

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September-10 (Unaudited)	December-09 (Audited)	Change Amount
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 6, 31 and 32)	₱9,000,236,321	₱8,977,258,396	₱22,977,925
Receivables – net (Notes 7, 31 and 32)	1,689,309,518	1,900,210,816	(210,901,298)
Inventories – net (Note 8)	1,978,846,862	1,729,409,427	249,437,435
Other current assets – net (Notes 9, 31 and 32)	1,416,939,048	1,330,049,493	86,889,555
Total Current Assets	14,085,331,749	13,936,928,132	148,403,617
Noncurrent Assets			
Available-for-sale financial assets (Notes 10, 31 and 32)	283,406,411	155,228,494	128,177,917
Property, plant and equipment – net (Note 12)	8,296,153,725	8,350,573,445	(54,419,720)
Investment properties – net (Note 13)	706,204,066	678,070,800	28,133,266
Goodwill (Notes 11 and 14)	4,205,123,715	4,205,123,715	-
Operating lease receivables (Note 30)	48,520,081	44,836,862	3,683,219
Deferred tax assets (Note 24)	829,986,059	841,108,196	(11,122,137)
Other noncurrent assets – net (Notes 15, 31 and 32)	1,524,572,151	1,515,623,750	8,948,401
Total Noncurrent Assets	15,893,966,208	15,790,565,262	103,400,946
	₱29,979,297,957	₱29,727,493,394	₱251,804,563
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and other current liabilities (Notes 16, 31 and 32)	₱9,058,234,244	₱9,444,204,502	(₱385,970,258)
Income tax payable	19,966,137	135,934,261	(115,968,124)
Current portion of long-term debt (Notes 18, 31 and 32)	12,891,559	53,697,466	(40,805,907)
Total Current Liabilities	9,091,091,940	9,633,836,229	(542,744,289)
Noncurrent Liabilities			
Provisions (Note 17)	30,500,639	30,500,639	-
Long-term debt - net of current portion (Notes 18, 31 and 32)	2,365,022,554	2,437,980,374	(72,957,820)
Pension liability (Note 26)	264,022,869	174,197,616	89,825,253
Operating lease payables (Note 30)	1,028,078,010	1,010,167,311	17,910,699
Deferred tax liabilities (Note 24)	176,978,998	155,605,498	21,373,500
Total Noncurrent Liabilities	3,864,603,070	3,808,451,438	56,151,632
Total Liabilities	12,955,695,010	13,442,287,667	(486,592,657)
Equity Attributable to Equity Holders of the Parent (Note 31)			
Capital stock (Note 19)	1,053,152,167	1,051,458,156	1,694,011
Subscriptions receivable	(17,177,884)	(17,177,884)	-
Additional paid-in capital (Note 27)	2,735,794,872	2,635,662,843	100,132,029
Cumulative translation adjustments of foreign subsidiaries	(154,845,914)	(101,234,002)	(53,611,912)
Unrealized gain on available-for-sale financial assets (Note 10)	89,904,594	89,904,594	-
Excess of the acquisition cost over the carrying value of minority interests (Note 11)	(543,978,573)	(543,978,573)	-
Retained earnings (Note 19):			
Appropriated for future expansion	1,200,000,000	1,200,000,000	-
Unappropriated	12,832,155,994	12,147,867,997	684,287,997
	17,195,005,256	16,462,503,131	732,502,125
Less cost of common stock held in treasury (Notes 19 and 27)	180,511,491	180,511,491	-
	17,014,493,765	16,281,991,640	732,502,125
Minority Interests (Note 11)	9,109,182	3,214,087	5,895,095
Total Equity	17,023,602,947	16,285,205,727	738,397,220
	₱29,979,297,957	₱29,727,493,394	₱251,804,563

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME

	Nine Months Ended September 30				Change	
	2010		2009		2009 to 2010	
	Amount	Pct	Amount	Pct	Amount	Pct
REVENUES						
Net sales	36,463,487,232	94.9%	33,013,555,242	94.8%	3,449,931,990	10.5%
Royalty, franchise fees and others (Note 20)	1,955,357,558	5.1%	1,794,458,584	5.2%	160,898,974	9.0%
	38,418,844,790	100.0%	34,808,013,826	100.0%	3,610,830,964	10.4%
COST OF SALES (Note 21)						
Cost of inventories	17,743,963,870	46.2%	16,546,160,648	47.5%	1,197,803,222	7.2%
Store and manufacturing costs	13,606,555,184	35.4%	12,086,956,896	34.7%	1,519,598,288	12.6%
	31,350,519,054	81.6%	28,633,117,544	82.3%	2,717,401,510	9.5%
GROSS PROFIT	7,068,325,736	18.4%	6,174,896,282	17.7%	893,429,454	14.5%
EXPENSES (Note 22)						
General and administrative expenses	(3,725,504,713)	-9.7%	(3,259,705,659)	-9.4%	(465,799,054)	14.3%
Advertising and promotions	(778,247,026)	-2.0%	(737,253,074)	-2.1%	(40,993,952)	5.6%
OPERATING INCOME	2,564,573,997	6.7%	2,177,937,549	6.3%	386,636,448	17.8%
FINANCE INCOME (CHARGES) (Note 23)						
Interest income	133,868,771	0.3%	100,140,000	0.3%	33,728,771	33.7%
Interest expense	(148,335,936)	-0.4%	(146,584,000)	-0.4%	(1,751,936)	1.2%
	(14,467,165)	0.0%	(46,444,000)	-0.1%	31,976,835	-68.9%
INCOME AFTER FINANCING COST	2,550,106,832	6.6%	2,131,493,549	6.1%	418,613,283	19.6%
OTHER INCOME - Net (Note 31)	258,201,056	0.7%	356,894,097	1.0%	(98,693,041)	-27.7%
INCOME BEFORE INCOME TAX	2,808,307,888	7.3%	2,488,387,646	7.1%	319,920,242	12.9%
PROVISION FOR INCOME TAX (Notes 24 and 25)	662,088,445	1.7%	641,678,956	1.8%	20,409,489	3.2%
NET INCOME	2,146,219,443	5.6%	1,846,708,690	5.3%	299,510,753	16.2%
OTHER COMPREHENSIVE LOSS						
Translation adjustments	(53,611,912)	-0.1%	(145,280,249)	-0.4%	91,668,337	-63.1%
TOTAL COMPREHENSIVE INCOME	2,092,607,531	5.4%	1,701,428,441	4.9%	391,179,090	23.0%
Attributable to:						
Equity holders of the Parent	2,145,324,348	5.6%	1,844,560,676	5.3%	300,763,672	16.3%
Minority interests	895,095	0.0%	2,148,014	0.0%	(1,252,919)	-58.3%
	2,146,219,443	5.6%	1,846,708,690	5.3%	299,510,753	16.2%
Earnings Per Share for Net Income						
Attributable to the Equity Holders of the Parent (Note 29)						
Basic	2.098		1.791		17.1%	
Diluted	2.079		1.784		16.5%	

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarter Ended September 30				Change	
	2010		2009		2009 to 2010	
	Amount	Pct	Amount	Pct	Amount	Pct
REVENUES						
Net sales	12,218,482,241	95.6%	11,062,233,836	95.4%	1,156,248,405	10.5%
Royalty, franchise fees and others	561,636,011	4.4%	538,627,096	4.6%	23,008,915	4.3%
	12,780,118,252	100.0%	11,600,860,932	100.0%	1,179,257,320	10.2%
COST OF SALES						
Cost of inventories	5,861,342,201	45.9%	5,669,816,720	48.9%	191,525,481	3.4%
Store and manufacturing costs	4,738,587,735	37.1%	3,981,488,239	34.3%	757,099,496	19.0%
	10,599,929,936	82.9%	9,651,304,959	83.2%	948,624,977	9.8%
GROSS PROFIT	2,180,188,316	17.1%	1,949,555,973	16.8%	230,632,343	11.8%
EXPENSES						
General and administrative expenses	(1,209,345,495)	-9.5%	(1,122,970,685)	-9.7%	(86,374,810)	7.7%
Advertising and promotions	(242,217,222)	-1.9%	(246,844,832)	-2.1%	4,627,610	-1.9%
OPERATING INCOME	728,625,599	5.7%	579,740,456	5.0%	148,885,143	25.7%
FINANCE INCOME (CHARGES)						
Interest income	31,770,437	0.2%	32,995,686	0.3%	(1,225,249)	-3.7%
Interest expense	(49,252,783)	-0.4%	(44,419,962)	-0.4%	(4,832,821)	10.9%
	(17,482,346)	-0.1%	(11,424,276)	-0.1%	(6,058,070)	53.0%
INCOME AFTER FINANCING COST	711,143,253	5.6%	568,316,180	4.9%	142,827,073	25.1%
OTHER INCOME - Net	204,935,655	1.6%	197,554,457	1.7%	7,381,198	3.7%
INCOME BEFORE INCOME TAX	916,078,908	7.2%	765,870,637	6.6%	150,208,271	19.6%
PROVISION FOR INCOME TAX	205,304,565	1.6%	226,749,740	2.0%	(21,445,175)	-9.5%
NET INCOME	710,774,343	5.6%	539,120,897	4.6%	171,653,446	31.8%
OTHER COMPREHENSIVE INCOME						
Translation adjustments	102,812,261	0.8%	5,337,205	0.0%	97,475,056	1826.3%
TOTAL COMPREHENSIVE INCOME	813,586,604	6.4%	544,458,102	4.7%	269,128,502	49.4%
Attributable to:						
Equity holders of the Parent	711,957,688	5.6%	536,972,883	4.6%	174,984,805	32.6%
Minority interests	(1,183,345)	0.0%	2,148,014	0.0%	(3,331,359)	-155.1%
	710,774,343	5.6%	539,120,897	4.6%	171,653,446	31.8%
Earnings Per Share for Net Income						
Attributable to the Equity Holders of the Parent						
Basic	0.695		0.519		33.9%	
Diluted	0.693		0.518		33.7%	

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTERS ENDED SEPTEMBER 30, 2010 AND 2009

	Equity Attributable to Equity Holders of the Parent											Total Equity
	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Note 27)	Cumulative Translation Adjustments of Subsidiaries	Unrealized Gain (Loss) on Available-for- Sale Financial Assets	Excess of the Acquisition Cost over the Carrying Value of Minority Interests (Note 11)	Retained Earnings (Note 19)		Cost of Common Stock Held in Treasury (Notes 19 and 27)	Minority Interests (Note 11)	Total	
						Appropriated for Future Expansion	Unappropriated					
Balances at January 1, 2010	P1,051,458,156	(P17,177,884)	P2,635,662,843	(P101,234,002)	P89,904,594	(P543,978,573)	P1,200,000,000	P12,147,867,997	(P180,511,491)	P16,281,991,640	P3,214,087	P16,285,205,727
Total comprehensive income	-	-	-	(53,611,912)	-	-	-	2,145,324,348	-	2,091,712,436	895,095	2,092,607,531
Subscriptions and issuances of shares	1,694,011	-	64,510,532	-	-	-	-	-	-	66,204,543	5,000,000	71,204,543
Cost of stock options granted	-	-	35,621,497	-	-	-	-	-	-	35,621,497	-	35,621,497
Cash dividends	-	-	-	-	-	-	-	(1,461,036,351)	-	(1,461,036,351)	-	(1,461,036,351)
Balances at September 30, 2010	P1,053,152,167	(P17,177,884)	P2,735,794,872	(P154,845,914)	P89,904,594	(P543,978,573)	P1,200,000,000	P12,832,155,994	(P180,511,491)	P17,014,493,765	P9,109,182	P17,023,602,947
Balances at January 1, 2009	P1,040,005,488	(P17,177,884)	P2,245,675,482	P22,952,351	P19,880,054	(P543,978,573)	P1,200,000,000	P10,349,648,543	(P180,511,491)	P14,136,493,970	P3,337,451	P14,139,831,421
Total comprehensive income	-	-	-	(145,285,249)	-	-	-	1,844,560,677	-	1,699,275,428	2,148,467	1,701,423,895
Subscriptions and issuances of shares	10,885,334	-	-	-	-	-	-	-	-	10,885,334	-	10,885,334
Cost of stock options granted	-	-	318,179,792	-	-	-	-	-	-	318,179,792	-	318,179,792
Cash dividends	-	-	-	-	-	-	-	(376,514,171)	-	(376,514,171)	-	(376,514,171)
Balances at September 30, 2009	P1,050,890,822	(P17,177,884)	P2,563,855,274	(P122,332,898)	P19,880,054	(P543,978,573)	P1,200,000,000	P11,817,695,049	(P180,511,491)	P15,788,320,353	P5,485,918	P15,793,806,271

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,808,307,888	₱2,488,387,647
Adjustments for:		
Depreciation and amortization (Notes 21 and 22)	1,491,460,706	1,501,803,280
Loss on disposals and retirements of property, plant and equipment and investment properties (Notes 12 and 13)	352,939,505	118,732,020
Interest expense (Note 23)	148,335,936	146,583,980
Net movement in pension liability (Note 26)	89,825,253	-
Stock options expense (Note 27)	35,621,497	91,834,334
Reversal of impairment in investment properties (Note 13)	18,234,341	-
Amortization of debt issue cost	6,806,586	5,633,150
Interest income (Note 23)	(133,868,771)	(100,139,515)
Net unrealized foreign exchange (gain) loss	(84,722,544)	968,926
Income before working capital changes	4,732,940,397	4,253,803,822
Increases in:		
Inventories	(249,437,435)	-
Other current assets	(86,889,555)	(252,131,117)
Operating lease receivables	(3,683,219)	-
Operating lease payables	17,910,699	-
Decreases in:		
Receivables	210,901,298	409,620,386
Inventories	-	933,881,125
Trade payables and other current liabilities	(578,724,062)	(478,186,972)
Net cash generated from operations	4,043,018,123	4,866,987,244
Income taxes paid	(778,056,569)	(658,337,436)
Net cash provided by operating activities	3,264,961,554	4,208,649,808

(Forward)

	Nine Months Ended September 30	
	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment (Note 12)	(₱1,790,207,710)	(₱1,839,621,370)
Investment property (Note 13)	(13,850,638)	-
Interest received	133,185,843	100,139,515
Investment in shares of stock	(128,177,917)	-
Increase in other noncurrent assets	(60,839,082)	(756,468,966)
Proceeds from disposals of property, plant and equipment and investment properties	4,178,932	20,342,550
Net cash used in investing activities	(1,855,710,572)	(2,475,608,271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Cash dividends (Note 19)	(1,268,282,547)	(357,299,242)
Long-term debt (Note 18)	(35,845,769)	(28,571,261)
Interest paid	(148,347,284)	(146,583,980)
Proceeds from issuances of and subscriptions to capital stock	66,204,543	329,065,126
Decrease in other noncurrent liabilities	-	48,183,889
Net cash used in financing activities	(1,386,271,057)	(155,205,468)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,979,925	1,577,836,069
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,977,258,396	6,878,851,074
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	₱9,000,238,321	₱8,456,687,143

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Jollibee Group”) are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names “Jollibee”, “Chowking”, “Greenwich”, “Red Ribbon”, “Delifrance”, “Manong Pepe”, “Yonghe King”, and “Hong Zhuang Yuan”. The other activities of the Jollibee Group include manufacturing and property leasing in support of the QSR systems and in other independent business activities (see Notes 5 and 11). The shares of stock of the Parent Company are listed in the Philippine Stock Exchange.

