – net	<b>22,720,135</b>	28,974,195	33,629,789	-	-	-	<b>2,380,592</b>	931,742	-	-	-	-	<b>25,100,727</b>	29,905,937	33,629,789
<b>Total assets</b>	<b>P9,043,548,450</b>	P9,133,270,892	P2,664,250,779	<b>P1,396,519,678</b>	P41,111,330	P-	<b>P411,260,929</b>	P332,385,188	P-	<b>(P1,742,481,388)</b>	(P122,307,922)	P-	<b>P9,108,847,669</b>	P9,384,459,488	P2,664,250,779
Operating liabilities	<b>P1,386,543,805</b>	P1,041,399,890	P1,086,007,916	<b>P62,007,197</b>	P19,550,096	P-	<b>P242,121,714</b>	P140,945,814	P-	<b>(P489,898,302)</b>	(P158,120,760)	P-	<b>P1,200,774,413</b>	P1,043,775,040	P1,086,007,916
Interest-bearing loans and borrowings	<b>3,933,241,406</b>	4,981,607,323	-	-	-	-	<b>590,744</b>	-	-	-	-	-	<b>3,933,832,150</b>	4,981,607,323	-
<b>Total liabilities</b>	<b>P5,319,785,211</b>	P6,023,007,213	P1,086,007,916	<b>P62,007,197</b>	P19,550,096	P-	<b>P242,712,458</b>	P140,945,814	P-	<b>(P489,898,302)</b>	(P158,120,760)	P-	<b>P5,134,606,563</b>	P6,025,382,363	P1,086,007,916

\*SGVFS030126\*

## 8. Cash and Cash Equivalents

	2017	2016
Cash on hand	<b>₱59,599,583</b>	₱54,795,138
Cash in banks	<b>185,387,896</b>	273,236,104
Short-term deposits	<b>6,861</b>	500,409
	<b>₱244,994,340</b>	₱328,531,651

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%. Interest income on cash and cash equivalents amounted to ₱1.2 million, ₱1.4 million and ₱3.9 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 23).

## 9. Trade and Other Receivables

	2017	2016
Trade:		
Stores	<b>₱290,025,924</b>	₱195,113,110
Related parties (see Note 16)	<b>401,622</b>	2,934,997
Third parties	<b>32,010,246</b>	31,858,992
Advances to suppliers	<b>130,860,509</b>	129,735,012
Receivable from franchisees	<b>63,181,608</b>	11,763,847
Receivables from employees	<b>23,147,936</b>	15,281,774
Royalty receivable	<b>27,302,977</b>	19,712,775
Others:		
Stores	<b>26,074,727</b>	20,649,181
Third parties	<b>1,032,382</b>	241,080
	<b>594,037,931</b>	427,290,768
Less allowance for doubtful accounts	<b>(7,541,106)</b>	(6,465,851)
	<b>₱586,496,825</b>	₱420,824,917

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 franchisees pertains to short-term advances provided by the Group for the advertising and promotional activities of Shakey's.
- 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 16.

The movements of allowance for doubtful accounts are as follows:

	2017			2016		
	Trade and Others	Receivables from Employees	Total	Trade and Others	Receivables from Employees	Total
Balance at beginning of year	<b>₱5,094,700</b>	<b>₱1,371,151</b>	<b>₱6,465,851</b>	₱5,184,105	₱1,371,151	₱6,555,256
Effects of business combination	–	–	–	775,884	–	775,884
Provision for (reversal of) allowance for doubtful accounts (see Notes 21 and 23)	–	<b>1,196,515</b>	<b>1,196,515</b>	(393,024)	–	(393,024)
Accounts written-off	<b>(121,260)</b>	–	<b>(121,260)</b>	(472,265)	–	(472,265)
Balance at year-end	<b>₱4,973,440</b>	<b>₱2,567,666</b>	<b>₱7,541,106</b>	₱5,094,700	₱1,371,151	₱6,465,851

## 10. Inventories

	2017	2016
At cost -		
Finished goods	<b>₱4,194,378</b>	₱5,172,117
At net realizable value (NRV):		
Merchandise	<b>336,899,146</b>	236,992,503
Raw materials:		
Food	<b>15,665,613</b>	9,398,646
Packaging	<b>5,447,442</b>	4,721,958
	<b>₱362,206,579</b>	₱256,285,224

The cost of the inventories carried at NRV follows:

	2017	2016
Merchandise	<b>₱341,155,747</b>	₱241,459,792
Raw materials:		
Food	<b>15,706,454</b>	9,439,487
Packaging	<b>5,481,793</b>	4,756,308
	<b>₱362,343,994</b>	₱255,655,587

The cost of merchandise and materials charged to cost of sales in the consolidated statement of comprehensive income amounted to ₱2,565.8 million in 2017, ₱2,267.3 million in 2016 and ₱2,173.7 million in 2015 (see Note 20).

Allowance for inventory obsolescence amounted to ₱4.3 million and ₱4.5 million as at December 31, 2017 and 2016, respectively.

Provision for inventory obsolescence amounting ₱2.6 million net of write off amounting to ₱1.8 million was recognized in 2017 while reversal of provision for inventory obsolescence amounting to ₱3.2 million in 2016. No reversal and provision for inventory obsolescence was recognized in 2015 respectively (see Note 23).

