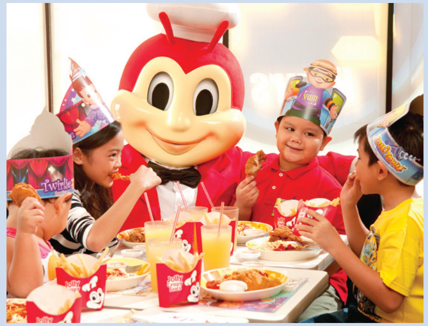
Jollibee Foods
CORPORATION

2010
ANNUAL REPORT



Spreading the Joy of Eating to Everyone

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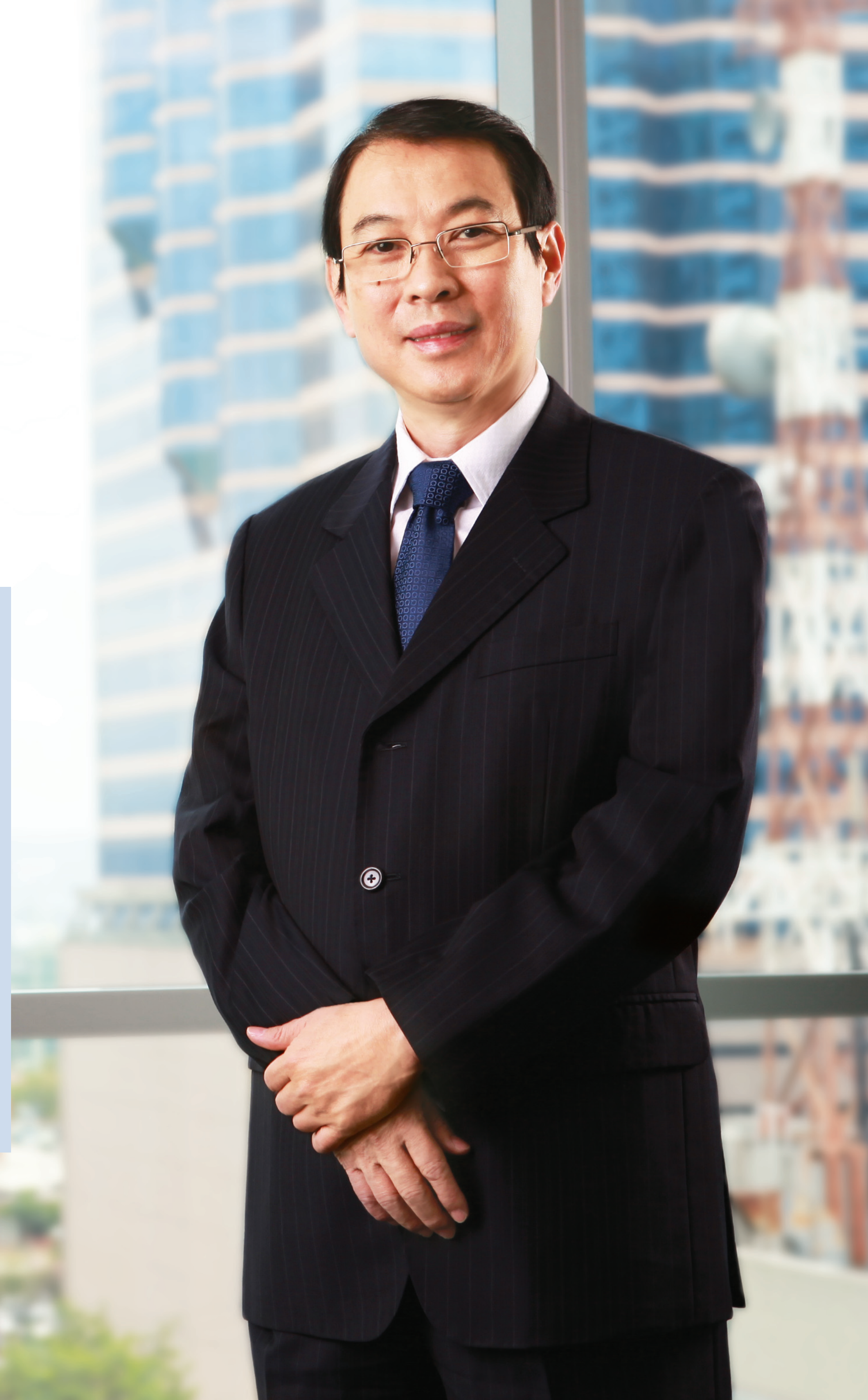
Spreading the Joy of Eating to Everyone

Sharing a meal is more than just dining on delicious food. It is about spending time with family, friends and colleagues. Jollibee Foods Corporation (JFC) understands this and strives to make each dining moment a delightful experience. With its diverse variety of brands and food choices, JFC reaches a broad range of customers from different walks of life all over the world - truly spreading the joy of eating to everyone.

Chairman's Message

"Practically all our brands in all the countries where we operate achieved growth in 2010 led by our businesses Yonghe King and Hong Zhuang Yuan in China of +24%, Jollibee International of +18% and Jollibee Philippines +10%."



A Year of Recovery and Growth

To My Fellow Stockholders,

2010 WAS A YEAR OF RECOVERY for the global economy. The Gross Domestic Product or GDP of the whole world grew by 3.9% in 2010 from -0.6% in 2009. The Philippine GDP achieved the fastest growth in 24 years to 7.3% from 0.9% in 2009. China's GDP grew from 8.7% in 2009 to 9.8% in 2010 while the United States GDP improved from -2.4% in 2009 to 2.9% in 2010.

The Philippines ended 2010 with a stronger economy. Foreign inflows, particularly those remitted by Filipino workers abroad helped push the economy forward. Remittances grew by 8.2% in 2010 and accounted for around 10% of the local output in 2010 measured as the GDP. The increase in capital inflows further strengthened the Philippine Peso. The year-end Peso exchange rates versus the US Dollar moved from PhP46.40 in 2009 to PhP43.88 in 2010.

The business performance of your Company for 2010 was strong as well. Total system-wide sales grew by 10.2% to PhP70.2 billion. Practically all our brands in all the countries where we operate achieved growth in 2010 led by our businesses Yonghe King and Hong Zhuang Yuan in China of +24%, Jollibee International of +18% and Jollibee Philippines +10%. Our worldwide store network as of December 31, 2010 stood at 2,316 stores, 23% higher than a year ago due primarily to the acquisition of Mang Inasal that added 345 stores to the Jollibee Group's network.

Our consolidated net income amounted to PhP3.2 billion, representing an increase of 20.5% over the net income generated in 2009. Basic earnings per share of common stock grew by 19.5% from PhP2.610 to PhP3.118. Our net income grew despite increases in raw material costs.

Chairman's Message

"The year ahead may be tough, but we are confident and poised to seize new opportunities and position your Company for long-term, sustainable success."

JFC's Return on Equity (ROE) improved from 17.5% in 2009 to 19.2% in 2010 consistent with profit growth, while stockholders' equity rose by only 6% after declaring special cash dividends.

In 2010, we continued to invest in our future growth that contributed to a successful year. We opened 182 new stores worldwide: 98 in the Philippines and 84 overseas. In the Philippines, Jollibee opened 35 new stores, Chowking 22, Greenwich 12, Red Ribbon 24, Manong Pepe 2 and Caffe Ti-Amo 3. Abroad, Jollibee opened 15 new stores, Chowking 6, Red Ribbon 6, Yonghe King and Hong Zhuang Yuan in the People's Republic of China 46 and 11, respectively.