The registered office address of the Parent Company is 10th Floor, Jollibee Plaza Building, No. 10 Emerald Avenue, Ortigas Centre, Pasig City.

The accompanying unaudited consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on November 10, 2010.

2. Basis of Preparation

The unaudited consolidated financial statements of the Jollibee Group have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets, which have been measured at fair value. The unaudited consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The unaudited consolidated financial statements have been prepared in compliance with PFRS. PFRS consists of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations.

Basis of Consolidation

The unaudited consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The subsidiaries are presented in Note 11. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Jollibee Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Jollibee Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed during the year are included in profit or loss from the date of acquisition up to the date of disposal, as appropriate.

Minority interests represent the portion of comprehensive income and net assets not held by the Jollibee Group and are presented separately in the unaudited consolidated statement of comprehensive income and within equity in the unaudited consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company. Acquisition of minority interests is accounted for using the entity concept method, whereby the difference between the cost of acquisition and the carrying value of the share of the net assets acquired is recognized as a direct deduction from the equity section of the unaudited consolidated statement of financial position as "Excess of the acquisition cost over the carrying value of minority interests." If the carrying value of the acquired net assets exceeds the consideration, the excess shall be recognized as negative goodwill or gain in profit or loss.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) starting January 1, 2009, except when otherwise indicated:

New Standards and Interpretations

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, effective October 1, 2008
- PFRS 8, *Operating Segments*, effective January 1, 2009
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*, effective July 1, 2009

Amendments to Standards

- Improvements to PFRS (2008)
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associates*, effective January 1, 2009
- PFRS 2, *Share-based Payment: Vesting Conditions and Cancellations*, effective January 1, 2009
- PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, effective January 1, 2009
- PAS 1, *Presentation of Financial Statements*, effective January 1, 2009
- PAS 23, *Borrowing Costs* (Revised), effective January 1, 2009
- PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, effective January 1, 2009
- Improvements to PFRS (2009), with respect to the amendment in Appendix to PAS 18, *Revenue*, effective April 2009

The standards that have been adopted and that are deemed to have an impact on the unaudited consolidated financial statements of the Jollibee Group are described below:

- PFRS 7, *Financial Instruments: Disclosures*, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 32, while the liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 31.
- PFRS 8, *Operating Segments*, replaced PAS 14, *Segment Reporting*, upon its effective date. It clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The Jollibee Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14 and are presented in Note 5.
- PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Jollibee Group opted to present all income and expense in one single statement. The Jollibee Group also changed the title of its “balance sheets” to “statements of financial position”.
- PAS 18, *Revenue*, adds guidance to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - i. has primary responsibility for providing the goods or services
 - ii. has inventory risk
 - iii. has discretion in establishing prices
 - iv. bears the credit risk

The Jollibee Group assessed its revenue arrangements against these criteria and concluded that it is acting as principal in majority of its arrangements. The Jollibee Group’s revenue recognition policy has been updated accordingly.

Future Changes in Accounting Policies

The Jollibee Group did not early adopt the following revised PFRS, improvements to PFRS and Philippine Interpretations that have been approved but are not yet effective:

New Standard and Interpretation

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended), become effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages.

These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with noncontrolling interest. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively, with a few exceptions. The Jollibee Group is assessing the impact of these revised and amended standards on the consolidated financial statements.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, becomes effective for annual periods beginning on or after July 1, 2009, with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

The Jollibee Group does not expect the above new standard and interpretation to have an impact on the unaudited consolidated financial statements.

Amendments to Standards

- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, becomes effective for annual periods beginning on or after July 1, 2009. It addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Jollibee Group has concluded that the amendment will have no impact on its financial position or performance as it has not entered into any such hedges.
- PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*, becomes effective for annual periods beginning on or after January 1, 2010. It clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Jollibee Group has concluded that the amendment will have no impact on its financial position or performance as it has not entered into any such cash-settled share-based payment transactions.

Improvements to PFRS 2009

The amendments to PFRS issued in 2009 were issued primarily with a view of removing inconsistencies and clarifying wordings. The amendments are effective for annual periods beginning on or after January 1, 2010, except when otherwise stated. The Jollibee Group has not yet adopted the following improvements and anticipates that the changes will have no material effect on the unaudited consolidated financial statements:

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for annual periods on or after July 1, 2009.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided that the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. The amendment is effective for the annual periods beginning on or after July 1, 2009.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition of embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture. The amendment is effective for annual periods beginning on or after July 1, 2009.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied. The amendment is effective for annual periods beginning on or after July 1, 2009.
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms that could result, at anytime; in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in PFRS 8, *Operating Segments*, before aggregation for reporting purposes.
- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following:
 - i. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - ii. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - iii. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

New Interpretation Effective 2012

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, becomes effective for annual periods beginning on or after January 1, 2012 and covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The interpretation will not have an impact on the unaudited consolidated financial statements because the Jollibee Group does not have such activity.

3. **Summary of Significant Accounting Policies**

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value.

Short-term Investment

Short-term investment are highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but not exceeding one year and are subject to an insignificant risk of change in value.

Financial Instruments

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Jollibee Group classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, options pricing models and other relevant valuation models.

Determination of Amortized Cost. The amortized cost of financial instruments is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction cost and fees that are integral part of the effective interest.

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Jollibee Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Jollibee Group determines the appropriate method of recognizing the Day 1 difference amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held-for-trading are recognized in profit or loss. Financial assets may be designated at initial recognition as at FVPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Jollibee Group has no financial assets at FVPL as of September 30, 2010 and December 31, 2009.

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 designated as AFS financial asset or financial assets at FVPL. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when the Jollibee Group expects to realize or collect the asset within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Jollibee Group's cash and cash equivalents, trade receivables, advances to employees, deposits to suppliers, receivables from suppliers and others, refundable and other deposits, employee car plan receivables and receivable from Manila Electric Company (Meralco) are classified under this category (see Note 32).

HTM Investments. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when there is a positive intention and ability to hold to maturity. Financial assets intended to be held for an undefined period are not included in this classification. HTM investments are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest, transaction costs and all other premiums and discounts. For financial assets carried at amortized cost, gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from reporting date and as noncurrent assets if maturity date is more than a year from reporting date.

The Jollibee Group has no HTM investments as of September 30, 2010 and December 31, 2009.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. AFS financial assets include equity and debt securities. Equity investments classified as AFS are those, which are neither classified as held-for-trading nor designated as at FVPL. Debt securities are those which are intended to be held for an indefinite period of time and which may be sold in response to needs of liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as “Unrealized gain (loss) on available-for-sale financial assets” in other comprehensive income until the financial asset is derecognized. If the fair value cannot be measured reliably, AFS financial assets are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of investment.

On derecognition or impairment, the cumulative gain or loss previously recognized as other comprehensive income is reclassified to either income or other expense in profit or loss as a reclassification adjustment. Interest earned on holding AFS financial assets is recognized in profit or loss using the effective interest method.

Assets under this category are classified as current assets if expected to be realized within 12 months from reporting date and as noncurrent assets if maturity date is more than a year from reporting date.

The Jollibee Group’s investment in club shares and shares of stock are classified under this category (see Note 32).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities at FVPL include financial liabilities that are held-for-trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held-for-trading if acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held-for-trading are recognized in profit or loss.

The Jollibee Group has no financial liability classified under this category as of September 30, 2010 and December 31, 2009.

Other Financial Liabilities. This category pertains to financial liabilities that are not held-for-trading or not designated as at FVPL upon the inception of the liability where the substance of the contractual arrangements results in the Jollibee Group having an obligation either to deliver cash or another financial asset to the holder, or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the Jollibee Group. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

This category includes trade payables and other current liabilities and long-term debt, including current portion (see Note 32).

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Jollibee Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Jollibee Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Jollibee Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Impairment of Financial Assets

The Jollibee Group assesses at each reporting date whether 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 occurred after the initial recognition of the asset (an incurred loss event) and that the loss event has an

impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers 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 where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost. The Jollibee 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Factors considered in individual assessment are payment history, past-due status and term, development affecting companies and specific issues with respect to the accounts. The collective assessment would require the Jollibee Group to group its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Changes in circumstances may cause future assessment of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance account. The Jollibee Group also considers factors, such as, the type of assets, the financial condition or near term prospect of the related company or account, and the intent and ability to hold on the assets long enough to allow any anticipated recovery. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the profit or loss. Receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Jollibee Group. The Jollibee Group also considers the financial condition or near term prospect of the related creditor, and its intent and ability to hold on the asset long enough to allow any anticipated recovery.

If, in a subsequent year, the amount of the impairment loss decreases because an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that carrying value of asset does not exceed its amortized cost at the reversal date.

Financial Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. In the case of equity investments classified as AFS financial assets, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments 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. When 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 financial asset previously recognized as part of profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed in profit or loss; increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded in profit or loss.

If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of Financial Assets and Liabilities

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

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

When the Jollibee Group has transferred its rights to receive cash flows from the asset and neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Jollibee Group’s continuing involvement in the asset. 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 the consideration that the Jollibee Group could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

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

- | | |
|--|---|
| Processed inventories | - First-in, first-out basis. Cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity. |
| Food supplies, novelty items and packaging, store and other supplies | - Purchase cost on a first-in, first-out basis. |

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

Net realizable value of food supplies, novelty items and packaging, store and other supplies is the current replacement cost.

Property, Plant and Equipment

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

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

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

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

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to profit or loss.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to profit or loss.

Construction in progress

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

Investment Properties

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

Property under construction or development for future use as an investment property is classified as an investment property.

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

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

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

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

For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Jollibee Group accounts such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. 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. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the control of the acquiree plus any cost directly attributable to the business combination.

The cost of business combination is allocated to the fair value of the identifiable assets and liabilities, contingent liabilities at the date of acquisition except for non-current assets classified as held for sale, which is recognized at fair value less cost to sell. Any differences between the cost of the business combination and the Jollibee Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities is recognized as goodwill.

In cases where the Jollibee Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of business combination, the Jollibee Group reassesses the identification and the measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the business combination and recognize immediately in profit or loss any excess remaining after that reassessment.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Jollibee Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Jollibee Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Jollibee Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Jollibee Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Jollibee Group's primary or secondary reporting format determined in accordance with PFRS 8, *Operating Segments*.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by discussing the recoverable amount of the cash generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) 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 cash-generating unit retained.

When a business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of goodwill associated with that transaction. Any adjustment to fair values relating to the previously held interest is a revaluation and is accounted for as such.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in profit or loss.

Business Combinations Involving Entities under Common Control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In 2008, the merger between Zenith Foods Corporation (Zenith) and Vismin Foods Corporation (Vismin), with Zenith as the surviving entity, was accounted for under pooling of interest method. Under this method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Parent Company.

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment, investment properties and goodwill are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset

belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life.

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 a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Cost of Common Stock Held in Treasury

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

Dividends on Common Stock

Dividends on common stock are recognized as liability and deducted from equity when approved by the shareholders of the Parent Company and the subsidiaries. Dividends for the year that are approved after reporting date are dealt with as an event after the reporting date.

Revenue

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

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

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

Royalty Fees. Revenue from royalty fees is recognized as the royalty accrues based on certain percentages of the franchisees' net sales.

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

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

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

Rent Income. Rent income from operating leases is recognized on a straight-line basis over the lease terms. For income tax reporting, rent income is continued to be recognized on the basis of the terms of the lease agreements.

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

Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses included under "Cost of Sales" and "General and Administrative Expenses" in the statements of comprehensive income are recognized as incurred.

Pension Benefits

The Jollibee Group has a number of funded, non-contributory pension plans, administered by trustees, covering the permanent employees of the Parent Company and its Philippine-based subsidiaries. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plans at the end of the previous reporting year exceeds 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Past service cost, if any, is recognized as expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

Pension liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, and reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial loss of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gain of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized

immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gain of the current period after the deduction of past service cost of the current period are recognized immediately.

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

Share-based Payments

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

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

The fair value is determined using the Black-Scholes Option Pricing Model (see Note 27). The cumulative expense recognized for the share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Jollibee Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in profit or loss or the investment account for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

Research and Development Costs

Research costs are expensed as incurred. Development cost incurred on an individual project is capitalized when its future recoverability can reasonably be regarded as assured. Any expenditure capitalized is amortized in line with the expected future sales from the related project.

Leases

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

A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting will commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension for scenario (b).

Jollibee Group as Lessee. Leases which do not transfer to the Jollibee Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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

Borrowing Costs

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

Provisions

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

Foreign Currency Transactions and Translations

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

The functional currencies of the Jollibee Group's foreign operations are U.S. dollar, PRC renminbi, Indonesia rupiah, Vietnam dong and Hong Kong dollar. As of the reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date while their income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are included in the unaudited consolidated statement of changes in equity under the account "Cumulative translation adjustments of subsidiaries" and in other comprehensive income. On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in profit or loss as a component of the gain or loss on disposal.

Income Tax

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

Deferred Tax. Deferred tax is provided using 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, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transactions, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interest in a joint venture, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

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

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

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

Business Segments

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

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

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

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

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

Contingencies

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

Events after Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the unaudited 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, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

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

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

Rent income amounted to ₱68.5 million and ₱45.9 million for the nine months ended September 30, 2010 and 2009, respectively (see Notes 20 and 30).

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

Rent expense amounted to ₱2,910.2 million and ₱2,396.2 million for the nine months ended September 30, 2010 and 2009, respectively (see Notes 21, 22 and 30).

Impairment of AFS Financial Assets - Significant and Prolonged Decline in Fair Value and Calculation of Impairment Loss. The Jollibee Group determines that an AFS financial asset is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Jollibee 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 12 months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Jollibee Group evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

To compute for the impairment of AFS equity instruments, the Jollibee Group expands its analysis to consider changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Jollibee Group's investments.

No impairment loss for AFS financial assets was recognized in 2010 and 2009. The carrying value of AFS financial assets amounted to ₱283.4 and ₱155.2 million as of September 30, 2010 and December 31, 2009, respectively (see Note 10).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment Loss on Receivables. The Jollibee Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Jollibee Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Jollibee Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessments. The amount and timing of recorded expenses for any period would differ if the Jollibee Group made different judgments or utilized different methodologies. An increase in allowance account would increase general and administrative expenses and decrease current and noncurrent assets.