## 11. Prepaid Expenses and Other Current Assets

	2017	2016
Input value-added tax (VAT)	<b>₱31,777,179</b>	₱8,538,594
Prepaid expenses	<b>24,253,436</b>	2,204,335
Prepaid taxes	<b>3,086,331</b>	99,297
Current portion of prepaid rent (see Note 14)	<b>2,321,452</b>	2,467,730
	<b>₱61,438,398</b>	₱13,309,956

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

## 12. AFS Investments

Movements of the accounts are as follow:

	2017	2016
Acquisition cost:		
Balance at beginning of period	<b>₱1,129,344,022</b>	₱690,126,908
Additions	–	1,124,639,257
Disposal	<b>(1,124,639,257)</b>	(685,422,143)
Balance at end of period	<b>4,704,765</b>	1,129,344,022
Unrealized gain (loss) on changes in fair value of		
AFS investments:		
Balance at beginning of period	<b>534,464</b>	(2,888,071)
Unrealized gain	–	534,464
Disposal	<b>(534,464)</b>	2,888,071
Balance at end of period	–	534,464
Cumulative impairment loss on golf club shares	<b>(4,704,765)</b>	(4,704,765)
	–	1,125,173,721
Less AFS investment classified as current	–	(1,125,173,721)
Noncurrent AFS investment	<b>₱–</b>	₱–

The Group's AFS investments consist of investment in unit investment trust fund (UITF), which have no holding period and are callable any time and investment 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 ₱1,100.0 million were subsequently redeemed in January 2017. Interest earned from the AFS investments amounted to ₱0.1 million in 2016.



### 13. Property and Equipment

	Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Machinery and Equipment	Transportation Equipment	Cost of Shops and Maintenance Tools	Glasswares and Utensils	Construction-In- Progress	Total
<b>Cost</b>									
At December 31, 2015	P=	P785,077,569	P764,749,819	P=	P56,632,793	P518,448	P45,219,055	P=	P1,652,197,684
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
Additions	109,378,908	197,231,175	360,575,565	73,437,758	5,052,743	4,464	22,483,579	—	768,164,192
Disposals	—	(68,934,734)	(20,198,781)	(474,767)	(1,023,832)	(3,196)	(4,535,732)	—	(95,171,042)
Reclassification	—	39,276,782	—	—	—	—	—	(39,276,782)	—
Balance at December 31, 2017	<b>P109,378,908</b>	<b>P1,116,800,237</b>	<b>P1,347,076,371</b>	<b>P172,869,212</b>	<b>P58,232,022</b>	<b>P595,446</b>	<b>P74,627,346</b>	<b>P0</b>	<b>P2,879,579,542</b>
<b>Accumulated Depreciation and Amortization</b>									
At December 31, 2015	P=	P470,038,573	P522,032,309	P=	P40,083,241	P398,011	P42,500,951	P=	P1,075,053,085
Depreciation and amortization (see Notes 20 and 21)	—	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)
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
Depreciation and amortization (see Notes 20 and 21)	1,611,806	71,181,118	100,639,770	21,444,966	5,441,073	20,982	8,590,925	—	208,930,640
Disposals	—	(58,726,414)	(13,249,016)	(474,767)	(913,357)	—	(1,953,411)	—	(75,316,965)
Balance at December 31, 2017	<b>P1,611,806</b>	<b>P517,418,726</b>	<b>P689,827,136</b>	<b>P26,024,568</b>	<b>P45,850,285</b>	<b>P591,379</b>	<b>P59,870,248</b>	<b>P=</b>	<b>P1,341,194,148</b>
<b>Net Book Value</b>									
Balance at December 31, 2017	<b>P107,767,102</b>	<b>P599,381,513</b>	<b>P657,249,235</b>	<b>P146,844,644</b>	<b>P12,381,737</b>	<b>P4,067</b>	<b>P14,757,098</b>	<b>P=</b>	<b>P1,538,385,394</b>
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

The Group has fully depreciated property and equipment still used in the operations with cost of P700.9 million and P819.2 million as at December 31, 2017 and December 31, 2016, respectively. There are no idle assets as at December 31, 2017 and December 31, 2016.

#### 14. Rental and Other Noncurrent Assets - Net

	2017	2016
Rental deposits	<b>₱122,367,899</b>	₱100,994,919
Prepaid rent - net of current portion	<b>8,571,005</b>	6,549,229
	<b>130,938,904</b>	107,544,148
Allowance for unrecoverable deposits	<b>2,095,290</b>	2,095,290
	<b>₱128,843,614</b>	₱105,448,858

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 3.19% to 5.70% and 2.36% to 8.31% for the years ended December 31, 2017 and 2016. 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 while no provision for unrecoverable deposits was recognized in 2017 and 2015 (see Note 21). Unrecoverable deposits amounting to ₱0.9 million was written off in 2016.