We acquired 70% of Mang Inasal Phils., Inc. (MIPI), owner and operator of the Mang Inasal business in the Philippines on November 22, 2010. Mang Inasal serves primarily grilled chicken in the Filipino fast food segment. In the fourth quarter of 2010, it contributed 5% points to our worldwide sales growth. At the end of 2010, Mang Inasal had a network of 345 stores in the country, of which 34 were company-owned stores and 311 franchised stores.

To support the expansion of our businesses particularly in China, we signed a joint venture with Hua Xia Harvest Holdings Pte. Ltd. (Hua Xia Harvest) to form Jollibee Foods Processing Pte. Ltd. (JFPPL). JFPPL will undertake food manufacturing operations to supply products to food service businesses primarily the Jollibee Group of Companies. Jollibee Worldwide Pte. Ltd. (JWPL) owns 70% share of JFPPL while the remaining 30% is owned by Hua Xia Harvest.

We also entered into a joint venture agreement with a local partner that gave JFC 50% ownership of Caffe Ti-Amo, a Korean restaurant brand offering coffee and gelato (Italian ice cream).

We also signed a joint venture agreement with Guangxi Zong Kai Food and Beverage Investment Company Limited (GZK) that provided JWPL a 55% share of the San Pin Wang business. San Pin Wang is a chain of restaurants with a total of 34 stores in Nanning and Liuzhou, Guang Xi Zhuang Minority Autonomous Region in the People's Republic of China. The joint venture is expected to be fully operational by the second quarter of 2011.

All in all, our investments in capital expenditures and acquisitions reached PhP5.5 billion consisting mainly of PhP2.7 billion in capital expenditures mostly on new stores and store renovations, PhP2.7 billion for the acquisition of 70% share of Mang Inasal Business and PhP128 million for the initial construction cost of Jollibee Foods Processing commissary in Anhui Province in the People's Republic of China.

We ended the year with a cash of PhP8.2 billion, 9% lower than what we had in 2009 mainly as a result of our major investments and the declaration of cash dividends. We paid a total of PhP2.3 billion in regular and special cash dividends to our shareholders in 2010. Our total assets increased by 10.3% to PhP32.8 billion in line with our revenue growth.

We owe our success to our employees. On behalf of the Corporate Management Committee, I would like to thank all our employees for their dedication and hard work which enabled us to achieve our goals in 2010.

The year ahead may be tough, but we are confident and poised to seize new opportunities and position your Company for long-term, sustainable success. We thank you our shareholders, business partners and suppliers for your continued strong support as we move on to another challenging year.

Tony Tan Caktiong
Chairman and Chief Executive Officer

Sharing the Langhap-Sarap Experience

"Jollibee is poised to face the challenges of 2011, break new grounds, and continue to delight customers in their trademark alagang Pinoy way."

2010 SAW JOLLIBEE CEMENT ITS POSITION as the country's leading fast food chain as it exhibited continuous growth in sales and marked new milestones. Total system-wide sales rose by 10% to PhP38.4 billion versus 2009.

True to its mission of spreading the joy of eating to everyone, Jollibee continued to expand its vast store network across the Philippines ending the year with a total of 717 stores nationwide. No less than President Benigno Aquino III led the grand celebration of Jollibee's 700th store in Harrison Road in Baguio City.

To further expand Jollibee's popular menu, the brand came up with new innovative products in 2010. These are the two new 39ers rice variant meals – the Beef with Mushrooms and the 5-pc Shanghai Rolls; the launch of the Spicy Chicken Barbecue; the Sausage and Egg pandesal – Jollibee's first hand-held breakfast item; and the relaunch of the Jolly Hotdog classic and regular variants.

Various thematic campaigns were also launched for Jollibee's core products namely Jollibee Chickenjoy, Jollibee Spaghetti and Jollibee Champ, aimed at reinforcing its best tasting propositions and product superiority while strengthening its affinity with its respective target markets. For desserts, Jollibee launched the first-ever thematic sundae campaign with the tagline "Everyday deserves a sundae" that resulted in the highest ever volume achievement for Jollibee sundaes.

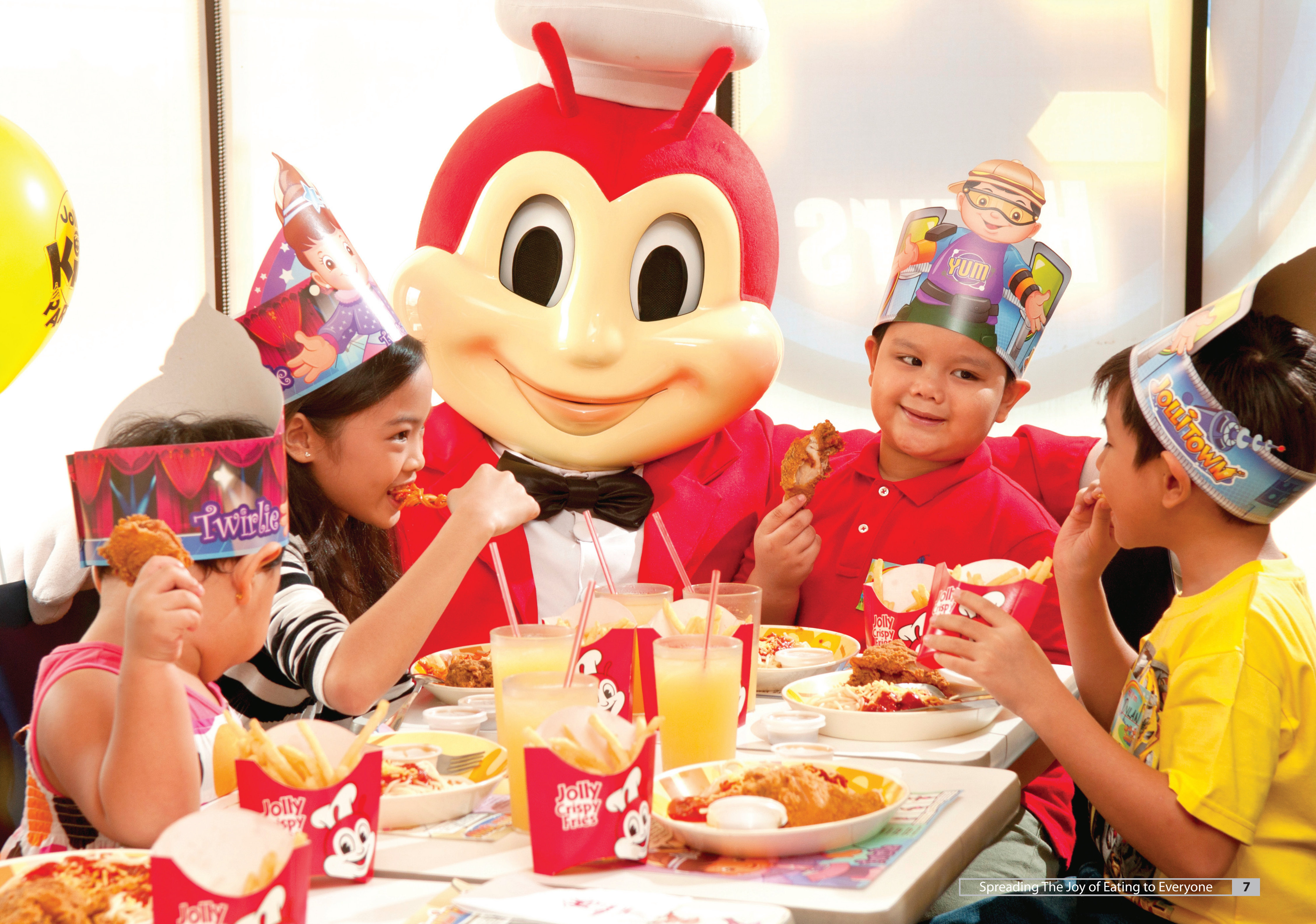
Jollibee also reached out to the busy yuppies with their Jollibee Express Delivery and its new online delivery website – www.jollibeedelivery.com. It likewise launched a drive-thru campaign that showed Jollibee as the most convenient choice among drive-thru options.