Allowance for impairment loss on receivables as of September 30, 2010 and December 31, 2009 amounted to ₱104.1 million and ₱99.7 million, respectively. The carrying value of receivables amounted to ₱1,689.3 million and ₱1,900.2 million as of September 30, 2010 and December 31, 2009, respectively (see Note 7).

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

The estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amounts the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after

reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

The Jollibee Group assessed that the net realizable value for some inventories is lower than cost, hence it recognized accumulated impairment losses on inventories amounting to ₱85.5 million and ₱187.6 million as of September 30, 2010 and December 31, 2009, respectively. The carrying values of inventories amounted to ₱1,978.8 million and ₱1,729.4 million as of September 30, 2010 and December 31, 2009, respectively (see Note 8).

Estimation of Useful Lives of Property, Plant and Equipment and Investment Properties. The Jollibee Group estimates the useful lives of property, plant and equipment and investment properties based on the period over which the property, plant and equipment and investment properties are expected to be available for use and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of property, plant and equipment and investment properties. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors previously mentioned. The amount and timing of recording the depreciation and amortization for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase the recorded depreciation and amortization and decrease noncurrent assets.

There was no change in the estimated useful lives of property, plant and equipment and investment properties in 2010 and 2009.

Impairment of Goodwill. The Jollibee Group determines whether goodwill is impaired at least on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management has determined that goodwill is not impaired.

The carrying amount of goodwill as of September 30, 2010 and December 31, 2009 amounted to ₱4,205.1 million (see Note 14).

Impairment of Property, Plant and Equipment and Investment Properties. The Jollibee Group performs annual impairment review of property, plant and equipment and investment properties when certain impairment indicators are present. Determining the fair value of assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Jollibee Group to make estimates and assumptions that can materially affect the unaudited consolidated financial statements. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and performance.

The accumulated impairment losses on property, plant and equipment and investment properties amounted to ₱161.4 million and ₱179.6 million as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010 and December 31, 2009, the aggregate carrying values of property, plant and equipment and investment properties amounted to ₱9,002.4 million and ₱9,028.6 million, respectively (see Notes 12 and 13).

Realizability of Deferred Tax Assets. The carrying amounts of deferred tax assets at each reporting date is reviewed and reduced to the extent that there are no longer sufficient taxable profits available to allow all or part of the deferred tax assets to be utilized. The Jollibee Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the forecasted taxable income. This forecast is based on past results and future expectations on revenue and expenses.

Deferred tax assets amounted to ₱830.0 million and ₱841.1 million as of September 30, 2010 and December 31, 2009 (see Note 24).

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Jollibee Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Jollibee Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Jollibee Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Jollibee Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension and other pension obligations.

Pension liability as of September 30, 2010 and December 31, 2009 amounted to ₱264.0 million and ₱174.2 million, respectively. Unrecognized net actuarial losses amounted to ₱66.5 million as of December 31, 2009 (see Note 26).

Share-based Payments. The Parent Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the Black-Scholes Option Pricing Model. The expected life of the stock options is based on the expected exercise

behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.

Total expense arising from share-based payment recognized by the Jollibee Group amounted to ₱35.6 million and ₱67.3 million for the nine months ended September 30, 2010 and 2009, respectively (see Notes 22 and 27).

Fair Value of Financial Assets and Liabilities. The Jollibee Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if different valuation methodologies and assumptions are utilized. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and other comprehensive income.

The fair value of financial assets and liabilities are discussed in Note 32.

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

Total provisions recognized for legal claims, restructuring costs and others amounted to ₱30.5 million as of September 30, 2010 and December 31, 2009 (see Note 17).

Contingencies. The Jollibee Group is currently involved in litigations, claims and disputes which are normal to its business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the Jollibee Group's legal counsels and based upon an analysis of potential results. Except for those legal claims provided under Note 17, management believes that the ultimate liability, if any, with respect the other litigations, claims and disputes will not materially affect the financial position and performance of the Jollibee Group.

5. Segment Information

Business Segments

The Jollibee Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

- The food service segment is involved in the operations of QSR and the manufacture of food products to be sold to Jollibee Group-owned and franchised QSR outlets.
- The franchising segment is involved in the franchising of the Jollibee Group's QSR store concepts.
- The leasing segment leases store sites mainly to the Jollibee Group's independent franchisees.

The following tables present certain information on revenue, expenses, assets and liabilities and other segment information of the different business segments as of September 30, 2010 and 2009:

	September 2010				
	Food Service	Franchising	Leasing	Eliminations	Total
	<i>(In Thousands)</i>				
Revenue from external customers	P36,627,240	P1,691,113	P100,491	P-	P38,418,844
Inter-segment revenue	12,440,169	375,297	426,445	(13,241,911)	-
Segment revenue	49,067,409	2,066,410	526,936	(13,241,911)	38,418,844
Segment expenses	(48,162,249)	(375,297)	(558,635)	13,241,911	(35,854,270)
Other segment income	250,393	-	7,808	-	258,201
Segment result	P1,155,553	P1,691,113	(P23,891)	P-	2,822,775
Interest income					133,869
Interest expense					(148,336)
Income before income tax					2,808,308
Provision for income tax					(662,088)
Net income					P2,146,220
Assets and Liabilities:					
Segment assets	P28,811,680	P-	P337,632	P-	P29,149,312
Deferred tax assets	782,679	-	47,307	-	829,986
Total assets	P29,594,359	P-	P384,939	P-	P29,979,298
Segment liabilities	P10,235,871	P-	P140,165	P-	P10,376,036
Deferred tax liabilities	165,977	-	11,002	-	176,979
Long-term debt - including current portion	2,377,914	-	-	-	2,377,914
Income tax payable	19,966	-	-	-	19,966
Total liabilities	P12,799,728	P-	P151,167	P-	P12,950,895
Other segment information:					
Capital expenditures	P1,790,207	P-	P-	P-	P1,790,207
Depreciation and amortization	1,487,423	-	4,027	-	1,491,450

	September 2009				
	Food Service	Franchising	Leasing	Eliminations	Total
	<i>(In Thousands)</i>				
Revenue from external customers	P33,193,525	P1,580,074	P34,415	P-	P34,808,014
Inter-segment revenue	4,576,687	327,147	417,145	(5,320,979)	-
Segment revenue	37,770,212	1,907,221	451,560	(5,320,979)	34,808,014
Segment expenses	(37,067,957)	(327,147)	(555,951)	5,320,979	(32,630,076)
Other segment income	314,431	-	42,463	-	356,894
Segment result	P1,016,686	P1,580,074	(P61,928)	P-	2,534,832
Interest income					100,140
Interest expense					(146,584)
Income before income tax					2,488,388
Provision for income tax					(641,679)
Net income					P1,846,709
Assets and Liabilities:					
Segment assets	P27,317,911	P-	P344,060	P-	P27,661,971
Deferred tax assets	722,031	-	38,093	-	760,124
Total assets	P28,039,942	P-	P382,153	P-	P28,422,095

	September 2009				Total
	Food Service	Franchising	Leasing	Eliminations	
	<i>(In Thousands)</i>				
Segment liabilities	₱9,859,381	₱-	₱122,540	₱-	₱9,981,921
Deferred tax liabilities	78,538	-	-	-	78,538
Long-term debt - including current portion	2,500,189	-	-	-	2,500,189
Income tax payable	67,639	-	-	-	67,639
Total liabilities	₱12,505,747	₱-	₱122,540	₱-	₱12,628,287
Other segment information:					
Capital expenditures	₱1,839,621	₱-	₱-	₱-	₱1,839,621
Depreciation and amortization	1,498,221	-	3,582	-	1,501,803

Geographical Segments

The Jollibee Group's geographical segments are based on the location of the assets producing the revenue, in the Philippines and in other locations (which includes PRC and the U.S.). Sales to external customers disclosed in the geographical segments are based on the geographical location of the customers.

The following table presents revenue, segment assets and capital information of the Jollibee Group's geographical segments:

	Philippines	International	Total
	<i>(In Thousands)</i>		
September 30, 2010:			
Revenue	₱31,097,384	₱7,321,461	₱38,418,845
Segment assets	20,629,948	9,349,350	29,979,298
Capital expenditures	1,107,245	682,962	1,790,207
September 30, 2009:			
Revenue	₱28,906,386	₱6,258,522	₱35,164,908
Segment assets	19,633,495	8,788,599	28,422,094
Capital expenditures	1,025,868	813,753	1,839,621

Inter-Segment Transactions

The Jollibee Group generally accounts for inter-segment sales and transfers at current market prices as if the sales or transfers were to third parties. These transfers are eliminated at consolidation.

6. Cash and Cash Equivalents

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
Cash on hand	₱107,945,398	₱115,715,200
Cash in banks	2,740,388,745	2,435,425,884
Short-term deposits	6,151,902,178	6,426,117,312
	₱9,000,236,321	₱8,977,258,396

Cash in banks earn interest at the respective savings or special demand deposit rates.

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

Interest income earned from cash in banks and short-term deposits amounted to ₱120.2 million as of September 30, 2010 (see Note 23).

7. Receivables

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
Trade	₱1,647,021,109	₱1,854,239,723
Less allowance for impairment loss	104,088,951	99,709,174
	1,542,932,158	1,754,530,549
Advances to employees	91,296,909	90,652,777
Current portion of:		
Employee car plan receivables	43,411,326	41,724,556
Receivable from Meralco	7,100,842	7,100,842
Others	4,568,283	6,202,092
	₱1,689,309,518	₱1,900,210,816

Trade receivables are noninterest-bearing and are generally on 7-14 days term.

Advances to employees and the current portion of employee car plan receivables, receivable from Meralco and other receivables are expected to be collected within the next financial year.

The movements in the allowance for impairment loss for trade receivables as of September 30, 2010 and December 31, 2009 are as follows:

	September 2010 (Unaudited)	December 2009 (Audited)
Balance at beginning of period	₱99,709,174	₱77,063,380
Provisions	6,831,777	50,498,053
Write-offs	(2,452,000)	(18,479,842)
Reversals	-	(9,372,417)
Balance at end of period	₱104,088,951	₱99,709,174

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

8. Inventories

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
At cost:		
Food supplies and processed inventories	₱1,775,868,532	₱1,521,464,262
Packaging, store and other supplies	168,553,305	141,650,591
Novelty items	9,199,903	12,901,859
	1,953,621,740	1,676,016,712
At net realizable value -		
Novelty items	25,225,122	53,392,715
Total inventories at lower of cost and net realizable value	₱1,978,846,862	₱1,729,409,427

The cost of novelty items carried at net realizable value amounted to ₱110.7 million and ₱241.0 million as of September 30, 2010 and December 31, 2009, respectively.

The allowance for inventory obsolescence amounted to ₱85.5 million and ₱187.6 million as of September 30, 2010 and December 31, 2009, respectively.

9. Other Current Assets

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
Prepaid expenses	₱572,892,379	₱489,395,610
Receivables from suppliers and others (Notes 31 and 32)	394,506,950	440,781,698
Deposits to suppliers (Notes 31 and 32)	322,844,937	324,762,822
Input VAT	104,088,454	42,620,089
Others	22,606,328	32,489,274
	₱1,416,939,048	₱1,330,049,493

Deposits to suppliers and receivables from suppliers and others are non-interest bearing and are normally collected within the next financial year.

Prepaid expenses are charged to operation in the next financial year as the related expenses are incurred.

10. AFS Financial Assets

This account consists of the Jollibee Group's investment in shares of stock and club shares, which are as follows:

	September 2010 (Unaudited)	December 2009 (Audited)
Quoted equity shares - at fair value	₱113,556,563	₱113,261,994
Unquoted equity shares - at cost	169,849,848	41,966,500
	₱283,406,411	₱155,228,494

The carrying values of AFS financial assets have been determined as follows:

	September 2010 (Unaudited)	December 2009 (Audited)
Balance at beginning of period	₱155,228,494	₱76,757,214
Additions	128,177,917	9,193,912
Disposals	-	(747,172)
Gain (loss) on changes in fair value of AFS financial assets	-	70,024,540
Balance at end of period	₱283,406,411	₱155,228,494

As of September 30, 2010 and December 31, 2009, the unrealized gain on AFS financial assets amounted to ₱89.9 million.

11. Investments in Subsidiaries

The unaudited consolidated financial statements include the accounts of the Parent Company and the following wholly owned and majority owned subsidiaries:

	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2010	2009	2008
Fresh N' Famous Foods, Inc. (Fresh N' Famous)	Philippines	Food service	100	100	100
▪ Chowking Food Corporation USA ^(a)	United States of America (USA)	Holding company	100	100	100
▪ Chowking Food Corporation (Thailand) Co. Ltd. ^(a)	Thailand	Dormant	100	100	100
Freemont Foods Corporation	Philippines	Food service	100	100	100
RRB Holdings, Inc.	Philippines	Holding company	100	100	100
▪ Red Ribbon Bake Shop, Inc (RRBI) ^(b)	Philippines	Food service	100	100	100
▪ Red Ribbon Bakeshop, Inc. (RRBI USA) ^(b)	USA	Food service	100	100	100
Zenith Foods Corporation (Zenith) ^(c)	Philippines	Food service	100	100	100
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	100	100	100
▪ Adgraphix, Inc. (Adgraphix) ^(d)	Philippines	Digital printing	60	60	60
▪ IConnect Multimedia Network, Inc. ^(d)	Philippines	Advertising	60	60	-
Donut Magic Phils., Inc. (Donut Magic) ^(e)	Philippines	Dormant	100	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(e)	Philippines	Dormant	100	100	100
Mary's Foods Corporation (Mary's) ^(e)	Philippines	Dormant	100	100	100
QSR Builders, Inc	Philippines	Inactive	100	100	-
Coffeetap Corporation	Philippines	Food Service	50	-	-
Jollibee USA	USA	Holding company	100	100	100
Honeybee Foods Corporation (Honeybee)	USA	Food service	100	100	100
▪ Tokyo Teriyaki Corporation ^(f)	USA	Food service	100	100	100
Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide)	Singapore	Holding company	100	100	100
▪ Jollibee Worldwide Services - Regional Headquarters of Jollibee Worldwide	Philippines	Accounting service	100	100	100
▪ Golden Plate Pte. Ltd. (formerly Lao Dong Pte. Ltd.) ^(g)	Singapore	Holding company	100	100	-
▪ Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan) ^(g)	Peoples' Republic of China (PRC)	Food service	100	100	100

	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2010	2009	2008
▪ Southsea Binaries Ltd. (Southsea) ^(e)	British Virgin Island (BVI)	Holding company	100	100	100
▪ Tianjin Yong He King Food and Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Kuai Le Feng Food & Beverage (Shenzhen) Co. Ltd. ^(e)	PRC	Food service	100	100	100
▪ Beijing Yong He King Food and Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Shenzhen Yong He King Food and Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Hangzhou Yongtong Food and Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Hangzhou Yonghong Food & Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Shanghai Yong He King Food & Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Wuhan Yongchang Food and Beverage Co., Ltd. ^(e)	PRC	Food service	100	100	100
▪ Shanghai Chunlv Co. Ltd. ^(e)	PRC	Food service	100	100	100
▪ Jollibee International (BVI) Ltd. (JIBL) ^(e)	BVI	Holding company	100	100	100
▫ Jollibee Vietnam Co. Ltd. ^(h)	Vietnam	Food service	100	100	100
▫ PT Jollibee Indonesia ^(h)	Indonesia	Food service	100	100	100
▫ PT Chowking Indonesia ^(h)	Indonesia	Food service	100	100	100
▫ Jollibee (Hong Kong) Limited ^(h)	Hong Kong	Food service	85	85	85
• Hanover Holdings Limited (Hanover) ^(h)	Hong Kong	Food service	100	100	100
▫ Belmont Enterprises Ventures Limited (Belmont) ^(h)	BVI	Holding company	100	100	100
• Shanghai Belmont Enterprises Management and Adviser Co., Ltd. ^(h)	PRC	Business management service	100	100	100
• Yong He Holdings Co., Ltd. ^(h)	BVI	Holding company	100	100	100
• Centenary Ventures Limited ^(h)	BVI	Holding company	100	100	100
• Colossus Global Limited ^(h)	BVI	Holding company	100	100	100
• Granite Management Limited ^(h)	BVI	Holding company	100	100	100
• Cosmic Resources Limited ^(h)	BVI	Holding company	100	100	100
• All Great Resources Limited ^(h)	BVI	Holding company	100	100	100
• Eastpower Resources Limited ^(h)	BVI	Holding company	100	100	100
◦ YH Shanghai Yongjue Foods & Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	100
• Eaglerock Development Limited ^(h)	BVI	Holding company	100	100	100

(a) Indirectly owned through Fresh N' Famous.