Outstanding rental deposits and unamortized prepaid rent are shown below:

	2017		2016	
	Rental deposits	Prepaid Rent	Rental deposits	Prepaid Rent
Beginning fair value of rental deposits/prepaid rent	<b>₱100,994,919</b>	<b>₱6,549,229</b>	₱83,784,173	₱6,890,021
Additional rental deposits during the period:				
Principal amounts of rental deposits	<b>24,921,447</b>	–	16,342,501	–
Excess of principal amount over fair value recorded as prepaid rent	<b>(5,630,094)</b>	<b>5,630,094</b>	(4,123,645)	4,123,645
Addition through business combination	–	–	2,226,923	–
Fair value of rental deposits/prepaid rent at initial recognition	<b>120,286,272</b>	<b>12,179,323</b>	98,229,952	11,013,666
Accretion income	<b>2,081,627</b>	–	2,764,967	–
Amortization of prepaid rent (see Notes 20 and 21)	–	<b>(1,286,866)</b>	–	(1,996,707)
Current portion of prepaid rent (see Note 11)	–	<b>(2,321,452)</b>	–	(2,467,730)
Ending fair value of rental deposits/noncurrent portion of prepaid rent	<b>₱122,367,899</b>	<b>₱8,571,005</b>	₱100,994,919	₱6,549,229

## 15. Accounts Payable and Other Current Liabilities

	2017	2016
Trade:		
Suppliers	<b>P459,009,799</b>	P316,564,057
Related parties (see Note 16)	<b>1,917,368</b>	3,605,485
Nontrade	<b>261,561,598</b>	290,842,222
Accrued expenses:		
Utilities	<b>40,005,047</b>	48,747,325
Salaries and wages	<b>28,261,873</b>	10,902,991
Suppliers	<b>20,562,494</b>	33,319,368
Customers loyalty	<b>6,509,435</b>	27,215,981
Interest	<b>5,482,076</b>	5,625,000
Payable to NAF	<b>29,188,897</b>	32,531,643
Others	<b>152,668,898</b>	94,956,909
	<b>P1,005,167,485</b>	P864,310,981

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:

	2017	2016
Salaries payable	<b>P25,598,542</b>	P28,449,332
Output VAT	<b>77,445,224</b>	26,007,722
Withholding tax payable	<b>22,809,817</b>	13,266,973
Fun certificates payable	<b>6,382,806</b>	10,899,405
Customers' deposits	<b>4,389,079</b>	6,059,778
SSS, Philhealth and Pag-ibig payable	<b>5,676,466</b>	4,951,799
Due to cooperative	<b>8,580,016</b>	4,321,082
Others	<b>1,786,948</b>	1,000,818
	<b>P152,668,898</b>	P94,956,909

## 16. 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, 2017, 2016 and 2015, 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
<b>Century Pacific Group Inc. (CPGI, Ultimate Parent Company) (i)</b>							
Management fee	Management fee of CPGI from July to December 2016	<b>2017</b> 2016	<b>P=</b> 13,295,320	<b>P=</b> –	<b>P=</b> 3,473,907	30-day; non-interest bearing	Unsecured
<b>Bakemasters, Inc. (BMI) (ii)</b>							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	<b>2017</b> 2016	– 5,023,479	– –	–	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	<b>2017</b> 2016	– 194,980,376	– –	–	30-day; non-interest bearing	Unsecured
Interest income	Pertains to the interest income on the remaining balance of loan to a related party at 4% per annum	<b>2017</b> 2016	– 387,667	– –	–	4.0% per annum	Unsecured
<b>Golden Gourmet Ltd. (GGL) (ii)</b>							
License fee	Annual remittance of royalty fee amounting to \$20,000 USD	<b>2017</b> 2016	– 693,950	– –	–	360-day; non-interest bearing	Unsecured

(Forward)

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Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
Service income	Pertains to professional fees, freight expense, audit fee, courier expense and other services (see Note 27)	<b>2017</b> 2016	<b>P-</b> 750,518	<b>P-</b> -	<b>P-</b> -	30-day; non-interest bearing	Unsecured; not impaired
<b>Shakey's International Limited (SIL) (ii)</b>							
Management fee	Provides services (normally on cost plus basis) mutually agreed upon by both parties to manage the onshore transactions of SIL	<b>2017</b> 2016	- 9,529,973	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
<b>Shakey's Seacrest Inc. (SSI) (ii)</b>							
Advances	Pertains to cash advances for payment of SEC registration fees and other tax expenses.	<b>2017</b> 2016	- 15,075	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
<b>The Pacific Meat Company Inc. (PMCI) (iv)</b>							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	<b>2017</b> 2016	<b>3,985,720</b> 701,786	- -	<b>1,310,479</b> -	30-day; non-interest bearing	Unsecured; not impaired
<b>Century Canning Corporation (CCC) (iv)</b>							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	<b>2017</b> 2016	- 426,270	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
<b>Shakey's Asia Food Holdings, Inc. (SAFHI) (iii)</b>							
Advances	Cash advance for the sole purpose of SAFHI's repayment of external debt	<b>2017</b> 2016	- 5,000,000,000	- -	- -	Payable on demand, non-interest bearing	Unsecured; not impaired
Management fees	Provides services (normally on cost plus basis) mutually agreed upon by both parties	<b>2017</b> 2016	- 91,857,382	- -	- -	30-day; non-interest bearing	Unsecured; not impaired

(Forward)