Jollibee also relaunched the Jollibee Kids Club which ended the year with a 30% growth in total membership. Jollibee also launched the season 3 of Jollitown, the highly-rated and multi-awarded children's show, which continued to gain a strong following on its new timeslot.

Pinoy's sense of pride was renewed anew through the teen-centric Yum campaign "I am Young. I am Pinoy. I Yum." The campaign's message was further heightened with the introduction of the 9 Jollibee Yumbassadors, all Pinoy youth icons in their respective fields.

Amid all the gains, Jollibee took time to share the blessings and give back to society. The 16th *Maaga ang Pasko* went beyond the usual toy and book donation drive and was further expanded by growing the Jolly Toy Scout network. And with the overwhelming sales of special novelty items, the 'Jollibee and Friends dolls', Jollibee committed to building 40 public school classrooms beginning 2011.

Inspired by these achievements and the unwavering support of the millions of Filipinos who continue to make Jollibee number one, Jollibee is poised to face the challenges of 2011, break new grounds, and continue to delight customers in their trademark alagang Pinoy way.


Twirlie
YUM
JOLLITOWN
Jolly Crispy Fries
Jolly Crispy Fries


ollibee.
Jolly

Winning More Hearts with Great Food

"In the coming years, Jollibee will continue to make further inroads into the international market anchored on its tried and tested formula – great-tasting and good quality food; and shared family moments that resonate with its target customers across the globe."

JOLLIBEE'S INTERNATIONAL OPERATIONS continued to gain headway in its goal of conquering new markets and positioning the company as a serious player in the global fast food arena. With ten new stores in 2010, Jollibee's total international store network grew to 67 -- highlighted by its successful entry into new territories specifically in the USA, Kingdom of Saudi Arabia and Qatar.

Jollibee US further expanded its presence in the West Coast with a new branch in Concord opening last April. Jollibee successfully set foot in the state of Washington, home to some 80,000 Filipinos, with its first store at the Westfield Southcenter mall in Tukwila. Before Christmas, Jollibee also conquered Hawaii when it opened at the Waipahu Shopping Plaza. Jollibee US presence became even more pronounced when its branch in Eaglerock Mall, California was shown in one of the episodes of the hit television show "Glee" – a rare treat for Filipino viewers around the globe who instantly made it one of the top trending topics in Twitter. Jollibee ended the year with a total of 26 stores all over the US.

The Jollibee Vietnam team continued to rally its 22 stores to a record-breaking performance ending the year with a total system-wide sales growth of 95%. New products were also launched like the Chicken Barbecue, Choco Float, new flavored fries, Burger Steak meal and Hotdog meal. It also relaunched its famous rice meals with two new variants Chicken Curry and Pork Stew with egg along with its new line-up of combo meals like Chili Wings, Chicken Joy Fries and Crispy Chicken Strips with Spaghetti. Affordable meals during weekdays were made available for as low as 18,000 VND, attracting more families and young professionals who are after value for their money.

Jollibee Hong Kong continued to serve as the second home of many Filipinos who long for the warmth of their kababayans and the familiar and comforting taste of Jollibee treats. To add to their list of favorites, the wanton soup was relaunched, which became an instant hit among customers. It also spearheaded various consumer activations including "Christmas Happiness," which is their version of *Maaga ang Pasko*.

Jollibee Brunei scored a major milestone in 2010 as it breached the 10 million Brunei dollars sales after 23 years of operation. New products like the Chicken Satay and the Melon Pearl coolers were also introduced during the year. With 11 stores to date and a double digit sales growth, Jollibee remains as the number one western quick service restaurant (QSR) in Brunei.

Jollibee Kingdom of Saudi Arabia opened 2 new stores - one in Al Rahmaniyah Mall in Al Khobar; and another in Taif. With these two new stores, Jollibee KSA's total store network has grown to six. It also launched new exciting offerings like the Chicken Super Meal and Sotanghon soup, which were well-received both by locals and Filipino customers.

Lastly, Jollibee marked its much-awaited entry into Qatar with the opening of its first store in Doha, a bustling economic center right at the country's capital, which is home to more than 250,000 Filipinos. The store is located at the Al Meera Consumer Goods Mall in Mansoura.

In the coming years, Jollibee will continue to make further inroads into the international market anchored on its tried and tested formula – great-tasting and good quality food; and shared family moments that resonate with its target customers across the globe.

Leveling Up to the Extreme in 2010

"As Greenwich leveled up in 2010, the business agenda for 2011 is to conquer the new frontier and bring the brand to a whole new dimension of infinite opportunities."

GREENWICH, THE PHILIPPINES' NO.1 pizza & pasta brand was unstoppable as it leveled up to the extreme in 2010, making it JFC's fastest-growing business unit on same store sales basis.

Focused and integrated efforts on its pillars of growth positioned Greenwich to win in the market. In 2010, the brand registered its highest growth rate in the last 5 years. Greenwich was at its healthiest with measures like Favorite Brand, Best-Tasting Pizza, Best-Tasting Pasta and Best Value hitting record-breaking scores. Award-winning campaigns inspired by multiple world-class product innovations, branded customer service, efficient store systems and an overall business strategy anchored on marketplace management make Greenwich the strongest and most dominant pizza and pasta brand in the market today.

The reputation of bagging awards continued as the 2 most prestigious Public Relations award-giving bodies, Quill and Anvil, recognized Greenwich Level Up PR campaign as one of the best in the country. This same campaign was also nominated in the Tambuli and Araw Awards that will commence in 2011.

As the most innovative pizza and pasta brand, Greenwich registered 39 product innovations led by 10 new pizza flavors and 6 pasta supreme dishes in 2010. These breakthrough initiatives brought Filipinos' pizza and pasta experience to the next level.