(b) Indirectly owned through RRB Holdings, Inc.

(c) On February 7, 2008, the SEC approved the merger between Zenith and Vismin effective January 1, 2008, with Zenith as the surviving entity.

(d) Indirectly owned through Grandworth.

(e) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three dormant companies, namely: Donut Magic, ICCP and Mary's with the Parent Company. The application for merger is pending approval of the SEC as of December 31, 2009.

(f) Indirectly owned through Honeybee.

(g) Indirectly owned through Jollibee Worldwide.

(h) Indirectly owned through JIBL.

Acquisition/Establishment of New Subsidiaries

Jollibee Foods Processing Pte. Ltd.

On July 27, 2010, the Parent Company, through its wholly-owned subsidiary, Jollibee Worldwide Pte., Ltd. (Jollibee Worldwide), signed in Shanghai, People's Republic of China ("PRC") an agreement with Hua Xia Harvest Holdings Pte. Ltd ("Hua Xia Harvest"), a Singapore company, to undertake food manufacturing operations to supply products to food service businesses primarily the Jollibee Group of Companies. The joint venture partners formed Jollibee Foods Processing Pte. Ltd., a Singapore Company, owned by Jollibee Worldwide with 70% share and Hua Xia Harvest with 30% share. The Joint Venture is estimated to be operational in July 2011.

Coffeetap Corporation

On May 4, 2010, the Parent Company signed a joint venture agreement that gave it an entry into the gelato and coffee business. The joint venture will become the master franchisee in the Philippines of "Caffe Ti-amo", a Korean restaurant brand offering coffee and gelato (Italian ice cream) in casual dining format. The joint venture will be owned 50% by the Parent Company and 50% by its partner with an initial capitalization of ₱10 million.

San Ping Wang

On April 30, 2010, the Parent Company, through its wholly-owned subsidiary, Jollibee Worldwide Pte., Ltd. (Jollibee Worldwide), signed a joint venture agreement with Guangxi Zong Kai Food and Beverage Investment Company Limited (GZK). The agreement provides for the eventual joint ownership of San Pin Wang, a chain of restaurants in Nanning and Liuzhou Guang Xi Zhuang Minority Autonomous Region in PRC. The Parent Company through Jollibee Worldwide will own 55% of the joint venture for RMB 30 million. Both Jollibee Worldwide and GZK will also place additional investments totaling RMB 20 million in anticipation of the joint venture's expansion. The joint venture is estimated to be fully operational by January 2011.

IConnect Multimedia Network, Inc.

On August 26, 2009, Grandworth, a wholly owned subsidiary of the Parent Company, established IConnect Multimedia Network, Inc., a multimedia advertising company, with initial capital of ₱6.0 million, owning 60% of its issued and outstanding shares.

Golden Plate Pte. Ltd. (formerly Lao Dong Pte. Ltd).

On January 1, 2009, Jollibee Worldwide, a wholly owned subsidiary of the Parent Company, incorporated Lao Dong Pte. Ltd., now called Golden Plate Pte. Ltd., a Singapore-based holding company, with initial capital of USD0.8 million or ₱41.3 million, owning 100% of its issued and outstanding shares.

Hong Zhuang Yuan and Southsea

On August 23, 2008, Jollibee Worldwide, a wholly owned subsidiary of the Parent Company, acquired 100% of the issued and outstanding shares of Hong Zhuang Yuan and Southsea, which operate the Hong Zhuang Yuan restaurant chain in PRC. Consideration paid amounting to ₱1,706.1 million in 2008 was provisionally allocated to the identifiable assets and liabilities and goodwill of Hong Zhuang Yuan and Southsea. Goodwill amounting to ₱1,551.5 million was provisionally recognized in 2008.

In 2009, upon determination of the final consideration of ₱2,648.1 million, Jollibee Worldwide paid an additional ₱795.0 million and recognized a liability to Hong Zhuang Yuan and Southsea's original shareholders of ₱147.0 million (included in 'Trade payables and other current liabilities' account of the unaudited consolidated statement of financial position). Such additional consideration paid also included other direct costs of ₱10.0 million. Additional goodwill amounting to ₱945.8 million was recognized in 2009 upon determination and settlement of the final consideration.

The final consideration was allocated as follows:

	Fair Market Value	Carrying Value
Cash and cash equivalents	₱182,049,407	₱182,049,407
Inventories	3,103,119	3,103,119
Receivables	483,296	483,296
Prepaid and other current assets	57,747,358	57,747,358
Property, plant and equipment	185,401,252	172,884,268
Noncurrent assets	11,451,012	11,451,012
Total identifiable assets	440,235,444	427,718,460
Less:		
Accounts payable	29,335,714	29,335,714
Accrued liabilities	59,446,880	59,446,880
Deferred tax liabilities	3,755,095	-
Other liabilities	196,821,790	196,821,790
Total identifiable liabilities	289,359,479	285,604,384
Net assets	150,875,965	<u>₱142,114,076</u>
Goodwill arising from acquisition (Note 14)	2,497,252,905	
Total consideration	<u>₱2,648,128,870</u>	

The net cash outflow on the acquisition is as follows:

	2009	2008
Cash paid	₱795,009,120	₱1,706,095,596
Less cash acquired from subsidiary	-	182,049,407
Net cash outflow	₱795,009,120	₱1,524,046,189

Hangzhou Yonghe

On August 12, 2008, Jollibee Worldwide, through its wholly-owned subsidiary Shanghai Yonghe, entered into an Asset Purchase Agreement with Hangzhou Yonghe, a third party PRC company operating a fast food business, to purchase the latter's lease right, trade name and other intellectual properties of its eight existing stores in the province of Hangzhou, except for the equipment used in the stores which are owned by another company. The purchase consideration amounted to RMB1.0 million or ₱6.9 million.

The equipments used in the eight stores are owned by Hangzhou Huadong Xianzhi Equipment Marketing (Hangzhou Huadong). Accordingly, in relation to the Asset Purchase Agreement, Shanghai Yonghe entered into an Equipment Purchase Agreement with Hangzhou Huadong to purchase the store equipment for a total consideration of RMB16.0 million or ₱110.2 million. Pursuant to the Equipment Purchase Agreement, ownership of the store equipment will be transferred to and will be accepted by Shanghai Yonghe only upon fulfillment by Hangzhou Yonghe of the following conditions for each store:

- a. Assignment of the lease contracts to Shanghai Yonghe, renewed for at least another five years based on the agreed rent fees; and
- b. Transfer of all related business licenses and certificates to Shanghai Yonghe.

As of December 31, 2008, lease contracts and store equipment of three stores have been transferred to Shanghai Yonghe hence, a partial payment amounting to RMB4.8 million or ₱33.3 million was made. Shanghai Yonghe also made a deposit of RMB1.6 million or ₱11.1 million which was applied as payment for the last store transferred in 2009.

Pursuant to the agreements, Shanghai Yonghe, however, will allow Hangzhou Yonghe to continue the operations of its existing franchise contracts with third parties until the termination of the contracts in 2013. The terms and conditions to continue the operations of the franchise contracts, however, are still under negotiation.

In 2008, the purchase agreements were accounted for as business combinations. The total consideration paid of RMB4.8 million or ₱33.3 million, was initially recorded as goodwill pending the completion of the valuation of the identified assets at the date of acquisition.

In 2009, Shanghai Yonghe made additional payments to Hangzhou Huadong, amounting to RMB5.8 million or ₱40.3 million for the lease contracts and equipment of four additional stores transferred. The final consideration was allocated as follows:

	Fair Market Value
Leasehold rights	₱15,442,438
Deferred tax liability	(4,632,732)
Net assets	10,809,706
Goodwill arising from acquisition (Note 14)	106,264,544
	<u>₱117,074,250</u>

The cash outflow from the acquisition amounted to ₱40.3 million in 2009 and ₱33.3 million in 2008.

Acquisition of Minority Interest

Belmont

On June 18, 2007, the Parent Company through its international subsidiary, JIBL, acquired the 15% interest of Academy Resources Ltd. in Belmont for ₱413.7 million. The acquisition resulted to Belmont becoming a wholly owned subsidiary of JIBL.

The difference between the acquisition cost and the carrying value of the minority interest at the date of acquisition amounting to ₱375.7 million was recognized under “Excess of the acquisition cost over the carrying value of minority interests,” a separate component of equity in the unaudited consolidated statements of financial position.

Asset Sale of Delifrance Business Unit

On September 7, 2010, Fresh N’ Famous Foods, Inc. (FNF), entered into an agreement to sell assets of its Delifrance Business Unit to CafeFrance Corp. The sale and purchase of assets is expected to be completed on December 31, 2010, with the purchase price estimated at ₱100.0 million to be paid in cash. In connection with the sale and purchase, FNF intends to terminate its Franchise Agreement with Delifrance Asia Limited effective December 31, 2010.

12. Property, Plant and Equipment

The details of property, plant and equipment are as follows:

	September 2010 (Unaudited)							Total
	Land and Improvements	Plant and Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	
	<i>(In Thousands)</i>							
Cost:								
Balance at beginning of period	P651,035	P1,042,691	P8,341,624	P8,016,620	P576,957	P335,723	P 203,922	P19,168,572
Additions	2,221	92,615	742,815	625,167	67,043	30,523	229,823	1,790,207
Retirements and disposals	(3,066)	(3,272)	(452,939)	(31,070)	(13,797)	(21,281)	(262,438)	(787,863)
Balance at end of period	650,190	1,132,034	8,631,500	8,610,717	630,203	344,965	171,307	20,170,916
Accumulated depreciation and amortization:								
Balance at beginning of period	-	626,926	4,011,021	5,362,403	425,460	256,040	-	10,681,850
Depreciation and amortization (Notes 21 and 22)	1,065	36,873	659,843	701,441	63,643	24,921	-	1,487,786
Retirements and disposals	-	(3,767)	(281,792)	(117,577)	(8,891)	(18,996)	-	(431,023)
Balance at end of period	1,065	660,032	4,389,072	5,946,267	480,212	261,965	-	11,738,613
Accumulated impairment loss:								
Balance at beginning and end of period	-	-	89,629	46,381	18	121	-	136,149
Net book value	P649,125	P472,002	P4,152,799	P2,618,069	P149,973	P82,879	P171,307	P8,296,154
	December 2009 (Audited)							
	Land and Improvements	Plant and Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
	<i>(In Thousands)</i>							
Cost:								
Balance at beginning of year	P670,915	P910,766	P7,112,597	P7,362,564	P503,731	P318,005	P 208,849	P17,087,427
Additions (Note 11)	-	15,495	990,471	1,243,318	100,224	14,728	210,881	2,575,117
Retirements and disposals	(12,403)	(15,510)	(445,163)	(467,363)	(22,033)	(17,633)	(21,249)	(1,001,354)
Reclassifications	(7,477)	131,940	683,719	(121,899)	(4,965)	20,623	(194,559)	507,382
Balance at end of year	651,035	1,042,691	8,341,624	8,016,620	576,957	335,723	203,922	19,168,572
Accumulated depreciation and amortization:								
Balance at beginning of year	-	585,176	3,147,991	4,426,700	359,265	219,071	-	8,738,203
Depreciation and amortization (Notes 21 and 22)	-	64,409	900,329	996,814	79,215	39,993	-	2,080,760
Retirements and disposals	-	(26,275)	(339,206)	(203,293)	(8,868)	(12,985)	-	(590,627)
Reclassifications	-	3,616	301,907	142,182	(4,152)	9,961	-	453,514
Balance at end of year	-	626,926	4,011,021	5,362,403	425,460	256,040	-	10,681,850
Accumulated impairment loss:								
Balance at beginning of year	-	-	49,740	-	-	-	24,566	74,306
Impairment loss (Note 22)	-	-	39,889	46,381	18	121	-	86,409
Write-off	-	-	-	-	-	-	(24,566)	(24,566)
Balance at end of year	-	-	89,629	46,381	18	121	-	136,149
Net book value	P651,035	P415,765	P4,240,974	P2,607,836	P151,479	P79,562	P203,922	P8,350,573

The cost of fully depreciated assets still in use by the Jollibee Group amounted to P5,152.4 million and P4,460.1 million as of September 30, 2010 and December 31, 2009, respectively.

Loss on disposals and retirements of property, plant and equipment amounted to P352.9 million and P118.7 million for the nine months ended September 30, 2010 and 2009, respectively.