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Category	Nature	Year	Amount/ Volume of transaction	Outstanding Balance Receivable	Payable	Terms	Conditions
<b>DBE Project Inc. (DBE) (iii)</b>							
Trade sales and service income	Sale of goods at prices (normally on cost plus basis) mutually agreed upon by both parties	2017 2016	<b>P713,360</b> 53,381,960	<b>P401,622</b> 2,934,997	<b>P-</b> -	30-day; non-interest bearing	Unsecured; not impaired
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2017 2016	- 1,142,181	- -	- 131,580	30-day; non-interest bearing 30-day; non-interest bearing	Unsecured; not impaired 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.	2017 2016	- 24,000,000	- -	- -	30-day; non-interest bearing	Unsecured; not impaired
Loans	Loan extended to the company. Please see succeeding discussion for the details.	2017 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
Interest income	Pertains to the interest income on the remaining balance of loan to a related party at 4% per annum	2017 2016	- 1,420,833	- -	- -	4.0% per annum	Unsecured
<b>Century Pacific Food Inc. (CPFI) (iv)</b>							
Purchases	Purchase of raw materials and goods at agreed prices usually on a cost plus basis	2017 2016	<b>2,293,359</b> 5,665,365	- -	<b>606,889</b> -	30-day; non-interest bearing	Unsecured; not impaired
			<b>2017</b>	<b>P401,622</b>	<b>P1,917,368</b>		
			2016	2,934,997	3,605,487		

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

(ii) Became a wholly-owned subsidiaries of SPAVI on October 5, 2016 onwards.

(iii) Considered related parties as at December 31, 2017 and 2016. 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.

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Compensation of Key Management Personnel

The salaries and pension costs of key management personnel in 2017 and 2016 are as follows:

	2017	2016
Salaries	<b>₱230,730,181</b>	₱154,631,509
Pension costs	<b>23,211,225</b>	13,142,827
	<b>₱253,941,406</b>	₱167,774,336

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

**17. Loans Payable**

	2017	2016
Long-term facility loan	<b>₱3,933,241,406</b>	₱4,981,607,323
Loan mortgage payable	<b>590,744</b>	—
	<b>3,933,832,150</b>	4,981,607,323
Less current portion of loans payable	<b>48,411,689</b>	1,048,365,917
	<b>₱3,885,420,461</b>	₱3,933,241,406

Long-term facility loan

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 breakdown of the loan is as follows:

	2017	2016
Principal	<b>₱3,950,000,000</b>	₱5,000,000,000
Less unamortized debt issue costs	<b>16,758,594</b>	18,392,677
	<b>3,933,241,406</b>	4,981,607,323
Less current portion of loan payable	<b>48,291,305</b>	1,048,365,917
Noncurrent portion	<b>₱3,884,950,101</b>	₱3,933,241,406

The loan is payable within 10 years to commence on the 12<sup>th</sup> 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 ₱177.3 million and ₱128.3 million were recognized for the years ended December 31, 2017 and 2016, respectively.

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. On January 3, 2017, the Group prepaid portion of the loan amounting ₱1,000.0 million and the corresponding breakfunding fee and prepayment penalty amounting to ₱21.4 million (see Note 21).

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, 2017 and 2016, the Group is in compliance with the aforementioned affirmative covenants.

## 18. 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:

	2017		2016	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock - ₱1 par value				
Beginning	2,000,000,000	₱2,000,000,000	1,000,000,000	₱1,000,000,000
Increase in capital stock	—	—	1,000,000,000	1,000,000,000
	2,000,000,000	₱2,000,000,000	2,000,000,000	₱2,000,000,000
Issued and outstanding capital stock - ₱1 par value				
Beginning	1,531,321,053	₱1,531,321,053	768,614,050	₱768,614,050
Issuance	—	—	762,707,003	762,707,003
	1,531,321,053	₱1,531,321,053	1,531,321,053	₱1,531,321,053

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, 2017 and 2016 are held by 28 equity holders.

### Retained Earnings

Details of cash dividends declared in 2015, 2016 and 2017 are as follows:

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	
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
May 8, 2017	0.10	153,132,105	June 6, 2017

There are no outstanding dividends payable as at December 31, 2017, December 31, 2016 and December 31, 2015. Cash declared and paid for 2017, 2016 and 2015 amounted to ₱153.1 million, ₱1,101.9 million and ₱150.4 million, respectively.

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Undistributed earnings of the subsidiaries included in the Group's retained earnings amounting to ₱427.8 million and ₱247.8 million as at December 31, 2017 and 2016, respectively, are not currently available for dividend distribution.

#### APIC

Amount received in excess of the par values of the shares issued amounting to ₱1,353.6 million were recognized as "APIC" in the 2017 and 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 against APIC in 2016.

### 19. Net Sales

	2017	2016	2015
Gross sales	<b>₱6,993,471,626</b>	₱5,962,159,794	₱5,238,539,745
Less:			
Sales discount	<b>241,320,695</b>	217,620,529	161,333,628
Sales returns	<b>1,201,757</b>	5,561,787	1,214,837
	<b>242,522,452</b>	223,182,316	162,548,465
	<b>₱6,750,949,174</b>	₱5,738,977,478	₱5,075,991,280

### 20. Costs of Sales

	2017	2016	2015
Inventory costs (see Note 10)	<b>₱2,565,816,752</b>	₱2,267,285,026	₱2,173,726,913
Salaries, wages and benefits	<b>906,260,804</b>	710,437,976	541,998,043
Rent (see Notes 14 and 27)	<b>375,608,509</b>	327,017,640	268,017,532
Utilities	<b>303,409,425</b>	242,626,829	223,236,496
Depreciation and amortization (see Note 13)	<b>165,624,469</b>	78,002,315	192,792,572
Outside services	<b>157,869,503</b>	160,453,191	178,247,253
Supplies	<b>141,003,071</b>	120,947,735	220,304,821
Gas expenses	<b>90,153,963</b>	71,311,165	65,562,151
Delivery call fees	<b>68,015,525</b>	60,786,862	54,676,038
Repairs and maintenance	<b>60,689,428</b>	39,627,593	40,825,608
Card charges	<b>28,784,202</b>	22,520,656	21,006,159
Pension costs (see Note 22)	<b>13,411,548</b>	8,913,977	10,503,858
Commissary costs	<b>10,266,889</b>	13,520,764	20,370,090
Linen and uniform	<b>5,613,647</b>	4,612,335	5,491,833
Dues and subscription	<b>4,811,845</b>	4,491,709	2,101,566
Seminar and training	<b>3,413,531</b>	4,127,122	3,611,013
Others	<b>36,963,559</b>	21,917,612	25,906,743
	<b>₱4,937,716,670</b>	₱4,158,600,507	₱4,048,378,689