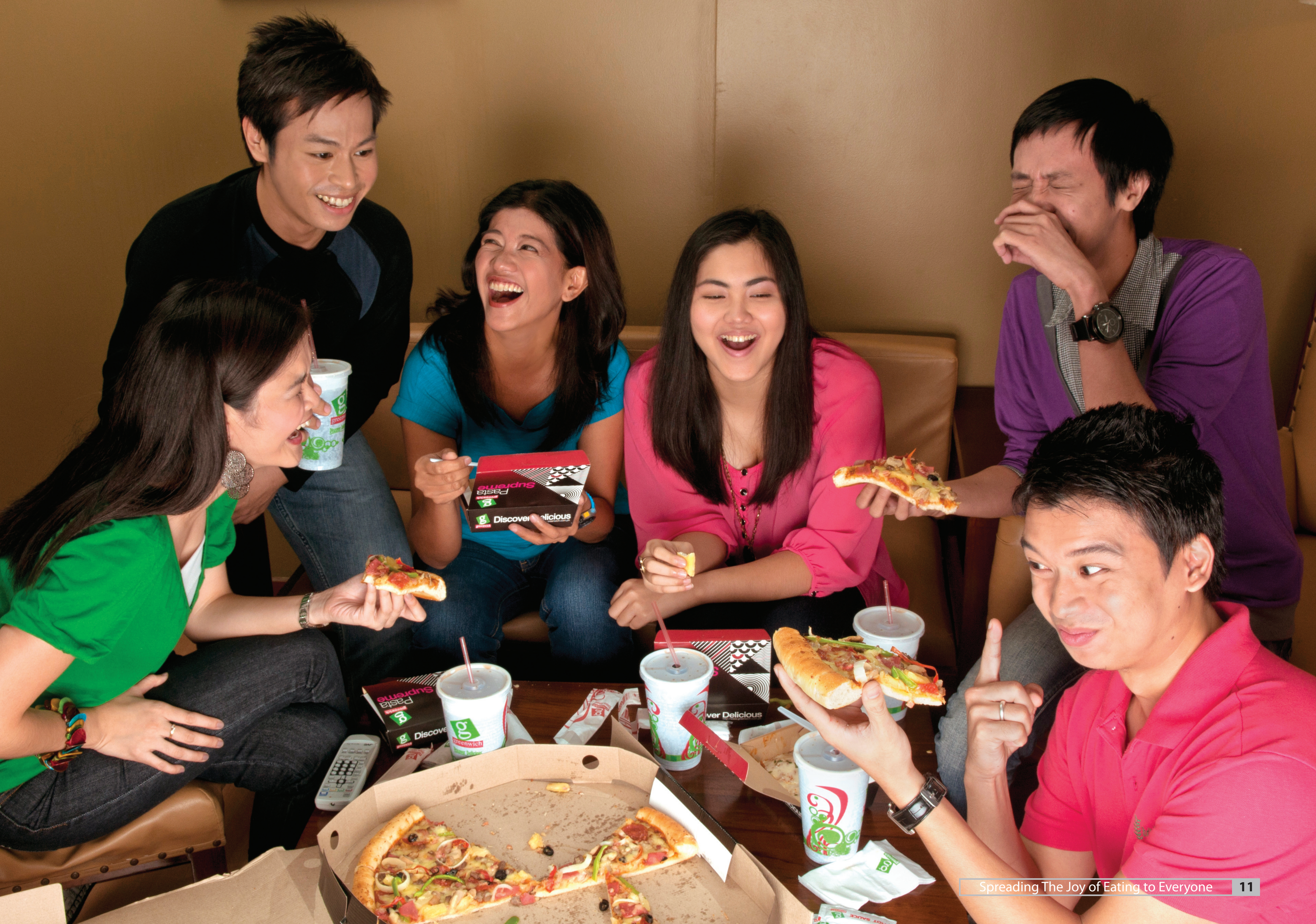
The Overloaded Pizza line featured Level Up and Bigatin Pizzas that highlighted premium toppings, while Top That Pizzas gave the barkada new exciting ways of enjoying pizzas. Greenwich Pasta Supreme line expanded its menu by offering Pasta D' Lite for the health enthusiasts and Pasta Supreme Meat Plates for those who want delicious and filling meals. These efforts gave the Overloaded Pizza line more than 25% sales growth while Pasta Supreme registered the highest ever category growth at 28%.

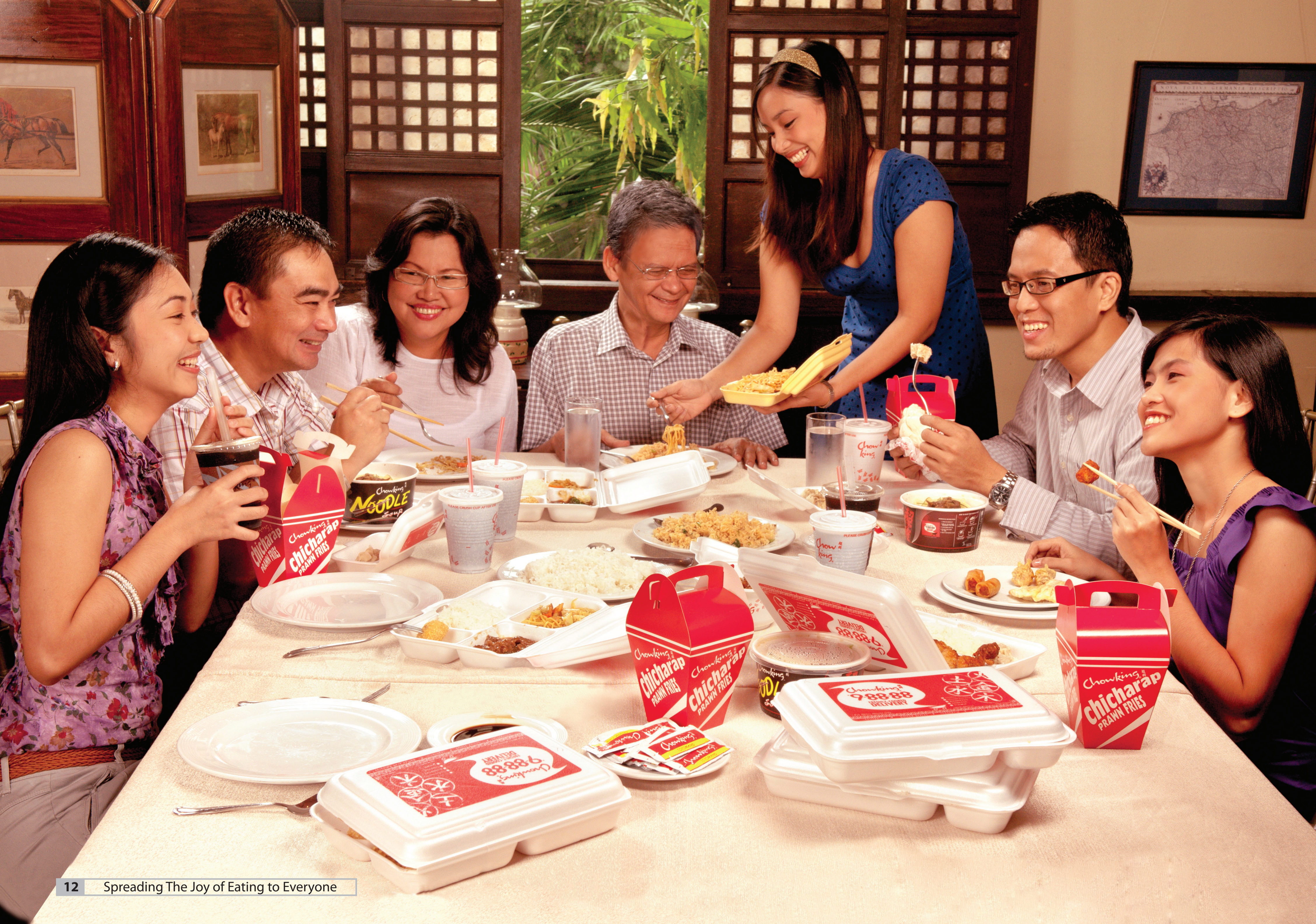
Complementing pizza and pasta innovations were its Meals and Sidekicks line. BigTime Lunch and American Lunch Specials raised the bar of value and established stronger lunch relevance. Sidekicks like Pizza Fries, and Buffalo Wingman took center stage and exceeded sales targets.