13. Investment Properties

The movements in this account follow:

	September 2010 (Unaudited)		
	Land and Land Improvements	Buildings and Building Improvements	Total
	<i>(In Thousands)</i>		
Cost:			
Balance at beginning of period	P669,119	P276,354	P945,473
Additions	13,009	832	13,841
Disposal	(277)	-	(277)
Balance at end of period	681,851	277,186	959,037
Accumulated depreciation:			
Balance at beginning of period	-	223,898	223,898
Depreciation (Notes 21 and 22)	-	3,674	3,674
Reclassification	-	(10)	(10)
Balance at end of period	-	227,562	227,562
Accumulated impairment losses:			
Balance at beginning of period	43,504	-	43,504
Reversal	(18,234)	-	(18,234)
Balance at end of period	25,270	-	25,270
Net book value	P656,581	P49,624	P706,205

	December 2009 (Audited)		
	Land and Land Improvements	Buildings and Building Improvements	Total
	<i>(In Thousands)</i>		
Cost:			
Balance at beginning of year	P292,230	P276,354	P568,584
Reclassifications/Transfers (Note 34)	376,889	-	376,889
Balance at end of year	669,119	276,354	945,473
Accumulated depreciation:			
Balance at beginning of year	-	218,708	218,708
Depreciation (Notes 21 and 22)	-	5,190	5,190
Balance at end of year	-	223,898	223,898
Accumulated impairment losses	43,504	-	43,504
Net book value	P625,615	P52,456	P678,071

The allowance for impairment loss in the value of land amounting to P25.3 million and P43.5 million as of September 30, 2010 and December 31, 2009, respectively, represents the excess of the carrying values over the estimated recoverable amounts of non-income-generating investment properties. The estimated recoverable amount is the estimated fair value less costs to sell.

The cost of fully depreciated buildings still being leased out by the Jollibee Group amounted to P188.5 million and P176.2 million as of September 30, 2010 and December 31, 2009, respectively.

Investment properties have aggregate fair values of ₱1,194.7 million as determined by an independent appraiser on December 31, 2008. The Jollibee Group believes that there were no significant changes in the fair value of investment properties in 2010 and 2009. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

Rent income derived from income-generating properties amounted to ₱51.0 million and ₱62.8 million for the nine months ended September 30, 2010 and 2009, respectively (see Notes 20 and 30).

Direct operating costs relating to the investment properties that generated rent income recognized under "Cost of sales" and "General and administrative expenses" accounts amounted to ₱12.9 million and ₱14.8 million for the nine months ended September 30, 2010 and 2009, respectively.

Direct operating costs relating to the investment properties that did not generate rent income recognized under "General and administrative expenses" accounts amounted to ₱3.6 million and ₱6.3 million for the nine months ended September 30, 2010 and 2009, respectively.

14. Goodwill

Goodwill acquired through business combinations are allocated as follows:

	Red Ribbon	Belmont	Hongzhuangyuan	Hangzhou Yonghe	Total
Balance at December 31, 2007	₱1,172,590,156	₱429,016,110	₱-	₱-	₱1,601,606,266
Additions (Note 11)	-	-	1,551,465,536	33,281,280	1,584,746,816
Balance at December 31, 2008	1,172,590,156	429,016,110	1,551,465,536	33,281,280	3,186,353,082
Additions (Note 11)	-	-	945,787,369	72,983,264	1,018,770,633
Balance at December 31, 2009 and September 30, 2010	₱1,172,590,156	₱429,016,110	₱2,497,252,905	₱106,264,544	₱4,205,123,715

Impairment Testing of Goodwill

The recoverable amounts of goodwill have been determined based on value in use calculations using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The pre-tax discount rate applied to cash flow projections is 18%.

The calculation of value in use is most sensitive to the following assumptions: a) gross margin, b) discount rate and c) growth rate.

15. Other Noncurrent Assets

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
Refundable and other deposits (Notes 31 and 32)	₱1,319,442,809	₱1,312,199,603
Noncurrent portion of employee car plan receivables (Notes 31 and 32)	132,004,477	130,299,282
Deferred rent expense	73,124,865	73,124,865
	₱1,524,572,151	₱1,515,623,750

Refundable and other deposits represent deposits for operating leases entered into by the Jollibee Group as lessee, including returnable containers and other deposits. The refundable deposits are recoverable from the lessors at the end of the lease term. These are presented at amortized cost. The discount rates used range from 6% to 22% in 2009. The difference between the fair value at initial recognition and the notional amount of the refundable deposits is charged to “Deferred rent expense” account and amortized on straight-line basis over the lease terms.

Receivable from Meralco arises from a refund scheme agreed upon by Meralco and the Energy Regulatory Commission. Under the scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Jollibee Group intends to recover the refund through receipt of quarterly postdated checks of equal amount over 5.25 years until 2010. The receivable was discounted using an effective interest rate of 12%.

16. Trade Payables and Other Current Liabilities

This account consists of:

	September 2010 (Unaudited)	December 2009 (Audited)
Trade	₱3,078,141,502	₱3,720,413,153
Accruals for:		
Salaries, wages and employee benefits	1,322,934,120	1,241,826,410
Local and other taxes	905,941,989	934,234,445
Advertising and promotions	896,358,733	601,932,942
Rent	450,500,883	447,208,424
Retention payable	79,014,406	14,460,679
Dividends payable	439,647,082	364,058,525
Short-term loans	61,324,719	305,024,016
Deposits	304,343,185	149,985,800
Others	1,510,027,626	1,665,060,108
	₱9,048,234,245	₱9,444,204,502

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

Short-term loans consist of unsecured bank loans of PRC-based subsidiaries. These unsecured bank loans are availed from foreign banks with maturities of one year or less. The interest rate on unsecured bank loans is 5.3% and 5.8% in 2010 and 2009, respectively.

Accruals, dividends payable and deposits are expected to be settled within the next financial year.

Other current liabilities include accruals for stale checks and gift certificates issued to customers of the Jollibee Group and other liabilities relating to store operations and corporate events. These liabilities are normally settled within the next financial year.

Interest expense recognized on short-term loans amounted to ₱9.1 million for the nine months ended September 30, 2010 (see Note 23).

17. Provisions

The movement of provisions are as follows:

	September 2010 (Unaudited)			
	Legal Claims	Restructuring Costs	Others	Total
Balance at beginning and end of the period	₱29,269,304	₱1,231,335	₱-	₱30,500,639

	December 2009 (Audited)			
	Legal Claims	Restructuring Costs	Others	Total
Balance at beginning of year	₱29,269,304	₱1,231,335	₱15,808,350	₱46,308,989
Reversals	-	-	(15,808,350)	(15,808,350)
Balance at end of year	₱29,269,304	₱1,231,335	₱-	₱30,500,639

The provisions for legal claims include estimates of legal services, settlement amount and other costs on claims made against the Jollibee Group. Other information on the claims is not disclosed as this may prejudice the Jollibee Group's position as regards to these claims. Management, after consultations with its legal counsel, believes that the provisions recognized are sufficient to meet the costs related to the claims.

The provisions for restructuring costs relates to the Parent Company's Cost Improvement Program to improve the quality of services and reduce the costs of backroom operations for its various QSR systems.

18. Long-term Debt

	September 2010 (Unaudited)	December 2009 (Audited)
USD-denominated:		
Loan 1	₱5,255,358	₱22,033,559
Loan 2	41,443,018	56,532,678
RMB-denominated:		
Loan 3	2,282,508,507	2,351,959,832
Loan 4	48,707,230	61,151,771
	2,377,914,113	2,491,677,840
Less current portion	12,891,559	53,697,466
	₱2,365,022,554	₱2,437,980,374

USD-denominated loans of RRBI USA

Loan 1 consists of a 3-year unsecured loan acquired from a foreign bank in December 2007 amounting to US\$1.35 million with an interest rate of 6.50%. The principal is payable in 36 monthly installments commencing on January 17, 2008 up to December 17, 2010, the date of maturity.

Loan 2 consists of a 5-year unsecured loan acquired from a foreign bank in December 2007 amounting to US\$1.9 million with an interest rate of 6.50%. The principal is payable in 60 monthly installments commencing on January 1, 2008 up to January 1, 2013, the date of maturity.

RMB-denominated loan of the Parent Company

On September 8, 2008, the Parent Company entered into a Synthetic Credit Facility Agreement with several financial institutions to finance its investments in the PRC. The agreement covers a three-year loan amounting to RMB700 million at fixed interest rates for the Parent Company and at 2.25% above Libor floating rate for the lenders. The difference between the rates is covered by a notional swap subject to the same 2002 ISDA Master Agreement.

Loan 3 consists of Tranches A and B for RMB350 million each. On September 26, 2008, the Parent Company drew the full amount of Tranche A at 6.85% fixed interest rate using RMB6.82:1USD as initial exchange rate. The Parent Company did not avail Tranche B.

The loan is payable in full in USD using the spot rate five business days before September 8, 2011.

Loan 4 consists of a 5-year unsecured loan acquired from a foreign bank in February 2009 amounting to RMB10.6 million with an interest rate of 5.76%. The principal is payable in 60 monthly installments commencing on February 27, 2009 up to February 27, 2014, the date of maturity.

As of September 30, 2010 and December 31, 2009, long-term debt consists of the following:

	September 2010 (Unaudited)	December 2009 (Audited)
Principal	₱2,382,730,413	₱2,507,838,450
Less unamortized debt issue cost	4,816,300	16,160,610
	₱2,377,914,113	₱2,491,677,840

The repayment schedule of outstanding long-term debt as of September 30, 2010 is as follows:

Year	Loan 1	Loan 2	Loan 3	Loan 4	Total
2010	₱5,255,358	₱1,858,556	₱-	₱1,944,111	₱9,058,025
2011	-	18,536,251	2,282,508,507	14,388,652	2,315,433,410
2012	-	19,376,118	-	14,388,652	33,764,770
2013	-	1,672,093	-	14,388,652	16,060,745
2014	-	-	-	3,597,163	3,597,163
	₱5,255,358	₱41,443,018	₱2,282,508,507	₱48,707,230	₱2,377,914,113

Interest expense recognized on long-term loans amounted to ₱137.8 million for the nine months ended September 30, 2010 (see Note 23).

19. Equity

a. Capital Stock

The movements in the number of shares follow:

	September 2010 (Unaudited)	December 2009 (Audited)
Authorized - ₱1 par value	1,450,000,000	1,450,000,000
Issued:		
Balance at beginning of period	1,049,448,859	1,037,996,191
Issuances (Note 27)	1,694,011	11,452,668
Balance at end of period	1,051,142,870	1,049,448,859
Subscribed:		
Balance at beginning of period	2,009,297	2,009,297
Subscriptions	1,694,011	11,452,668
Issuances (Note 27)	(1,694,011)	(11,452,668)
Balance at end of period	2,009,297	2,009,297
	1,053,152,167	1,051,458,156

b. Treasury Shares

The movements in common stock held in treasury as of September 30, 2010 and December 31, 2009 are as follows:

	Number of Shares	Amount
Balance at beginning and end of period	16,447,340	₱180,511,491

Treasury shares were re-issued in 2008 to cover the stock purchase rights exercised by the employee participants in the Jollibee Group's Tandem Stock Purchase and Option Plan II (see Note 27).

c. Retained Earnings

The Jollibee Group has a Cash Dividend Policy of declaring one-third of its net income for the year in which the cash dividends are declared. It uses best estimates of its net income as basis for declaring cash dividends. Actual cash dividends per share declared as a percent of the EPS are 32.6%, 37.0% and 33.8% in 2009, 2008 and 2007, respectively.

On April 12, 2010, the BOD approved a regular cash dividend of ₱0.43 a share and a special cash dividend of ₱1.00 a share of common stock to all stockholders of record as of May 7, 2010. Both regular and special cash dividends totaling to ₱1.43 a share were paid on June 3, 2010. The regular cash dividend is 16.2% higher than the ₱0.37 dividend a share declared in April 2009.

On November 5, 2009, the BOD approved the declaration of cash dividend of ₱0.48 a share in favor of the stockholders of record as of November 23, 2009. The BOD also approved on April 28, 2009, the declaration of cash dividend of ₱0.37 a share in favor of stockholders of record as of May 14, 2009.

On November 11, 2008, the BOD approved the declaration of cash dividends of ₱0.48 a share in favor of the stockholders of record as of November 28, 2008. The BOD also approved on April 14, 2008 the declaration of cash dividends of ₱0.36 a share in favor of stockholders of record as of May 2, 2008.

The unappropriated retained earnings is restricted to the extent of ₱1,871.3 million and ₱1,443.3 million as of September 30, 2010 and December 31, 2009, respectively, representing appropriation for future expansion of ₱1,200.0 million and the cost of common stock held in treasury amounting to ₱180.5 million as of September 30, 2010 and December 31, 2009 and equity in net income of subsidiaries amounting to ₱490.8 million and ₱62.8 million as of September 30, 2010 and December 31, 2009, respectively.

An important part of the Jollibee Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were acquisitions of 85% of Yonghe King in 2004 in PRC (₱1,200.0 million), 100% of Red Ribbon Bakeshop in 2005 (₱1,700.0 million), the remaining 20% minority share in Greenwich in 2007 (₱384.0 million), the remaining 15% share of Yonghe King in 2007 (₱413.7 million) and 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million).

The Jollibee Group plans to continue to make substantial acquisitions in 2010 and in the next few years. The Jollibee Group uses its cash generated from operations to finance these acquisitions and capital expenditures. These limit the amount of cash dividends that it can declare and pay making the level of the Retained Earnings higher than the paid-in Capital Stock.

20. Royalty, Franchise Fees and Others

This account consists mainly of royalty, franchise fees, service revenues and rent income.

The Parent Company and some of its subsidiaries have existing Royalty and Franchise Agreements with independent franchisees to operate QSR outlets under the "Jollibee", "Chowking", "Greenwich", "Delifrance", "Yonghe King", "Red Ribbon" and "Hong Zhuang Yuan" concepts and trade names. In consideration thereof, the franchisees agree to pay franchise fees and monthly royalty fees equivalent to certain percentages of the franchisees' net sales.

The Jollibee Group also charges the franchisees a share in the network advertising and promotional activities. These are also based on certain percentages of the franchisees' net sales.