## 21. General and Administrative Expenses

	2017	2016	2015
Salaries, wages and benefits	<b>P235,698,574</b>	P162,093,307	<b>P93,996,131</b>
Advertising and promotions	<b>213,374,382</b>	213,284,979	194,411,485
Outside services	<b>144,883,834</b>	164,737,392	78,686,531
Taxes and licenses	<b>85,685,050</b>	95,299,806	62,534,075
Supplies	<b>49,474,014</b>	57,301,237	20,776,590
Depreciation and amortization (see Note 13)	<b>43,306,171</b>	59,983,053	17,154,090
Transportation and travel	<b>39,355,763</b>	38,577,866	34,248,469
Breakfunding fee and prepayment penalty (see Note 17)	<b>21,416,667</b>	—	—
Utilities	<b>15,300,540</b>	13,475,890	10,945,560
Pension costs (see Note 22)	<b>10,942,099</b>	13,443,240	12,846,905
Rent (see Notes 14 and 27)	<b>6,430,138</b>	14,592,382	11,112,275
Gas expenses	<b>5,424,854</b>	297,506	4,441,512
Insurance	<b>3,225,143</b>	4,742,013	4,359,104
Provision for doubtful accounts (see Note 9)	<b>1,196,515</b>	—	1,446,748
Directors' fees	<b>764,706</b>	154,767	1,630,000
Management fees (see Note 16)	—	114,682,675	3,921,526
Provision for unrecoverable deposit (see Note 14)	—	1,857,819	—
License fees (see Note 16)	—	693,950	933,000
Others	<b>28,937,079</b>	29,434,302	29,182,598
	<b>P905,415,529</b>	<b>P984,652,184</b>	<b>P582,626,599</b>

## 22. 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 2017, 2016 and 2015 and accrued pension costs in the consolidated statements of financial position as at December 31, 2017 and 2016. The latest actuarial valuation is at December 31, 2017.

	2017	2016	2015
Pension costs:			
Current service cost	<b>P22,571,686</b>	P20,416,249	P21,992,916
Net interest cost	<b>1,781,961</b>	1,940,968	1,357,847
	<b>P24,353,647</b>	<b>P22,357,217</b>	<b>P23,350,763</b>
Accrued pension costs:			
Present value of benefit obligation (PVBO)	<b>P157,252,229</b>	P143,782,350	P145,510,413
Fair value of plan assets (FVPA)	<b>(132,117,250)</b>	(109,447,839)	(108,798,211)
	<b>P25,134,979</b>	<b>P34,334,511</b>	<b>P36,712,202</b>

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Movements in the PVBO are as follows:

	2017	2016
Balance at beginning	<b>₱143,782,350</b>	₱153,696,372
Current service cost	<b>22,571,686</b>	20,416,249
Interest cost	<b>7,462,304</b>	7,457,037
Net actuarial gain	<b>(12,086,577)</b>	(7,870,939)
Benefits paid	<b>(4,477,534)</b>	(29,916,369)
Balance at end of period	<b>₱157,252,229</b>	₱143,782,350

Movements in the FVPA are as follows:

	2017	2016
Balance at beginning	<b>₱109,447,839</b>	₱112,840,536
Interest income	<b>5,680,343</b>	5,516,069
Contributions	<b>24,000,000</b>	24,000,000
Net actuarial loss	<b>(2,533,398)</b>	(2,992,397)
Benefits paid	<b>(4,477,534)</b>	(29,916,369)
Balance at end of period	<b>₱132,117,250</b>	₱109,447,839

Movements in the accrued pension costs are as follows:

	2017	2016
Balance at beginning	<b>₱34,334,511</b>	₱40,855,836
Pension costs	<b>24,353,647</b>	22,357,217
Contributions	<b>(24,000,000)</b>	(24,000,000)
Actuarial loss (gain)	<b>(9,553,179)</b>	(4,878,542)
Balance at end of period	<b>₱25,134,979</b>	₱34,334,511

Amount recognized in OCI are as follows:

	2017	2016	2015
Actuarial gain (loss) - PVBO	<b>₱12,086,577</b>	₱7,870,939	(₱18,979,254)
Actuarial loss - FVPA	<b>(2,533,398)</b>	(2,992,397)	(2,604,847)
Deferred income tax	<b>(2,865,953)</b>	(996,977)	6,475,230
	<b>₱6,687,226</b>	₱3,881,565	(₱15,108,871)