Further strengthening its proposition of 'Brand Cool', Greenwich co-presented American Idol in the Philippines for the 3rd straight year, now with an even bigger integrated marketing campaign. MTV-inspired TV Commercial supported the American Idol Limited Edition Pizza, premium items and culminated with a promo that sent 2 lucky customers to watch the American Idol Finale live in Hollywood.

As the market leader, Greenwich continued to blaze trails even in store design, look and service model converting more than half of the store network into a fast casual retail environment. Close to 100% of the stores adhered to stringent quality standards on food and service. Undoubtedly, Greenwich is now a more enjoyable place for its customers.

As Greenwich leveled up in 2010, the business agenda for 2011 is to conquer the new frontier and bring the brand to a whole new dimension of infinite opportunities.


Pasta
Supreme
Discover Delicious
ver Delicious
greenwich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25 Years of Being Above the Rest

"Looking forward to 2011, Chowking's main mission is to improve the brand's value proposition with numerous initiatives planned in all the categories it plays."

2010 MARKED CHOWKING'S 25th year in the quick service restaurant (QSR) industry. With its continually expanding store network, relentless innovation of great-tasting Chinese food favorites and vast improvement in its operations and efficiency, Chowking enjoyed another year atop its market segment as it continued its dominance as the undisputed #1 quick service Chinese restaurant chain in the country.

In its drive to be "above the rest," Chowking leveraged on its strength as the top-of-mind Chinese QSR of choice as it started to introduce well-known Chinese dishes at everyday affordable prices, which consumers can enjoy anytime, anywhere.

In 2010, Chowking launched well-known premium Chinese favorites such as Beef with Broccoli, Sweet and Sour Pork and Orange Chicken, which strengthened Chowking's key category Rice Meals, giving it momentum as the year progressed. In the last quarter of 2010, the biggest formats in Rice Meals grew at a fast pace: Lauriat at +35% and Chinese Rice Meals at +18%.

In the same year, one of Chowking's most popular products – Halo Halo – hit record breaking sales in the second quarter of 2010 wherein it grew by +20%, marking the highest-ever Peso sales for the product in its history.

Another key product, Pancit Canton, was also improved in terms of taste, making it a big hit among customers as shown by its performance. After the improvements were implemented, Pancit Canton grew by a staggering +88% in peso sales.

Work on improvements for other key products also started in 2010, such as in Siomai and Noodle Soups. With strong innovations and taste improvements, 2010 has seen a strong resurgence by Chowking in its pursuit of taste superiority.

The year also witnessed the brand's relaunch, cementing its positioning as a brand catering to young working adults. Knowing that success is the primary motivation for working, Chowking wanted to be relevant in their journey towards success, which can be enjoyed in Chowking. Its affordable, great-tasting Chinese food is the reward for everyday hardwork, which can shared to his immediate family.

On the retail front, Chowking set its direction to be a fast-food brand. As such, its food delivery system was designed to serve warm, delicious and fast Chinese food at great value. With this in mind, Chowking focused on core products that have high productivity in order to optimize kitchen operations. The move enabled Chowking to have faster food serving time.

Chowking also showcased its new, modern Chinese-inspired store design. Massive efforts were also made to improve food, service and cleanliness in its 400+ stores nationwide.

Looking forward to 2011, Chowking's main mission is to improve the brand's value proposition with numerous initiatives planned in all the categories it plays.

With this mission, its leadership in the Chinese food market, successful innovations, a renewed sense of purpose and vast improvements on the retail side, Chowking will no doubt be a part of more Filipinos' lives – those in the past 25 years and those in the next.

Bringing the Best to Filipinos Worldwide

"Chowking International saw favorable growth in 2010 and looks forward to continued improvements in 2011."

CHOWKING INTERNATIONAL SAW GREAT SUCCESS in their expansion and store improvements in 2010. Many major developments were made in the Middle East, Indonesia and the USA, making Chowking's International brand stronger than ever and a definite dining destination for Filipinos abroad.

In the Middle East, Chowking saw increased revenue and income in 2010 through its continued FSC excellence and consistent product quality. Chowking Middle East also sought to control costs by locally sourcing items for its promotional materials as well as for packaging and store supplies. Production yields and prices of raw materials were also managed effectively giving the unit low fixed costs for the past year.

Chowking Middle East added value services for their customers this past year through its home delivery service launched in November 2010. It also implemented the table order taking system through the use of a Personal Digital Assistant (PDA) in June 2010 that gave customers a more casual dining experience.

New products were also launched such as the Spicy Beef Wanton Noodle Soup, Beef Ribs in Tamarind Soup, Chicken Adobo, Crispy Vegetables in Sweet Sour Sauce, stir-fry Kangkong with Oyster Sauce, Tender Beef Broccoli, and Orange Chicken. In addition, new types of appropriate sauces were also developed for Asado Siopao, Chicken Supreme, and Fried Chicken.

Several marketing initiatives were also undertaken in 2010 including the sponsorship of major events among the Filipino community in the region such as the celebration of the 112th Philippine Independence and Philippine Basketball Association in Qatar Tournament. Loyalty cards (frequency program) were issued as well as Group Meals Combination and promotion during holidays.

All of these were capped off with a new store opening in Al Sadd last October 10, 2010.

In Chowking Indonesia, brand efforts were focused on increasing revenue and income that included tapping suppliers' help on protecting promo product's GP decline. Core Product Concept was implemented that focused on large product such as the chicken line to boost sales overall.