21. Cost of Sales

This account consists of:

	September 2010	September 2009
Cost of inventories	₱17,743,963,870	₱16,546,160,648
Personnel costs:		
Salaries, wages and employee benefits	4,442,007,227	4,226,494,150
Net pension expense (Note 26)	51,128,127	50,890,064
Rent (Note 30)	2,776,768,924	2,230,904,708
Electricity and other utilities	1,863,753,441	1,530,198,296
Depreciation and amortization (Notes 12 and 13)	1,375,035,397	1,369,055,384
Supplies	927,187,905	784,270,094
Contracted services	518,031,558	471,561,761
Repairs and maintenance	413,447,753	345,974,998
Security and janitorial	171,045,594	162,343,781
Professional fees	52,546,416	54,710,906
Training	10,558,324	8,483,942
Others	1,005,044,518	852,068,812
	₱31,350,519,054	₱28,633,117,544

22. Expenses

This account consists of:

	September 2010	September 2009
General and administrative expenses	₱3,725,504,713	₱3,259,705,659
Advertising and promotions	778,247,026	737,253,074
	₱4,503,751,739	₱3,996,958,733

The general and administrative expenses consist of:

	September 2010	September 2009
Personnel costs:		
Salaries, wages and employee benefits	₱1,809,228,796	₱1,538,792,496
Stock options expense (Note 27)	35,621,497	67,345,688
Net pension expense (Note 26)	44,605,825	43,078,818
Taxes and licenses	465,353,174	457,233,300
Professional fees	212,875,406	139,822,200
Transportation and travel	192,174,352	152,470,731
Rent (Note 30)	133,478,127	165,336,792
Depreciation and amortization (Notes 12 and 13)	116,425,309	132,747,896

	September 2010	September 2009
Communication	54,734,380	55,162,488
Electricity and other utilities	44,840,341	43,014,123
Training	34,662,057	25,780,013
Security and janitorial	33,415,753	32,276,761
Supplies	28,579,289	26,305,719
Contracted services	25,332,668	29,643,580
Insurance	7,495,069	7,924,443
Donations	26,668,997	23,218,171
Corporate events and others	460,013,673	319,552,440
	₱3,725,504,713	₱3,259,705,659

23. Finance Income (Charges)

These accounts consist of:

	September 2010
Interest income:	
Short-term deposits	₱101,945,371
Cash in banks	18,285,940
Accretion of interest on financial assets	11,406,647
Loan and advances	2,230,813
	₱133,868,771
Interest expense:	
Long-term loans	₱137,809,052
Short-term loans	9,075,720
Accretion of interest on financial liabilities	1,451,164
	₱148,335,936

24. Income Tax

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

	September 2010
RCIT	₱216,149,446
MCIT	4,052,410
Final tax withheld on:	
Royalty and franchise income	391,892,723
Interest income	17,498,229
Deferred	32,495,637
	₱662,088,445

The components of the Jollibee Group's deferred tax assets and liabilities as of September 30, 2010 and December 31, 2009 follow:

	September 2010 (Unaudited)	December 2009 (Audited)
Deferred tax assets:		
Operating lease payables	₱326,673,873	₱325,002,630
NOLCO:		
PRC-based entities	128,849,917	121,143,597
Philippine-based entities	8,065,957	8,065,957
Pension liability and other benefits	107,683,175	93,790,046
Unamortized past service costs	70,025,633	72,117,864
Allowance for inventory obsolescence	25,639,929	56,282,948
Provision for impairment in value of property, plant and equipment, investment properties, and other nonfinancial assets	53,794,452	53,794,452
Allowance for impairment losses	24,947,989	25,238,955
Excess of MCIT over RCIT	21,839,946	21,839,946
Provisions for legal claims, restructuring costs and others	9,150,192	9,150,192
Others	53,314,996	54,681,609
	₱829,986,059	₱841,108,196

	September 2010 (Unaudited)	December 2009 (Audited)
Deferred tax liabilities:		
Excess of fair value over book value of property, plant and equipment of acquired businesses	₱75,571,670	₱75,571,670
Operating lease receivables	13,411,215	13,451,059
Income from Meralco refund	2,130,253	2,130,253
Others	85,865,860	64,452,516
	₱176,978,998	₱155,605,498

As of September 30, 2010, NOLCO and excess of MCIT over RCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carry Forward Benefit Up to	NOLCO	MCIT
December 31, 2009	December 31, 2012	₱26,886,523	₱9,049,550
December 31, 2008	December 31, 2011	-	7,885,310
December 31, 2007	December 31, 2010	-	4,905,086
		26,886,523	21,839,946

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on March 16, 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% effective January 1, 2008. The PRC-based subsidiaries, which are operating in a special economic zone and were previously taxed at a preferential rate of 15%, will apply increased tax rates of 18%, 20%, 22%, 24% and 25% for the years ending December 31, 2008, 2009, 2010, 2011 and 2012, respectively.

Year Incurred	Carry Forward Benefit Up to	Tax Losses
December 31, 2009	December 31, 2014	₱391,040,616
December 31, 2008	December 31, 2013	84,769,818
December 31, 2007	December 31, 2012	34,892,190
December 31, 2006	December 31, 2011	15,420,379
December 31, 2005	December 31, 2010	6,400,222
December 31, 2004	December 31, 2009	5,424,727
		537,947,952
Less expired in 2009		8,755,381
Balance at end of year		₱529,192,571

Under Republic Act No. 9337, RCIT rate for domestic corporations and resident and nonresident foreign corporations was reduced to 30% from 35% beginning January 1, 2009. The deferred income taxes and the provision for current income tax include the effect of the change in tax rates.

25. Registration with the Board of Investments (BOI)

Zenith, a wholly owned subsidiary, is registered with the BOI as a domestic producer of processed food on a non-pioneer status in accordance with the provisions of the Omnibus Investments Code of 1987. Under the terms of its registration, the subsidiary is entitled to certain tax and non-tax incentives, including among others, income tax holiday (ITH) for a four-year period on processed food from March 2003 or actual start of commercial operations, whichever is earlier; exemption from wharfage dues and any export tax, duty, import and fees for a ten-year period; employment of foreign nationals in supervisory, technical or advisory positions for a five-year period; importation of consigned equipment for a ten-year period; and additional deduction from taxable income of 50% of the wages of corresponding to the investment in number of direct labor in the year of availment.

Zenith's registration with the BOI expired in November 2007.

26. Pension Costs

Defined Benefit Plan

The Parent Company and certain Philippine-based subsidiaries have funded, independently administered, non-contributory defined benefit plans covering all permanent and regular employees with benefits based on years of service and latest compensation.

The following tables summarize the components of net pension expense recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated statements of financial position for the plans.

Net Pension Expense

	2009	2008	2007
Current service cost	₱82,275,495	₱91,054,355	₱111,560,548
Interest cost on benefit obligation	97,064,311	88,432,474	94,272,700
Expected return on plan assets	(40,469,083)	(34,803,756)	(43,777,679)
Net actuarial loss	1,883,134	1,008,909	18,763,314
	₱140,753,857	₱145,691,982	₱180,818,883

Pension Liability

	2009	2008
Present value of defined benefit obligation	₱1,213,954,564	₱985,573,966
Fair value of plan assets	(973,263,844)	(531,760,226)
Present value of unfunded obligation	240,690,720	453,813,740
Unrecognized net actuarial losses	(66,493,104)	(53,286,762)
	₱174,197,616	₱400,526,978

The movements in the present value of benefit obligation are as follows:

	2009	2008
Balance at beginning of year	₱985,573,966	₱896,922,683
Current service cost	82,275,495	91,054,355
Interest cost on benefit obligation	97,064,311	88,432,474
Actual benefits paid	(13,212,061)	(90,835,546)
Actuarial loss on benefit obligation	62,252,853	-
Balance at end of year	₱1,213,954,564	₱985,573,966

The movements in the fair value of plan assets are as follows:

	2009	2008
Balance at beginning of year	₱531,760,226	₱433,325,653
Contributions	353,871,159	155,752,809
Expected return on plan assets	40,469,083	34,803,756
Actual benefits paid	-	(57,810,284)
Actuarial gain (loss) on plan assets	47,163,376	(34,311,708)
Balance at end of year	₱973,263,844	₱531,760,226
Actual return on plan assets	₱87,632,459	₱492,048

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Cash in banks	37.47%	30.79%
Investment in government debt securities	33.08%	39.04%
Investments in shares of stock	20.36%	22.99%
Loans and receivable	7.00%	1.88%
Other receivables	2.09%	1.04%
Investments in debt securities	-	4.26%
	100.00%	100.00%

The Jollibee Group contributed a substantial part of its unfunded defined benefit obligation amounting to about ₱354.0 million in 2009. Based on the 2009 Actuarial Valuation, the unfunded defined benefit obligation as of December 31, 2009 amounts to about ₱241.0 million. Consequently, the Jollibee Group will at least contribute in 2010, an amount equivalent to the unfunded defined benefit obligation as of December 31, 2009.

The overall expected rate of return on plan assets is determined based on the market prices, prevailing on that date, applicable to the period within which the obligation is to be settled. The latest actuarial valuation of the defined benefit plan is as of December 31, 2009.

As of December 31, 2009 and 2008, the principal actuarial assumptions used to determine pension benefits obligations are as follow:

	2009	2008
Discount rate	11.00-11.31%	10.15%
Salary increase rate	8.00%	8.00%
Rate of return on plan assets	8.00%	8.00%

The amounts for the current and previous periods are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	₱1,213,954,563	₱985,573,966	₱896,922,683	₱1,208,554,155	₱551,321,126
Plan assets	973,263,844	531,760,226	433,325,653	430,319,438	291,831,385
Deficit	₱240,690,719	₱453,813,740	₱463,597,030	₱778,234,717	₱259,489,741
Experience adjustments on:					
Plan obligation	(₱62,252,852)	₱-	(₱220,551,925)	₱28,704,737	₱14,169,100
Plan assets	47,163,376	(34,311,708)	2,211,130	103,583,944	2,955,900

Defined Contribution Plan

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

The contributions made to the scheme and recognized as net pension expense amounted to ₱106.8 million, ₱82.8 million and ₱55.3 million in 2009, 2008 and 2007, respectively.

27. Stock Option Plans

Tandem Stock Purchase and Option Plan

On January 1, 2002, the SEC approved the Jollibee Group's Stock Purchase and Option Plan II (Plan II). Under Plan II, the number of shares an eligible participant can purchase shall be based on the particular tranche to which such eligible participant belongs, to be determined in accordance with the formula provided for in Plan II. The exercise price per share shall not be less than 50% to 75% of the fair market value at the time of the commencement of the tranche, as computed by the Compensation Committee. There were three tranches available for the option exercise. The options vest and become exercisable after three years of continuous employment provided the employee is still employed by the Jollibee Group and a joint venture at the exercise date. In addition, an eligible participant has the option to purchase a maximum of two shares for every fully paid share under an accepted purchase offer.

A total of 12,713,452 shares were subscribed and fully paid as of December 31, 2004 by the employee participants under the Purchase portion of Plan II. The Jollibee Group's BOD approved the use of the treasury shares to cover the stock purchase rights exercised. The excess of the cost of the treasury shares issued over the purchase exercise price amounting to ₱24.8 million was deducted against additional paid-in capital resulting from treasury share transactions.

In accordance with Plan II, a total of 25,426,904 shares became available for the Option portion equivalent to two shares for every fully paid share under the Purchase portion. One-third of the shares available for the Option portion vested each year starting January 28, 2005 until January 30, 2007. The maximum option shares exercisable each year from January 28, 2005 until January 30, 2007 is one-third of the shares available for the Option portion. The unexercised option shares expired on January 30, 2008.

The movements in the number of stock options outstanding for Plan II in 2008 follows:

Balance at beginning of year	6,072,004
Options exercised during the year:	
Tranche 1	(4,184,358)
Tranche 2	(155,291)
Tranche 3	(50,137)
<u>Options expired during the year</u>	<u>(1,682,218)</u>
<u>Balance at end of year</u>	<u>—</u>

The option shares available are divided into three tranches. Tranche 1 had an exercise price of ₱10.00 per share, ₱12.00 per share for Tranche 2 and ₱15.75 per share for Tranche 3. As of December 31, 2008, a total of 1,682,218 option shares were not exercised and, consequently, forfeited.

The weighted average share price of options exercised was ₱10.14 as of December 31, 2008.

The fair value of share options as at the date of grant was estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan was the European style since the exercise was on a fixed maturity date. The inputs to the model used for the option granted on January 1, 2002 are shown below. Tranche 1 was disregarded from the computation since Tranche 1 was issued before November 7, 2002 and had already vested as of January 1, 2005. The Jollibee Group availed of the allowed exemption on the application of PFRS 2 for Tranche 1.

	Tranche 2	Tranche 3
Dividend yield	1.3%	1.3%
Expected volatility	40.2%	40.2%
Risk-free interest rate	5.5%	5.9%
Expected life of the option	2-4 years	1-3 years

The expected life of the option was based on management's best estimate at the date of the grant and was not necessarily indicative of exercise patterns that may occur. The expected volatility reflected the assumption that the historical volatility was indicative of future trends. No other features of the option grant were incorporated in the measurement of fair value.

Senior Management Stock Option and Incentive Plan

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

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

MSOP

The MSOP is a yearly stock option grant program open to members of the corporate management committee of the Jollibee Group and members of the management committee of some of the business units.

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

The exercise price of the stock options is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of grant.

The contractual term of each option is seven years. The Jollibee Group does not pay cash as a form of settlement.

On July 1, 2004, the Compensation Committee of the Jollibee Group granted 2,385,000 options under the 1st MSOP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted on each anniversary date which will start after a year from the MSOP grant date. One-third of the options granted, or 795,000 options, vested and may be exercised starting July 1, 2005 and will expire on June 30, 2012. On July 1, 2005 to 2010, the Compensation Committee granted series of MSOP grants under the 2nd to 7th MSOP cycle to eligible participants. The options vest similar to the 1st MSOP cycle.

The movements in the number of stock options outstanding for the 1st up to the 7th MSOP cycles and related weighted average exercise prices (WAEP) for the period ended September 30, 2010 and years ended December 31, 2009 and 2008 follow:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle	4th MSOP Cycle	5th MSOP Cycle	6th MSOP Cycle	7th MSOP Cycle	Total	WAEP
Total options granted as of September 10, 2010	2,385,000	2,577,000	3,231,500	3,014,700	4,202,450	4,690,300	3,122,744	23,223,694	40.35
Outstanding as of Dec 31, 2007	1,775,629	2,070,727	2,269,855	3,014,700	-	-	-	9,130,911	34.92
Options granted during the year	-	-	675,500	-	4,202,450	-	-	4,877,950	38.81
Options exercised during the year	(130,765)	(268,330)	(255,418)	-	-	-	-	(654,513)	27.88
Outstanding as of Dec 31, 2008	1,644,864	1,802,397	2,689,937	3,014,700	4,202,450	-	-	13,354,348	36.69
Options granted during the year	-	-	-	-	-	4,690,300	-	4,690,300	45.45
Options exercised during the year	(193,665)	(154,467)	(452,958)	(68,325)	(224,528)	-	-	(1,093,943)	32.16
Options forfeited during the year	(58,699)	(83,698)	(301,930)	(318,097)	(256,999)	(20,000)	-	(1,039,423)	39.00
Outstanding as of Dec 31, 2009	1,392,500	1,564,232	1,935,049	2,628,278	3,720,923	4,670,300	-	15,911,282	39.43
Options granted during the first nine months	-	-	-	-	-	-	3,122,744	3,122,744	57.77
Options exercised during the first nine months	(401,333)	(353,666)	(457,032)	(561,221)	(437,590)	(197,093)	-	(2,407,935)	36.30
Outstanding as of September 30, 2010	991,167	1,210,566	1,478,017	2,067,057	3,283,333	4,473,207	3,122,744	16,626,091	43.33
Exercisable at Dec 31, 2008	1,644,864	1,802,397	1,612,770	1,004,900	-	-	-	6,064,931	30.60
Exercisable at Dec 31, 2009	1,392,500	1,564,232	1,935,049	1,623,378	919,290	-	-	7,434,449	33.96
Exercisable at September 30, 2010	991,167	1,210,566	1,478,017	2,067,057	1,882,516	1,346,340	-	8,975,664	38.11

The weighted average share price was ₱67.28 and ₱46.44 as of September 30, 2010 and 2009, respectively. The weighted average remaining contractual life for the stock options outstanding as of December 31, 2009 and 2008 is 5.59 years and 5.82 years, respectively.