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

	2017	2016
Investments:		
Government securities	<b>P44,737,820</b>	P35,000,000
Stocks	<b>14,169,024</b>	12,115,964
Other securities	<b>72,978,671</b>	62,404,223
Deposit in banks	<b>269,885</b>	24,680
Total investments	<b>132,155,400</b>	109,544,867
Others assets:		
Due from broker	<b>36,495</b>	31,207
Interest receivables	<b>116,997</b>	69,484
Dividend receivables	<b>42,266</b>	36,142
Total other assets	<b>195,758</b>	136,833
Total assets	<b>132,351,158</b>	109,681,700
Less		
Due to broker	<b>187,930</b>	193,001
Portfolio fees payable	<b>45,978</b>	40,860
Net asset value	<b>P132,117,250</b>	P109,447,839

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:

	2017	2016
Discount rates at beginning of period	<b>5.70%</b>	5.07%
Rate of compensation increase	<b>5.00%</b>	5.00%
Average future working years of service	<b>33</b>	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:

	2017		2016	
	Increase (decrease)	Amount	Increase (decrease)	Amount
Discount rates	<b>6.14%</b> <b>(5.14%)</b>	<b>(P8,608,266)</b> <b>12,005,798</b>	5.69% (4.69%)	(P10,339,943) 12,686,451
Salary increase rate	<b>6.00%</b> <b>(4.00%)</b>	<b>25,531,879</b> <b>(14,940,770)</b>	6.00% (4.00%)	25,900,599 (17,643,253)

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.

## 23. Other Income (Expenses)

	2017	2016	2015
Gain on reversal of liabilities	P–	P222,502,148	P–
Service fee and expired loyalty fund points	26,614,452	15,557,935	23,393,384
Accretion income from dealers' deposits	2,731,459	4,149,485	2,774,254
Reversal of allowance (provision for) inventory obsolescence (see Note 10)	(2,601,986)	3,167,359	–
Gain on disposal of property and equipment	1,734,824	238,591	418,432
Gain (loss) on disposal of AFS	1,436,223	(4,056,548)	(2,756,485)
Interest income (see Notes 8 and 16)	1,186,755	3,291,346	3,878,652
Unrealized foreign exchange gain (loss)	(439,250)	194,819	71,189
Trading securities gain - net	–	11,234,376	619,045
Reversal of allowance for doubtful accounts (see Note 9)	–	393,024	–
Others – net	8,144,709	5,681,153	17,212,292
	<b>P38,807,186</b>	<b>P262,353,688</b>	<b>P45,610,763</b>

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.

## 24. Income Taxes

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

	2017	2016
Deferred tax assets:		
Accrued rent	P22,854,399	P19,251,318
Accrued pension costs	7,540,495	10,300,353
Loyalty points	1,952,830	8,164,794
Unamortized past service cost	5,130,595	5,650,184
Allowance for doubtful accounts	1,899,987	1,541,032

(Forward)

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	2017	2016
Allowance for inventory obsolescence	<b>P1,276,980</b>	P1,038,289
Allowance for unrecoverable deposits	<b>628,587</b>	628,587
Unrealized foreign exchange loss	–	4,751
	<b>41,283,873</b>	46,579,308
Deferred tax liabilities:		
Excess of fair value over cost of net identifiable assets acquired in business combination	<b>11,155,568</b>	11,155,568
Debt issuance cost	<b>5,027,578</b>	5,517,803
	<b>16,183,146</b>	16,673,371
	<b>P25,100,727</b>	P29,905,937

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:

	2017	2016	2015
RCIT	<b>P211,301,007</b>	P144,554,399	P146,318,519
Final withholding taxes	<b>46,799,834</b>	40,329,430	33,669,674
	<b>P258,100,841</b>	P184,883,829	P179,988,193

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:

	2017	2016	2015
Provision for income tax computed at statutory income tax rate of 30%	<b>P306,655,027</b>	P280,865,770	P197,683,535
Final tax on royalty and franchise fees	<b>46,799,834</b>	40,329,430	33,669,674
Tax effects of:			
Application of Optional Standard Deduction	<b>(25,826,283)</b>	(3,839,380)	–
Income subject to final tax			
Royalty and franchise fees	<b>(70,201,824)</b>	(60,494,144)	(50,504,508)
Interest income	<b>(106,177)</b>	(986,647)	(1,553,595)
Nontaxable			
Interest accretion	<b>(819,438)</b>	(3,227,043)	(832,276)
Gain on reversal of liabilities	–	(66,750,644)	–
Expired loyalty fund points	–	(8,164,794)	–
Others	–	(2,111,282)	(2,167,051)
Other nondeductible expenses	<b>3,538,960</b>	1,412,762	3,056,933
	<b>P260,040,099</b>	P177,034,028	P179,352,712

#### Tax Reform for Acceleration and Inclusion (TRAIN) Law

Republic Act (RA) No. 10963 or the TRAIN Act was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same did not have any significant impact on the 2017 financial statements.

**\*SGVFS030126\***

## 25. 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:

	2017	2016
Cash and cash equivalents*	<b>₱185,394,757</b>	₱273,736,513
Trade and other receivables:		
Trade receivables	<b>317,945,267</b>	225,293,314
Receivable from franchisees	<b>63,181,608</b>	11,763,847
Receivables from employees	<b>20,580,270</b>	13,910,623
Royalty receivable	<b>27,302,977</b>	19,712,775
Other receivables	<b>26,626,194</b>	20,409,346
Rental deposits	<b>120,272,609</b>	98,899,629
<b>Total credit risk exposure</b>	<b>₱761,303,682</b>	₱663,726,047

\*Excluding cash on hand.