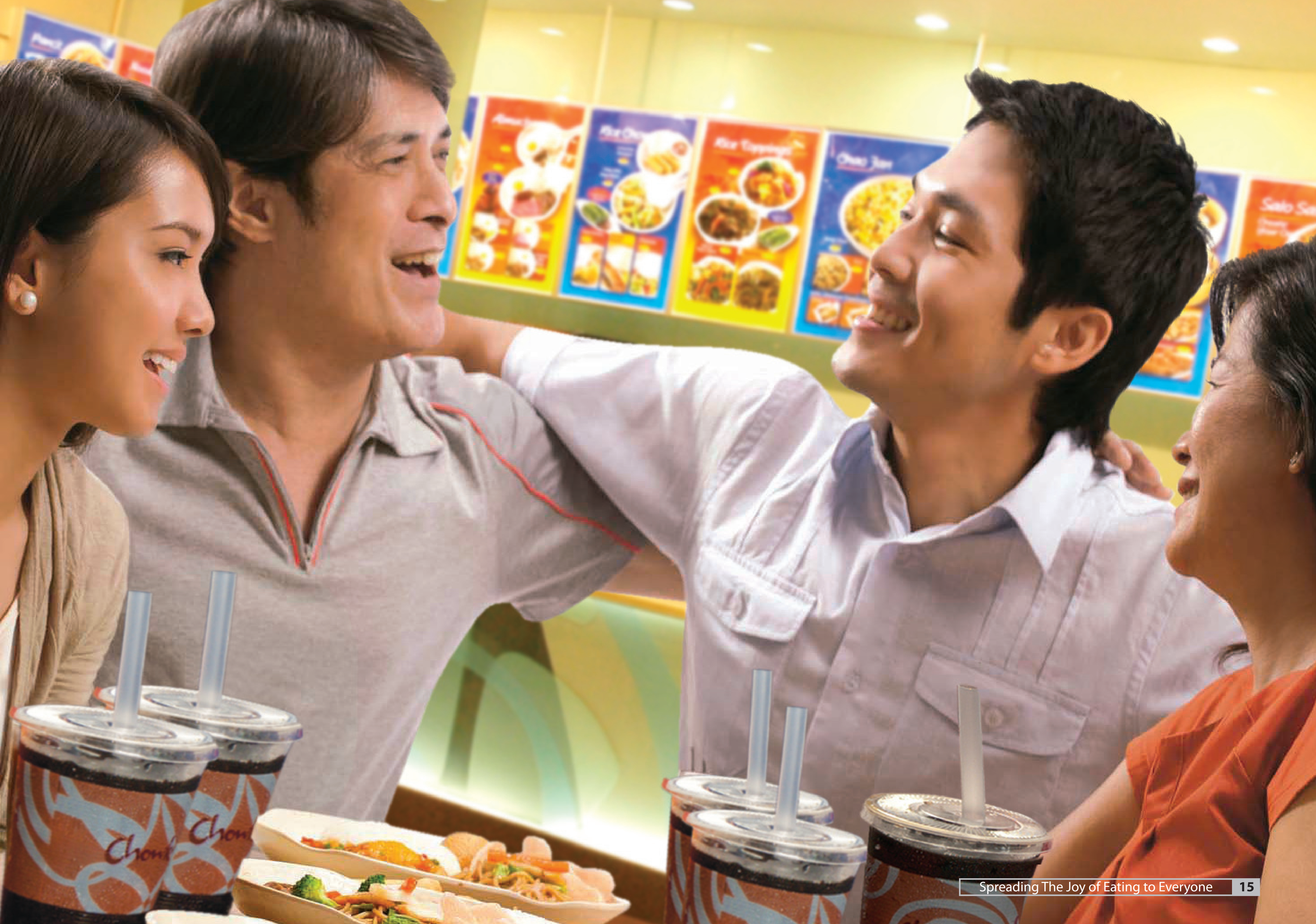
In addition, new products were launched such as the Orange Chicken in April 2010 and the Hot and Spicy Noodles in October 2010. Product and service implementations were undertaken as well including improvement on the plating system and improving quickness and accessibility of over-the-counter products.

Chowking Indonesia also opened its new store in Sudirman Plaza that featured the first ever rotating menu board technology for easy store operations.

Marketing initiatives included brand activation of Orange Chicken which posted high revenues and sustained the customers' interests in the months that followed. The campaign for the best-tasting Halo-Halo also gave the favorite dessert wider recognition and interest.

Chowking USA meanwhile had opened 3 stores in 2010. These were Chowking Concord that opened in January, Milpitas in May and Seattle in July. Because of these new stores, Chowking USA managed to increase its sales by 18% last year. Chowking is committed to continue expanding their presence in the USA in the coming years by building more stores, improving its systems and introducing more great-tasting products.

All in all, Chowking International saw favorable growth in 2010 and looks forward to continued improvements in 2011.




Red Ribbon

Creating a Deliciously Memorable Experience

"Red Ribbon aims for a stronger performance in 2011 as it continues to be the highlight of celebrations while keeping itself salient for everyday consumption."

IN 2010, RED RIBBON PHILIPPINES relentlessly pursued its commitment to excellence, product innovation, customer experience, and store network development. The hard pursuit of these goals resulted in system-wide sales of PhP3.4 billion, growing 7.9% versus 2009. At the end of the year, the highest ever daily sales amount was achieved, beating by 13.3% the record set in the previous year. These numbers are truly a strong testament that more and more people are enjoying a delicious and memorable experience at Red Ribbon.

One of the most exciting innovations that Red Ribbon achieved in 2010 was the launch of its very first television campaign for its signature products – Mamon, Ensaimada, and Black Forest Cake. These made Red Ribbon more relevant to the market, with the Mamon and Ensaimada campaigns propelling category volume to a phenomenal 30% growth. The Black Forest Cake campaign triggered a 44% product volume growth in an industry challenged with price increases due to the escalating cost of key raw materials. Red Ribbon also added key new products such as Heaven Cake, Moist Choco Slice, Chocolate Crème Roll, Cake Frappes, and Hot Brews – each a blockbuster innovation in their respective categories. Red Ribbon also offered a variety of product extensions such as coffee, beverages, and hot meals that gave customers access to the brand's core bakeshop products.

Red Ribbon became more conveniently accessible with the development of new store formats that meet the evolving needs of the market. Last year, a new store concept was unveiled at the Bonifacio Stopover in Taguig City that gave Red Ribbon customers a new reason to create sweet family moments whether through dining in together or ordering to go delicious cakes, rolls, pastries or meals. The new store boasted a more contemporary look with a warm and relaxed atmosphere complemented by a more personalized service.

In addition, 24 new stores were opened in 2010, bringing the total network to 221 stores nationwide. This covered the cities of Legaspi and Tagum, which were both delighted by the opening of the first Red Ribbon stores in the area. 2010 also saw the launch of exciting corporate partnerships that fortified Red Ribbon's everyday presence with the customers.

These achievements positioned Red Ribbon for stronger performance in 2011 as it continues to be the highlight of celebrations while keeping itself salient for everyday consumption. Red Ribbon is sure to spread the joy of eating even further in the coming year.

Re-discovering Delicious

"Red Ribbon Bakeshop USA puts premium on offering unique items to their customers at great value, sharing with them the joys of eating and giving them every reason to re-discover delicious."

2010 WAS A YEAR OF CHANGING times, trends, and tastes. The economic crisis continues to drive people to look for both freshness and value and Red Ribbon Bakeshop USA was more than happy to be their brand of choice. The company ended the year with a 12% increase in system-side sales versus 2009.

New stores were opened in new markets. The company added 6 more locations to their ever-growing network in the United States. 3 more stores were opened in California at Rosemead, Oceanside, and Concord, while another 3 stores were opened in new states in Woodside (New York), Tukwila (Washington), and Virginia Beach (Virginia).

New products were also introduced to tantalize customers' taste buds. These included the Ube Roll, Banana Cake, Peach Mango Charlotte, Strawberry Roll, Cheese Roll, Shortbread Cookies, Breakfast Sandwiches, Salmon Teriyaki, and premium hot teas from the Republic of Tea.

2010 also kicked off new promotions including the Big Bread Sale and Wanna Empanada campaigns. These two value-centric incentives offered customers great deals on purchases of delicious breads and pastries as well as savory meat pies. The Big Bread Sale saw a total increase in bread sales by 22%, while the Wanna Empanada campaign saw a 20% jump in the meat bun category.

The Red Ribbon Loyalty Program was also introduced last year that rewarded customers with exclusive offers and discounts for their continuing patronage. In addition, new offers and in-depth customer outreach programs were developed due to strong redemption and customer retention numbers.