The weighted average fair value of stock options granted in 2009 and 2008 is ₱13.83 and ₱7.83, respectively. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date. The inputs to the model used for the options granted on the dates of grant for each MSOP cycle are shown below:

	1 st MSOP Cycle (2004)	2 nd MSOP Cycle (2005)	3 rd MSOP Cycle (2006)	4 th MSOP Cycle (2007)	5 th MSOP Cycle (2008)	6 th MSOP Cycle (2009)
Dividend yield	1.70%	1.70%	1.70%	1.70%	1.80%	2.00%
Expected volatility	36.90%	36.90%	36.90%	30.44%	28.50%	31.91%
Risk-free interest rate	6.20%	6.00%	6.20%	3.83%	6.10%	5.73%
Expected life of the option	5-7 years	5-7 years	5-7 years	3-4 years	3-4 years	3-4 years
Stock price on grant date	₱24.00	₱29.00	₱35.00	₱52.50	₱34.00	₱48.00
Exercise price	₱20.00	₱27.50	₱32.32	₱50.77	₱39.85	₱45.45

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

ELTIP

The ELTIP is awarded to members of the corporate management committee.

Each ELTIP cycle refers to the period commencing on the ELTIP grant date and ending on the last day of the ELTIP exercise period. Vesting is conditional upon achievement of the Jollibee Group's minimum medium to long-term goals and individual targets in a three-year period, and the employment of the employee-participants to the Jollibee Group within the vesting period. If the goals are achieved, the options will start vesting at the start of the fourth year at a rate of one-third every anniversary of the ELTIP grant date.

The exercise price of the stock options is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of grant.

The contractual term of each option is five years. The Jollibee Group does not pay cash as a form of settlement.

On July 1, 2004, the Compensation Committee granted 22,750,000 options under the 1st ELTIP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted on each anniversary of the ELTIP grant date. One-third of the options granted, or 7,583,333 options, vested and may be exercised starting July 1, 2007 and will expire on June 30, 2012. On July 1, 2008, 19,399,999 options under 2nd ELTIP cycle were granted to eligible participants. The options vest similar to the 1st ELTIP cycle.

The movements in the number of stock options outstanding for the 1st and 2nd ELTIP cycles and related WAEP for the period ended September 30, 2010 and years ended December 31, 2009 and 2008 follow:

	1 st ELTIP Cycle (2004)	2 nd ELTIP Cycle (2008)	Total	WAEP
Total options granted as of September 30, 2010	22,750,000	19,649,999	42,399,999	₱29.20
Outstanding at December 31, 2007	21,270,832	–	21,270,832	20.00
Options granted during the year	–	19,399,999	19,399,999	39.85
Options exercised during the year	(3,500,001)	–	(3,500,001)	20.00
Outstanding at December 31, 2008	17,770,831	19,399,999	37,170,830	30.36
Options forfeited during the year	(1,416,666)	–	(1,416,666)	20.00
Options exercised during the year	(2,366,666)	–	(2,366,666)	20.00
Outstanding at December 31, 2009	13,987,499	19,399,999	33,387,498	31.53
Options granted in 2010	–	250,000	250,000	39.85
Options exercised during the period	(2,825,763)	–	(2,825,763)	20.00
Outstanding at September 30, 2010	11,161,736	19,649,999	30,811,735	32.66
Exercisable at December 31, 2008	10,187,498	–	10,187,498	20.00
Exercisable at December 31, 2009	13,987,499	–	13,987,499	20.00
Exercisable at September 30, 2010	11,161,736	–	11,161,736	20.00

The weighted average remaining contractual life for the stock options outstanding as of December 31, 2009 and 2008 is 3.95 years and 4.28 years, respectively.

The fair value of stock options granted in 2008 is ₱6.74. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date. The inputs to the model used for the options granted on the dates of grant for each ELTIP cycle are shown below:

	1st ELTIP Cycle (2004)	2nd ELTIP Cycle (2008)
Dividend yield	1.7%	1.80%
Expected volatility	36.9%	28.50%
Risk-free interest rate	6.2%	6.10%
Expected life of the option	5 years	3-4 years
Stock price on grant date	₱24.00	₱34.00
Exercise price	₱20.00	₱39.85

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

The cost of the stock options expense charged to operations under “General and administrative expenses” account amounted to ₱35.6 million and ₱67.3 million for the nine months ended September 30, 2010 and 2009, respectively.

28. Related Party Transactions

The Jollibee Group has transactions within and among the consolidated entities and related parties. A related party is an entity that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions between members of the Jollibee Group and the related balances are eliminated at consolidation and are no longer included in the disclosures.

Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Salaries and short-term benefits	₱387,276,428	₱372,814,600	₱295,501,721
Stock options expense (Note 27)	147,522,179	85,654,300	84,895,128
Net pension expense from defined benefit plan	42,141,407	22,636,807	33,765,090
Employee car plan and other long-term benefits	23,454,128	24,509,655	14,033,389
	₱600,394,142	₱505,615,362	₱428,195,328

29. Earnings Per Share Computation

Basic and diluted EPS are computed as follows:

	September 2010	September 2009
(a) Net income attributable to the equity holders of the Parent	₱2,145,324,348	₱1,844,560,677
(b) Weighted average number of shares - basic	1,022,394,237	1,029,732,121
Weighted average number of shares exercisable under the stock option plan	14,203,284	11,069,916
Weighted average number of shares that would have been purchased at fair market value	(4,631,121)	(6,746,197)
(c) Adjusted weighted average shares - diluted	1,031,966,400	1,034,055,840
EPS:		
Basic (a/b)	₱2.098	₱1.791
Diluted (a/c)	2.079	1.784

30. Commitments and Contingencies

a. Operating lease commitments - Jollibee Group as lessee

The Jollibee Group has various operating lease commitments for QSR outlets and offices. The noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Some of the leases contain escalation clauses. The lease contracts on certain sales outlets provide for the payment of additional rentals based on certain percentages of sales of the outlets. Rent payments in accordance with the terms of the lease agreements amounted to ₱2,876.7 million and ₱2,353.0 million for the nine months ended September 30, 2010 and 2009, respectively.

The future minimum lease payments for the noncancellable periods of the operating leases as of December 31, 2009 follow:

Within one year	₱722,356,139
After one year but not more than five years	3,409,121,611
More than five years	2,402,465,406
	₱6,533,943,156

The amounts by which rent expense recognized under the straight-line method exceeded the rent amounts due in accordance with the terms of the lease agreements are charged to "Operating lease payables" account. Rent expense recognized on a straight-line basis amounted to ₱2,910.2 million and ₱2,396.2 million for the nine months ended September 30, 2010 and 2009, respectively.

b. Operating lease commitments - Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units. Noncancellable periods of the lease range from 3 to 20 years, mostly containing renewal options. All leases include a clause to enable upward revision of the rent charges on an annual basis based on prevailing market conditions. Rent income in accordance with the terms of the lease agreements amounted to ₱68.5 million and ₱45.9 million for the nine months ended September 30, 2010 and 2009, respectively.

The future minimum rent receivable for the noncancellable periods of the operating leases as of December 31, 2009 follows:

Within one year	₱11,051,749
After one year but not more than five years	48,864,219
More than five years	123,333,400
	₱183,249,368

The amounts by which rent income recognized under the straight-line method exceeded the rent amounts receivable in accordance with the terms of the lease agreements are included under "Operating lease receivables" account. Rent income recognized on a straight-line basis amounted to ₱70.0 million and ₱44.0 million for the nine months ended September 30, 2010 and 2009, respectively.

c. Contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business, except for the legal claims provided in Note 17, management believes that the ultimate liability, if any, with respect to these litigations, claims and disputes will not materially affect the financial position and results of operations of the Jollibee Group.

31. Financial Risk Management Objectives and Policies

The Jollibee Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Jollibee Group's risk management policies focus on actively securing the Jollibee Group's short-term to medium-term cash flows by minimizing the exposure to financial markets. The Jollibee Group does not actively engage in trading of financial assets for speculative purposes.

The Jollibee Group's principal instruments are cash and cash equivalents and long-term debt. The main purpose of these financial instruments is to raise financing for the Jollibee Group's operations. The Jollibee Group has various other financial assets and liabilities such as receivables, employee car plan receivables, refundable and other deposits, receivable from Meralco, AFS financial assets and trade payable and other current liabilities which arises from Jollibee Group's current operations.

The main risks arising from the Jollibee Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The Jollibee Group's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Foreign Currency Risk

The Jollibee Group's exposure to foreign currency risk arises as the Parent Company has investments outside of the Philippines, which are mainly in PRC and in USA. While the foreign business has been rapidly growing, the net assets of foreign business account for only 10.7% of the consolidated net assets of the Jollibee Group as of December 31, 2009 and 2008. Therefore, the total exposure to foreign exchange risk of the Jollibee Group is still not significant.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from cash in banks, short-term deposits, receivables and payables in foreign currencies.

The following table shows the Jollibee Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents as of September 30, 2010 and December 31, 2009:

	September 2010 (Unaudited)					
	Philippine Operations			Foreign Operations		
	USD	RMB	PHP	USD	RMB	PHP
Assets:						
Cash and cash equivalents	1,753,550	253,784,167	1,741,769,910	13,665,798	103,511,311	1,278,689,416
Receivables	8,270,175	5,830,181	401,141,266	1,593,345	40,677,626	336,761,205
	10,023,725	259,614,348	2,142,911,176	15,259,143	144,188,937	1,615,450,621
Liabilities:						
Loans	-	(350,000,000)	(2,296,000,000)	(1,064,229)	(16,761,410)	(156,653,218)
Payables	-	-	-	(7,902,504)	(134,017,303)	(1,225,915,383)
	10,023,725	(90,385,652)	(153,088,824)	6,292,410	(6,589,776)	232,882,020

	December 2009 (Audited)					
	Philippine Operations			Foreign Operations		
	USD	RMB	PHP	USD	RMB	PHP
Assets:						
Cash and cash equivalents	11,626,851	136,228,758	1,462,153,783	25,909,994	89,359,298	1,803,791,343
Receivables	6,157,309	4,642,931	315,993,177	1,460,287	16,481,729	179,376,185
	17,784,160	140,871,689	1,778,146,960	27,370,281	105,841,027	1,983,167,528
Liabilities:						
Loans	-	(350,000,000)	(2,376,500,000)	(1,700,586)	(53,951,730)	(444,898,483)
Payables	-	-	-	(7,590,579)	(116,713,463)	(1,143,169,149)
	17,784,160	(209,128,311)	(598,353,040)	18,079,116	(64,824,166)	395,099,896

The Jollibee Group has recognized in its profit or loss, foreign currency exchange gain (loss) included under "Other income" account which amounted to ₱36.5 million and (₱24.3) million on its net foreign currency-denominated assets and liabilities for the nine months ended September 30, 2010 and 2009, respectively. This resulted from the movements of the Philippine peso against the USD and RMB as shown in the following table:

	Peso to	
	RMB	USD
September 30, 2010	₱6.56	₱43.88
September 30, 2009	7.06	47.39

The following table demonstrates the sensitivity to a reasonably possible change in USD and RMB to Philippine peso exchange rate, with all other variables held constant, of the Jollibee Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of September 30, 2010 and December 31, 2009:

	September 2010 (Unaudited)	December 2009 (Audited)
Increase (Decrease) in ₱ to	Effect on Income Before Income Tax	Effect on Income Before Income Tax
<i>(In Millions)</i>		
USD	₱1.50	₱26.7
	(1.50)	(26.7)
	1.00	17.8
	(1.00)	(17.8)
RMB	0.95	(198.7)
	(0.95)	198.7
	0.63	(131.8)
	(0.63)	131.8

The increase in Philippine peso to USD and RMB rate means stronger foreign currency against the peso while a decrease in Philippine peso to USD and RMB rate means a stronger peso against the foreign currency.

Credit Risk

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

The Jollibee Group has a very strict credit policy. Its credit transactions are only with franchisees that have gone through rigorous screening before granting them the franchise. The credit terms are very short, deposits and advance payments are also required before rendering the service or delivering the goods, thus, mitigating the possibility of non-collection. In cases of defaults of debtors, the exposure is contained as transactions that will increase the exposure of the Jollibee Group are not permitted. Significant credit transactions are only with related parties.

Credit Quality. The tables below show the credit quality by class of financial assets, based on the Jollibee Group's credit rating system as of September 30, 2010 and December 31, 2009.

	September 2010 (Unaudited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	P8,892.3	P8,892.3	P-	P-	P-
Receivables:					
Trade	1,647.0	731.6	5.2	2.9	907.3
Advances to officers and employees	91.3	91.3	-	-	-
Current portion of:					
Employee car plan receivables	43.4	43.4	-	-	-
Receivable from Meralco	7.1	7.1	-	-	-
Others	4.6	4.6	-	-	-
Other current assets:					
Deposits to suppliers	322.8	322.8	-	-	-
Receivables from suppliers and others	394.5	394.5	-	-	-
Other noncurrent assets:					
Refundable and other deposits	1,319.5	1,319.5	-	-	-
Noncurrent portion of employee car plan receivables	132.0	132.0	-	-	-
AFS Financial Assets	283.4	283.4	-	-	-
	P13,137.9	P12,222.5	P5.2	P2.9	P907.3

	December 2009 (Audited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
<i>(In Millions)</i>					
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	P8,861.5	P8,861.5	P-	P-	P-
Receivables:					
Trade	1,854.2	984.8	7.7	3.6	858.1
Advances to officers and employees	90.7	90.7	-	-	-
Current portion of:					
Employee car plan receivables	41.7	41.7	-	-	-
Receivable from Meralco	7.1	7.1	-	-	-
Others	6.2	6.2	-	-	-
Other current assets:					
Deposits to suppliers	324.8	324.8	-	-	-
Receivables from suppliers and others	440.8	440.8	-	-	-
Other noncurrent assets:					
Refundable and other deposits	1,312.2	1,312.2	-	-	-
Noncurrent portion of employee car plan receivables	130.3	130.3	-	-	-
AFS Financial Assets	155.2	155.2	-	-	-
	P13,224.7	P12,355.3	P7.7	P3.6	P858.1

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

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

AFS financial assets are unrated.