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

	2017					
	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1-180 Days	181-360 Days	Subtotal		
Cash and cash equivalents*	<b>₱185,394,757</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱185,394,757</b>
Trade and other receivables:						
Trade receivables	<b>237,277,705</b>	<b>47,153,444</b>	<b>33,514,118</b>	<b>80,667,562</b>	<b>4,492,525</b>	<b>322,437,792</b>
Receivable from franchisees	<b>63,181,608</b>	-	-	-	-	<b>63,181,608</b>
Receivables from employees	<b>1,406,219</b>	<b>9,883,372</b>	<b>9,290,679</b>	<b>19,174,051</b>	<b>2,567,666</b>	<b>23,147,936</b>
Royalty receivable	<b>27,302,977</b>	-	-	-	-	<b>27,302,977</b>
Other receivables	<b>15,155,485</b>	<b>4,878,328</b>	<b>6,592,381</b>	<b>11,470,709</b>	<b>480,915</b>	<b>27,107,109</b>
Rental deposits	<b>120,272,609</b>	-	-	-	<b>2,095,290</b>	<b>122,367,899</b>
	<b>₱649,991,360</b>	<b>₱61,915,144</b>	<b>₱49,397,178</b>	<b>₱110,831,407</b>	<b>₱9,636,396</b>	<b>₱770,459,163</b>

\*Excluding cash on hand.

**\*SGVFS030126\***



2016							
	Neither Past Due nor Impaired	Past Due but not Impaired		Subtotal	Impaired		Total
		1-180 Days	181-360 Days				
Cash and cash equivalents*	P273,736,513	P-	P-	P-	P-		P273,736,513
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 franchisees	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
	P549,735,097	P100,906,293	P13,084,656	P113,990,949	P8,561,141		P672,287,187

\*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:

2017				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	P185,394,757	P-	P-	P185,394,757
Trade and other receivables:				
Trade receivables	168,213,739	21,699,501	47,364,465	237,277,705
NAF	-	-	63,181,608	63,181,608
Receivables from employees	-	-	1,406,219	1,406,219
Royalty receivable	27,302,977	-	-	27,302,977
Other receivables	3,005,743	12,149,742	-	15,155,485
Rental deposits	-	-	120,272,609	120,272,609
	P383,917,216	P33,849,243	P232,224,901	P649,991,360

\*Excluding cash on hand.

2016				
	High grade	Medium grade	Standard grade	Total
Cash and cash equivalents*	P273,736,513	P-	P-	P273,736,513
Trade and other receivables:				
Trade receivables	100,986,464	13,027,211	28,435,072	142,448,747
Franchisees	-	-	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
	P393,926,966	P14,770,254	P141,037,877	P549,735,097

\*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.

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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.

2017						
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	P244,994,340	P–	P–	P–	P–	P244,994,340
Trade and other receivables						
Trade	237,277,705	47,153,445	33,514,118	–	4,492,525	322,437,793
Receivable from franchisees	63,181,608	–	–	–	–	63,181,608
Receivables from employees	1,406,219	9,883,372	9,290,679	–	2,567,666	23,147,936
Royalty receivables	–	27,302,977	–	–	–	27,302,977
Other receivables	15,155,485	3,916,498	6,592,381	–	480,915	26,145,279
Rental deposits	120,272,609	–	–	–	2,095,290	122,367,899
	682,287,966	88,256,292	49,397,178	–	9,636,396	829,577,832
Accounts payable and other current liabilities:						
Trade payables	–	460,754,987	172,180	–	–	460,927,167
Nontrade payables	–	261,561,598	–	–	–	261,561,598
Accrued expenses	–	100,820,925	–	–	–	100,820,925
Other payables*	–	46,737,391	–	–	–	46,737,391
Payable to NAF	–	29,188,897	–	–	–	29,188,897
Dealers' deposit and other noncurrent payables	–	–	–	–	35,150,922	35,150,922
Loan payable**	–	44,480,943	70,089,982	113,768,750	5,596,089,274	5,824,428,949
	–	943,544,741	70,262,162	113,768,750	5,631,240,196	6,758,815,849
Liquidity gap	P682,287,966	(P855,288,449)	(P20,864,984)	(P113,768,750)	(P5,621,603,800)	(P5,929,238,017)

\*Excluding statutory payables.

\*\*Including future interest payments.

2016						
	Due and Demandable	< 90 Days	91–180 Days	181–365 Days	Over 365 Days	Total
Cash and cash equivalents	P328,531,651	P–	P–	P–	P–	P328,531,651
Trade and other receivables						
Trade	142,448,747	40,336,242	42,508,325	–	4,613,785	229,907,099
Receivable from franchisees	11,763,847	–	–	–	–	11,763,847
Receivables from employees	1,939,329	7,672,171	–	4,299,123	1,371,151	15,281,774
Royalty receivables	–	19,712,775	–	–	–	19,712,775
Other receivables	976,730	6,316,077	8,998,085	4,118,453	480,915	20,890,260
Rental deposits	98,899,629	–	–	–	2,095,290	100,994,919
AFS investment	1,100,534,464	–	–	–	–	1,100,534,464
	1,685,094,397	74,037,265	51,506,410	8,417,576	8,561,141	1,827,616,789
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*	–	50,730,415	–	–	–	50,730,415
Payable to NAF	–	32,531,643	–	–	–	32,531,643
Dealers' deposit and other noncurrent payables	–	–	–	–	16,520,343	16,520,343
Loan payable**	–	1,001,875,000	84,000,000	119,868,750	5,823,704,899	7,029,448,649
	–	1,697,067,981	262,115,920	119,868,750	5,840,225,242	7,919,277,893
Liquidity gap	P1,685,094,397	(P1,623,030,716)	(P210,609,510)	(P111,451,174)	(P5,831,664,101)	(P6,091,661,104)

\*Excluding statutory payables.