Another major breakthrough was the partnership with COSTCO Wholesale with the offering of Red Ribbon Bakeshop Gift Cards in select Northern California locations.

2010 for Red Ribbon Bakeshop USA was also highlighted by the complete revamp and redesign of the Red Ribbon Cakes by Design offering. Bright, colorful, and fresh new designs were added and the new offerings gave customers more choices at affordable prices. This overhaul saw Cakes by Design sales increase 4.7% in just two months.

Amidst the inconsistent times, Red Ribbon Bakeshop USA put a premium on offering unique items to their customers at great value, sharing with them the joys of eating and giving them every reason to re-discover delicious.


Red Meal Deals
1 Palabok
Solo
Combo
2 Arroz Caldo
Solo
Combo
3 Baked Macaroni
Solo
Combo
4 Fresh Lumpia
5 Sotanghon
6 Dinuguan
Delight Your Appetite with
Red Ribbon
more beautiful...
ChocoMochaCrunch
Medley of Favorite Flavors
Come in for FREE cake tasting TODAY!
Red Ribbon
HOT & READY TO EAT
Cake Slice of the Day
Choco Mocha Crunch
Ube Cake
Pandan Macapuno
Mango Cake


永和大王

Gaining Momentum

"With Yonghe King's ever growing momentum, 2011 is sure to be another landmark year for the brand."

YONGHE KING SPENT THE PAST TWO YEARS both remaking and sharpening the brand, which paid off big in 2010. Continued focus on customer needs and attention to detail in terms of store décor and product offerings provided an exceptional eating experience and great value to customers. These generated 33% growth in 2010 compared to 2009 for Yonghe King.

In 2010, Yonghe King continued to sharpen the brand with the following initiatives. Yonghe King created and offered core menu items that customers can easily recall and enjoy regularly such as the Tomatoes Beef Noodles, Braised Pork with Preserved Vegetables, and Three Cups Chicken were rolled out in January, May, and November respectively. The menu was designed for customers with a higher disposable income who want better choices of food. These dishes were received favorably with 30% of customers enjoying these products for lunch and dinner giving Yonghe King product leadership.

In addition, three types of Cantonese soup were also rolled out in November after a year of customer research, insight, and testing. These were the Chicken Mushroom soup, the Dangshen Pork Rib soup and the Danggui Beef soup. These were received very well and today a third of the lunch and dinner customers in Guangdong order one of these soup variants.

In addition to product development, Yonghe King also focused on providing a clean and comfortable eating location that is both relaxing and convenient. In line with that, they aggressively acquired and opened 46 new restaurants in 2010, a record for Yonghe King. They also penetrated the airport market with the opening of the branch in Shanghai Hongqiao Airport in March 2010. This store opening gained positive brand recognition. The store ranked number two in sales, outperforming all Chinese QSR represented in the airport and was likewise awarded "Best Service" by the Hongqiao Airport Management.

Finally, the third major factor for improvement this year was in leadership marketing. The current store design was repackaged and overhauled to further strengthen brand stature and vibrancy. The goal was to stay young, modern, and contemporary while at the same time retaining the "China Wind" elements and staying relevant to the ever-changing needs of Yonghe King consumers.

Indeed, 2010 was a good year for Yonghe King in making progress and achieving new milestones. Comparable restaurant transaction count and sales were up 10.2% and 11.2% respectively. The Yonghe King restaurant network reached 200 stores in 12 provinces and municipal cities, covering 24 cities, including penetrating the airport market - with branch openings in Guangzhou Bai Yun, Beijing Terminal 2, and Shanghai Hongqiao Airport; and opening its first branch in the Beijing-Shanghai Rail Express line at Shanghai Hong qiao transportation hub.

With the brand's ever growing momentum, 2011 is sure to be another landmark year for Yonghe King.

Maintaining a Unique Identity

"The evolution of Hong Zhuang Yuan in 2010 can help maintain its unique brand identity and consistently deliver great value to its customers in 2011 and beyond."

2010 WAS A VERY FRUITFUL year for Hong Zhuang Yuan, which opened 11 new stores bringing its total number of restaurants to 52.

Last year, Hong Zhuang Yuan continued its community development partnership with the senior citizen program of the Beijing Municipal Government that served over 600,000 senior citizens in Beijing. The brand also strengthened its breakfast offerings by working together with the Beijing Municipal Government on the Breakfast Serving Program. These community efforts brought Hong Zhuang Yuan recognition when it won the Beijing Breakfast Program Prototype Award.

Aside from this recognition, Hong Zhuang Yuan also received the China Green Food Company Award and the award for China's Most Innovative Company in 2010 that highlighted the brand's thrust of finding innovative and unique ways to strengthen the brand.

In addition, Hong Zhuang Yuan also re-evaluated their current business model by conducting surveys among guests and patrons to see how the brand can improve its operations. Product and restaurant development was then done based on the needs of the customers.

Based on this research, Hong Zhuang Yuan positioned itself as a chain of Chinese restaurants that provides the best dining experience for all its customers. This included providing the best culinary experiences to its customers by building a welcoming and relaxing environment in all of its stores. Hong Zhuang Yuan is determined to become the leader in this category.

In the product development area, Hong Zhuang Yuan employed Special Chef Master Sun – a renowned chef in China - to improve the taste of Hong Zhuang Yuan's existing products and introduce new offerings. Since he came onboard, 10 new products have been launched in Hong Zhuang Yuan's menu that has been very well received by the customers.

The evolution of Hong Zhuang Yuan in 2010 can help maintain its unique brand identity and consistently deliver great value to its customers in 2011 and beyond.


Mang
INASAL

Setting the Bar Higher

"2010 was definitely a landmark year for Mang Inasal – one that sets the company's standards of excellence even higher and creates the stage for more growth and achievement in the year ahead."

LAST NOVEMBER 2010, MANG INASAL OFFICIALLY became a part of Jollibee Foods Corporation (JFC). It is the newest member in the ever growing stable of fast food businesses of JFC. 70% of Mang Inasal Philippines, Inc. (MIPI) was acquired by JFC for Php3 billion with the remaining 30% owned by Injap Investments Inc. (Injap), Parent Company of MIPI.

The acquisition of Mang Inasal in 2010 is in line with JFC's strategy of strengthening the local cuisine segment of the quick service restaurant in the Philippines and abroad. Mang Inasal, which serves primarily grilled chicken in the Filipino fast food segment, originated in Iloilo by its founder and President Mr. Edgar Sia II.

In 2010, Mang Inasal opened a record breaking 152 stores. Highlights for the year included the brand opening its 250th and 300th store as well as opening a remarkable 28 stores in one month with 5 different stores opening in a single day.

Mang Inasal enjoyed a strong system-wide sales growth with sales initiatives, new services, and new product lines contributing to this achievement. Mang Inasal further aligned store operations by implementing a quarterly audit for stores, fortifying its Feedback Management System and implementing a cost management system to monitor labor and utility costs as well as minimize wastage on a system-wide basis.

Mang Inasal launched several new products and services to better serve customers in 2010. The Guest Relation Crew program was introduced wherein crew members are trained to give great service to all of its customers; while the Blue Pending Number system aims to prioritize the needs of senior diners in Mang Inasal stores.