The aging analyses of receivables are as follows:

	September 2010 (Unaudited)						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Receivables:							
Trade	P1,647.0	P739.7	P198.4	P66.2	P148.0	P390.6	P104.1
Advances to officers and employees	91.3	91.3	-	-	-	-	-
Current portion of:							
Employee car plan receivables	43.4	43.4	-	-	-	-	-
Receivable from Meralco	7.1	7.1	-	-	-	-	-
Others	4.6	4.6	-	-	-	-	-
Other current assets:							
Deposits to suppliers	322.8	322.8	-	-	-	-	-
Receivables from suppliers and others	394.5	394.5	-	-	-	-	-
Other noncurrent assets:							
Refundable and other deposits	1,319.5	1,319.5	-	-	-	-	-
Noncurrent portion of employee car plan receivables	132.0	132.0	-	-	-	-	-
	P3,962.2	P3,054.9	P198.4	P66.2	P148.0	P390.6	P104.1

December 2009 (Audited)							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Receivables:							
Trade	₱1,854.2	₱996.1	₱406.7	₱80.5	₱135.1	₱136.1	₱99.7
Advances to officers and employees	90.7	90.7	-	-	-	-	-
Current portion of:							
Employee car plan receivables	41.7	41.7	-	-	-	-	-
Receivable from Meralco	7.1	7.1	-	-	-	-	-
Others	6.2	6.2	-	-	-	-	-
Other current assets:							
Deposits to suppliers	324.8	324.8	-	-	-	-	-
Receivables from suppliers and others	440.8	440.8	-	-	-	-	-
Other noncurrent assets:							
Refundable and other deposits	1,312.2	1,312.2	-	-	-	-	-
Noncurrent portion of employee car plan receivables	130.3	130.3	-	-	-	-	-
	₱4,208.0	₱3,349.9	₱406.7	₱80.5	₱135.1	₱136.1	₱99.7

Credit Risk Exposure and Concentration. The table below shows the maximum exposure to credit risk of the Jollibee Group as of September 30, 2010 and December 31, 2009, without considering the effects of collaterals and other credit risk mitigation techniques.

	September 2010 (Unaudited)	December 2009 (Audited)
Loans and Receivables		
Cash and cash equivalents (excluding cash on hand)	₱8,892,290,923	₱8,861,543,196
Receivables:		
Trade	1,647,021,018	1,854,239,723
Advances to officers and employees	91,296,909	90,652,777
Current portion of:		
Employee car plan receivables	43,411,326	41,724,556
Receivable from Meralco	7,100,842	7,100,842
Others	4,568,283	6,202,092
Other current assets:		
Deposits to suppliers	322,844,937	324,762,822
Receivables from suppliers and others	394,506,950	440,781,698
Other noncurrent assets:		
Refundable and other deposits	1,319,442,809	1,312,199,603
Noncurrent portion of employee car plan receivables	132,004,477	130,299,282
AFS Financial Assets	283,406,411	155,228,494
	₱13,137,894,885	₱13,224,735,085

The Jollibee Group has no significant concentration of credit risk with counterparty since it has short credit terms to franchisees, which it implements consistently. In addition, the Jollibee Group's franchisee profile is such that no single franchisee accounts for more than 5% of the total systemwide sales of the Jollibee Group.

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

Interest Rate Risk

Interest risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Jollibee Group's exposure to changes in market interest rates relates primarily to cash and cash equivalents and long-term debt. Long-term debt obligations of the Parent Company, Red Ribbon and Yonghe King are with fixed interest rates. Thus, the changes in interest rates will have minimal impact on the Jollibee Group's unaudited consolidated statements of comprehensive income.

The following tables set out the financial instruments, by maturity, of the Jollibee Group's interest bearing instruments that are exposed to interest rate risk as of September 30, 2010 and December 31, 2009:

September 2010 (Unaudited)					
	Interest Rate	Within 1 year	2-3 years	4-5 years	Total
Total interest-bearing financial assets -					
Cash and cash equivalents		P8,892,290,923	P-	P-	P8,892,290,923
Total interest-bearing financial liabilities:					
USD-denominated:					
Loan 1	6.50%	P5,596,956	P-	P-	P5,596,956
Loan 2	6.50%	18,241,396	25,472,581	422,838	44,136,815
RMB-denominated:					
Loan 3	6.85%	156,351,833	2,438,860,340	-	2,595,212,173
Loan 4	5.76%	14,718,568	29,437,137	7,359,284	51,514,989
		P194,908,753	P2,493,770,058	P7,782,122	P2,696,460,933

December 2009 (Audited)					
	Interest Rate	Within 1 year	2-3 years	4-5 years	Total
Total interest-bearing financial assets -					
Cash and cash equivalents		P8,861,543,196	P-	P-	P8,861,543,196
Total interest-bearing financial liabilities:					
USD-denominated:					
Loan 1	6.50%	P23,465,740	P-	P-	P23,465,740
Loan 2	6.50%	18,398,146	40,028,377	1,780,779	60,207,302
RMB-denominated:					
Loan 3	6.85%	111,883,333	2,533,379,032	-	2,645,262,365
Loan 4	5.76%	15,217,438	30,434,877	19,021,798	64,674,113
		P168,964,657	P2,603,842,286	P20,802,577	P2,793,609,520

Liquidity Risk

Jollibee Group's exposure to liquidity risk refers to the risk that its financial liabilities are not serviced in a timely manner and that its working capital requirements and planned capital expenditures are not met. To manage this exposure and to ensure sufficient liquidity levels, the Jollibee Group closely monitors its cash flows to be able to finance its capital expenditures and to pay its obligations, as and when they fall due.

On a weekly basis, the Jollibee Group's Cash and Banking Team monitors its collections, expenditures and any excess/deficiency in the working capital requirements, by preparing cash position reports that present actual and projected cash flows for the subsequent week. Cash outflows resulting from major expenditures are planned so that money market placements are available in time with the planned major expenditure. In addition, the Jollibee Group has short-term cash deposits and has available credit lines with accredited banking institutions, in case there is a sudden deficiency. The Jollibee Group maintains a level of cash and cash equivalents deemed sufficient to finance the operations.

No changes were made in the objectives, policies or processes during the nine months ended September 30, 2010 and year ended December 31, 2009.

The tables below summarize the maturity profile of the Jollibee Group's financial assets used for liquidity risk management purposes and financial liabilities based on the contractual undiscounted payments as of September 30, 2010 and December 31, 2009:

	September 2010 (Unaudited)				Total
	On demand	Within 1 year	2-3 years	4-5 years	
Cash and cash equivalents	P2,848,334,143	P6,151,902,178	P-	P-	P9,000,236,321
Receivables:					
Trade	-	1,647,021,018	-	-	1,647,021,018
Advances to employees	-	91,296,909	-	-	91,296,909
Current portion of employee car plan receivables	-	43,411,326	-	-	43,411,326
Receivable from Meralco	-	7,100,842	-	-	7,100,842
Others	-	4,568,283	-	-	4,568,283
Other current assets:					
Deposit to suppliers	-	322,844,937	-	-	322,844,937
Receivable from suppliers and others	-	394,506,950	-	-	394,506,950
	P2,848,334,143	P8,662,652,443	P-	P-	P11,510,986,586
Trade payables and other current liabilities*	P8,086,785,191	P-	P-	P-	P8,086,785,191
Long-term debt (including current portion)	-	9,058,025	2,349,198,180	19,657,908	2,377,914,113
	P8,086,785,191	P9,058,025	P2,349,198,180	P19,657,908	P10,464,699,304

*Excluding output VAT, local and other taxes and other liabilities to government agencies.

	December 2009 (Audited)				Total
	On demand	Within 1 year	2-3 years	4-5 years	
Cash and cash equivalents	₱2,551,141,084	₱6,426,117,312	₱-	₱-	₱8,977,258,396
Receivables:					
Trade	-	1,854,239,723	-	-	1,854,239,723
Advances to employees	-	90,652,777	-	-	90,652,777
Current portion of employee car plan receivables	-	41,724,556	-	-	41,724,556
Receivable from Meralco	-	7,100,842	-	-	7,100,842
Others	-	6,202,092	-	-	6,202,092
Other current assets:					
Deposit to suppliers	-	324,762,822	-	-	324,762,822
Receivable from suppliers and others	-	440,781,698	-	-	440,781,698
	₱2,551,141,084	₱9,191,581,822	₱-	₱-	₱11,742,722,906
Trade payables and other current liabilities*	₱8,451,027,965	₱-	₱-	₱-	8,451,027,965
Long-term debt (including current portion)	-	53,697,466	2,434,483,076	19,657,908	2,507,838,450
	₱8,451,027,965	₱53,697,466	₱2,434,483,076	₱19,657,908	₱10,958,866,415

*Excluding output VAT, local and other taxes and other liabilities to government agencies.

Capital Management

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

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing about 1/3 of its consolidated net income, a ratio that would still leave some additional cash for future acquisitions. If needed, the Jollibee Group would borrow money for acquisitions of new businesses.

As of September 30, 2010 and December 31, 2009, the Jollibee Group's ratio of debt-to-equity and ratio of net debt-to-equity are as follows:

Debt-to-equity

	September 2010 (Unaudited)	December 2009 (Audited)
Total debt (a)	₱12,955,695,011	₱13,442,287,667
Total equity attributable to equity holders of the Parent	17,014,493,765	16,281,991,640
Total debt and equity attributable to equity holders of the Parent (b)	₱29,970,188,776	₱29,724,279,307
Debt-to-equity ratio (a/b)	43%	45%

Net debt-to-equity

	September 2010 (Unaudited)	December 2009 (Audited)
Total debt	₱12,955,695,011	₱13,442,287,667
Less cash and cash equivalents	9,000,236,321	8,977,258,396
Net debt (a)	3,955,458,690	4,465,029,271
Total equity attributable to equity holders of the Parent	17,014,493,765	16,281,991,640
Total net debt and equity attributable to equity holders of the Parent (b)	₱20,969,952,455	₱20,747,020,911
Net debt-to-equity ratio (a/b)	19%	22%

Net debt represents total liabilities after deducting cash and cash equivalents.

32. Fair Value of Financial Assets and Liabilities

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, as of September 30, 2010 and December 31, 2009. There are no material unrecognized financial assets and liabilities as of September 30, 2010.

	September 2010 (Unaudited)		December 2009 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱9,000,236,321	₱9,000,236,321	₱8,977,258,396	₱8,977,258,396
Receivables:				
Trade	1,542,932,158	1,542,932,158	1,754,530,549	1,754,530,549
Advances to employees	91,296,909	91,296,909	90,652,777	90,652,777
Current portion of:				
Employee car plan receivables	43,411,326	43,411,326	41,724,556	41,724,556
Receivable from Meralco	7,100,842	7,100,842	7,100,842	7,100,842
Others	4,568,283	4,568,283	6,202,092	6,202,092
Other current assets:				
Deposit to suppliers	322,844,937	322,844,937	324,762,822	324,762,822
Receivable from suppliers and others	394,506,950	394,506,950	440,781,698	440,781,698
Other noncurrent assets:				
Refundable and other deposits	1,319,442,809	1,319,442,809	1,312,199,603	1,385,324,468
Noncurrent portion of employee car plan receivables	132,004,477	132,004,477	130,299,282	147,549,200
	12,858,345,012	12,858,345,012	13,085,512,617	13,175,887,400
AFS financial assets				
Investments in shares of stock and club shares	283,406,411	283,406,411	155,228,494	155,228,494
	₱13,141,751,423	₱13,141,751,423	₱13,240,741,111	₱13,331,115,894
Other Financial Liabilities				
Trade payables and other current liabilities*	₱8,086,785,191	₱8,086,785,191	₱8,509,970,057	₱8,509,970,057
Long-term debt (including current portion)	2,377,914,113	2,377,914,113	2,491,677,840	2,580,886,823
	₱10,464,699,304	₱10,464,699,304	₱11,001,647,897	₱11,090,856,880

*Excluding output VAT, local and other taxes and other liabilities to government agencies.

Financial Instruments with Carrying Amounts Approximate Fair Value

Management has determined that the carrying amounts of cash and cash equivalents, receivables and trade payables and other current liabilities reasonably approximate their fair values because of their short-term maturities.

Financial Instruments Carried at other than Fair Value

Management has determined that the estimated fair value of refundable and other deposits, employee car plan receivables and long-term debt are based on the discounted value of future cash flows using applicable rates, as follows:

	2009
Receivable from Meralco	7%-8%
Employee car plan receivables	5%-8%
Refundable and other deposits	7%-8%
Long-term debt	6%-7%

AFS Financial Assets

The fair value of investments that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of business at reporting date.

Unquoted AFS financial assets are carried at cost less any impairment in value. These financial assets are equity shares of private entities and are not traded in an active market, hence its fair value cannot be determined reliably.

The Jollibee Group does not have the intention to dispose these financial assets in the near term.

Fair Value Hierarchy

The Jollibee Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Jollibee Group's quoted AFS financial assets amounting to ₱113.3 million as of September 30, 2010 and December 31, 2009 are the only financial instruments measured at fair value using Level 1 fair value measurement (see Note 10).

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

33. Events after Reporting Date

Dividend Declaration

On November 10, 2010, the BOD approved the declaration of a regular cash dividend of ₱0.57 and special cash dividend of ₱0.25 per share for stockholders of record as of November 25, 2010. Both regular and special cash dividends totaling to ₱0.82 a share are expected to be paid out by December 21, 2010. The regular cash dividend totaling to ₱1.00 per share in 2010 is 17.6% higher than the ₱0.85 per share declared in 2009.

Share Purchase Agreement with San Ping Wang

On October 26, 2010, the Parent Company, through its wholly-owned subsidiary Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide), signed with Guangxi Zong Kai Food Beverage Investment Company Limited (GZK) a share purchase agreement pursuant to which Jollibee Worldwide will acquire from GZK 55% of Guangxi San Ping Wang Food and Beverage Management Company Limited (San Ping Wang) which operates the San Ping Wang beef noodle business, subject to completion of certain conditions.

Acquisition of 70% of Mang Inasal Philippines, Inc. (MIPI)

On October 18, 2010, the terms of the Parent Company's unsolicited offer to acquire 70% of Mang Inasal Philippines, Inc. (MIPI), owner and operator of the Mang Inasal restaurant chain, have been unconditionally and irrevocably accepted by Injap Investments, Inc. (Injap), parent company of MIPI. The purchase price is estimated to be about ₱3.0 billion, subject to the results of the Parent Company's due diligence.

34. Non-cash Transaction

In 2009, non-cash investing activities pertains to the transfer of deposit for the acquisition of real property included under "Other noncurrent assets" account in 2008 to "Investment properties" account in 2009 amounting to ₱376.9 million.

35. Reclassification

In 2009, the Jollibee Group changed the presentation of its 2008 consolidated statement of financial position and consolidated statement of comprehensive income to conform with the 2009 presentation and classification and to provide more relevant information for the understanding of the Jollibee Group's financial statements. The Jollibee Group did not present a consolidated financial position as at beginning of the earliest comparative period since the reclassifications made were minimal and would not have an impact on the total assets and net income of the Jollibee Group.