\*\*Including future interest payments.

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### 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 ratio is as follows:

	2017	2016
Total liabilities	<b>P5,134,606,563</b>	P6,025,382,363
Total equity	<b>3,974,241,106</b>	3,359,077,125
	<b>1.29:1</b>	1.79:1

## 26. 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, 2017				
		Fair Value		
		Carrying Value	Level 1 Quoted	Level 2 Significant Observable Input
	Date of Valuation			
Asset for which fair value are disclosed -				
Rental deposits	December 31, 2017	₱122,367,899	–	93,504,340
Liabilities for which fair value are disclosed:				
Loans payable	December 31, 2017	₱3,933,832,150	₱–	₱4,095,888,645
Dealers’ deposits	December 31, 2017	11,541,207	–	9,388,778
		₱3,945,373,357	₱–	₱4,105,277,423

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As at December 31, 2016				
			Fair Value	
	Date of Valuation	Carrying 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	100,994,919	—	94,539,912
		₱1,226,168,640	₱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

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 3.19% to 5.71% as at December 31, 2017 and 3.88% to 6.71% as at December 31, 2016.

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

*Loans Payable.* The fair value of loan payable which was discounted using prevailing market rate of 5.70% and 6.61% as at December 31, 2017 and 2016, respectively, 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 4.88% and 4.74% as at December 31, 2017 and 2016, respectively.

As at December 31 2017 and December 31, 2016, there were no transfers between Level 1 and 2 fair value measurements.

## 27. 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
	<u>₱1,554,237,237</u>

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 and pay rental deposits. Rental deposits as at December 31, 2017 and 2016 amounted to ₱128.8 million and ₱105.4 million, respectively (see Note 15). Accrued rental arising from recording rent expense using the straight line method of amortization amounted to ₱76.2 million and ₱64.2 million as at December 31, 2017 and 2016, respectively.

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Rental expense charged against net income in the consolidated statements of comprehensive income amounted P382.0 million, P341.6 million and P279.1 million in 2017, 2016 and 2015, respectively (see Notes 20 and 21).

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## 28. 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, 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 Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

- *PFRS 9, Financial Instruments*

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

The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in 2018.

- (a) *Classification and measurement*

Debt securities currently held as available-for-sale (AFS) under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Trade and other receivables are held to

collect contractual cash flows and thus qualify for amortized cost measurement. However, the Group is still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

**(b) Impairment**

PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The Group is currently quantifying the impact of the change in measuring credit losses.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

Based on its initial assessment, the requirements of PFRS 15 on the following may have an impact on the Group's consolidated financial position, performance and disclosures:

- Identification of performance obligations, particularly on the loyalty programs offered by the Group
- Variable considerations such as volume rebates
- Significant financing component in relation to advance payments received from customers

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- 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.

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

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

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- 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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning on or after January 1, 2019*

▪ Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

▪ PFRS 16, *Leases*

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

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.



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

▪ Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

▪ Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

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

*Deferred effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

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## 29. 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, 2017 and 2016, hence, diluted EPS is the same as the basic EPS.

The Group's EPS were computed as follows:

	2017	2016	2015
(a) Net income	<b>P762,143,324</b>	P759,185,205	P479,592,404
(b) Weighted average number of shares outstanding	<b>1,531,321,053</b>	861,602,113	768,614,050
Basic/ diluted EPS (a/b)	<b>P0.50</b>	P0.88	P0.62

### 30. Notes to the Statements of Cash Flows

There were no non-cash financing activities in 2017 and 2016.

Changes in liabilities arising from financing activities:

	January 1, 2017	Net cash flows	December 31, 2017
Long-term debt	P4,981,607,323	(P1,047,775,173)	P3,933,832,150
Accrued interest	5,625,000	(142,924)	5,482,076
Dividends declaration and settlements	—	(153,132,105)	(153,132,105)
Total liabilities from financing activities	<b>P4,987,232,323</b>	<b>(P1,201,050,202)</b>	<b>P3,786,182,121</b>

Noncash change pertains to accrual of interest on long-term debt and dividend declarations.

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

**SCHEDULE OF ALL THE EFFECTIVE STANDARDS  
AND INTERPRETATIONS  
DECEMBER 31, 2017**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	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			✓
	Amendments to PFRS 1: Deletion of Short-term Exemptions			✓
<b>PFRS 2</b>	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			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	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	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not Early Adopted		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	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	✓		
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Not Early Adopted		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not Early Adopted		
PFRS 16	Leases	Not Early Adopted		
PFRS 17	Insurance Contracts			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	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: Disclosure Initiative			✓
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative	✓		
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			✓
	Amendment to PAS 12 - Tax Consequences of Dividends	Not Early Adopted		
PAS 16	Property, Plant and Equipment	✓		
	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
	Amendment to PAS 23: Eligibility for Capitalization			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception			✓
	Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of acceptable methods of amortization			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	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			✓
<b>PAS 40</b>	Investment Property			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members’ Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 14</b>	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			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate*			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	Not Early Adopted		
<b>IFRIC 23</b>	Uncertainty Over Income Tax Treatments	Not Early Adopted		
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases – Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