The brand also began its one-number delivery system in September to service Metro Manila, Cainta, and Antipolo areas. Mang Inasal also launched a breakfast line for participating stores throughout the country, offering hearty breakfast meals for early risers. It also offered the unique Combo Cups, a rice cup bundled with a 22-ounce tumbler that allowed customers to hold an entire meal in one hand.

Continuing with its mission to provide customers with a great Pinoy dining experience, Mang Inasal established its Training Academy, which serves all the training needs of the brand. This move led to the creation of training curriculums for management trainees and managing directors to better equip them with the basic knowledge, skills, and behavior needed to integrate the entire operation. One such program is the Grill Certification Program that consistently trains grill crews on the proper Mang Inasal way of grilling chicken. This program has produced highly trained grillers for every branch and ensures proper product consistency from Luzon to Mindanao.

2010 was definitely a landmark year for Mang Inasal – one that sets the company's standards of excellence even higher and creates the stage for more growth and achievement in the year ahead.

Investing in Our Communities

"Jollibee Foundation will continue to join hands with all members of the community who are willing to put CSR into action, and with the common mission of creating a meaningful and beautiful life for ourselves, our families, and our communities."

2010 MARKED THE 6TH YEAR OF OPERATION of Jollibee Foundation. Our work focused on two major projects – the Busog, Lusog, Talino School Feeding Program or BLT, and the Bridging Farmers to the JFC Supply Chain Project.

The BLT school feeding program capitalized on the competency of our company. With nationwide operations, our store employees visited nearby schools and conducted orientation to teachers and parents on proper food preparation and food safety. They also monitored regularly the feeding activity. The presence of our stores all over the country, and our partnerships, enabled us to expand the program, to over 200 schools in 2010, feeding more than 13,000 pupils since we started in 2007.

Jollibee Foundation's time-bound financing approach to BLT is designed to empower local leaders and community members to fully commit to the program's sustainability. For example, in San Jose Nueva Ecija, the City Government sourced its funding counterpart from the LGU General Fund. RD Foundation, a local partner in General Santos City, tapped its sister companies to provide in-kind goods to schools. Davao-based schools launched "Feed-a-Child" fundraising campaign to draw support from the community.

The Bridging Farmers program harnessed our supply chain by giving the opportunity to small farmers to be our direct suppliers, empowering them to be more productive and profitable. While we provided the market, our partners, the Catholic Relief Services, the National Livelihood Development Corporation, and the Department of Agriculture, provided agro-enterprise training, access to capital, and post-harvest facilities.

A group of farmers from Nueva Ecija delivered seven million pesos worth of onions to JFC in 2010. What they have earned enabled them to pay off the loans incurred from previous years, and to send their children to school without resorting to borrowing, as what had happened in the past.

Our other program in Education resulted in 80 scholars graduating with an Associate Degree in Hotel and Restaurant Management through Project ACE (Access, Curriculum and Employability). Scholarship assistance for both Project ACE and the Technical Skills Training was also expanded with the inclusion of new academic institution partners. Our support of Jollibee-Gawad Kalinga villages continued with the implementation of an agriculture program on site. In Environment, JFC employees helped reforest eight hectares of the Marikina Watershed, a major source of groundwater reserves for households and industries in Metro Manila.

Jollibee Foundation continued to be supported by many kind people, from JFC employees to partners, who all have the inherent desire to help. Jollibee Foundation will continue to join hands with all members of the community who are willing to put CSR into action, and with the common mission of creating a meaningful and beautiful life for ourselves, our families, and our communities.

Board of Directors and Corporate Management Team*

Jollibee Foods Corporation and Subsidiaries

DIRECTORS

ANG NGO CHIONG†
Chairman Emeritus

TONY TAN CAKTIONG
Chairman of the Board

WILLIAM TAN UNTIONG
Director / Corporate Secretary

ERNESTO TANMANTIONG
Director

ANG CHO SIT
Director

ANTONIO CHUA POE ENG
Director

FELIPE ALFONSO
Director

MONICO JACOB
Director

CEZAR P. CONSING
Director

CORPORATE MANAGEMENT

TONY TAN CAKTIONG
President and Chief Executive Officer

ERNESTO TANMANTIONG
President, Jollibee Business and
Chief Operating Officer

JOSE MA. A. MIÑANA, JR.
President, Jollibee Philippines

ISAIAS P. FERMIN
President, Chowking Philippines

FERNANDO S. YU JR.
President, Greenwich Business

JOSEPH C. TANBUNTIONG
President, Red Ribbon Business

YSMAEL V. BAYSA
VP - Corporate Finance and
Chief Finance Officer

JOHN VICTOR R. TENCE
VP - Corporate Human Resources

DANIEL RAFAEL RAMON Z. GOMEZ
VP - Corporate Marketing

OFFICERS OF FOREIGN BUSINESSES

THOMAS B. ALLIN
Head, JFC International Operations

MICHAEL LEE
Country Managing Director for China

ANDREW TAN
President, Yonghe King Business

DR. POLLY YANG
VP - Corporate Research and Development

MAGGIE ZHANG
General Manager, Hong Zhuang Yuan
Business

FRANKIE TAN
President, Jollibee Processing
(Anhui) Co., Ltd.

OTHER CORPORATE OFFICERS

BENIGNO M. DIZON
VP - Corporate Engineering

WILLIAM S. LORENZANA, JR.
VP - Corporate Supply Chain

ANASTACIA S. MASANCAY
VP - Corporate Audit

SUSANA K. TANMANTIONG
VP - Corporate Purchasing

LAURO FELICISIMO C. MATIAS
VP - Corporate Information Management

ERLINDA F. CASTRO
Head, Shared Services

GRACE A. TAN CAKTIONG
President, Jollibee Foundation

BELEN O. RILLO
VP - Jollibee Foundation

GISELA TIONGSON - VELASCO
Executive Director - Jollibee Foundation

*As of March 31, 2011

Financial Statements

Selected Financial Data

(in P'000, except Number of Stores, Personnel, Ratios, Per Share Data and Outstanding Shares)

FOR THE YEAR	2008	2009	**2010**
Consolidated Systemwide Sales	58,162,821	63,729,418	70,254,305
Gross Revenues	43,891,559	47,957,693	53,371,725
Net Income	2,321,817	2,666,900	3,212,536
Net Income (Attributable to Equity Holders of the Parent)	2,319,088	2,664,623	3,197,794
Payroll and Benefits	7,242,126	8,433,013	9,215,091
Personnel	39,599	38,932	41,260
Number of Stores			
Jollibee*	700	743	784
Chowking*	418	431	438
Greenwich	231	226	223
Red Ribbon*	239	242	259
Yonghe King	141	160	200
Delifrance	26	24	-
Chun Shui Tang	2	-	-
Manong Pepe's	9	15	12
Hong Zhuang Yuan	38	41	52
Caffe Ti-Amo	-	-	3
Mang Inasal	-	-	345

* Domestic and International

AT YEAR-END			
Total Assets	27,125,701	29,727,493	32,774,880
Total Property & Equipment	8,274,919	8,350,573	8,770,519
Total Equity	14,139,831	16,285,206	17,260,549
Current Ratio	1.45	1.45	0.99
Debt-to-Equity Ratio	0.48	0.45	0.48

PER SHARE DATA			
Basic Earnings Per Share	2.27	2.61	3.12
Diluted Earnings Per Share	2.25	2.58	3.08
Cash Dividend	0.84	0.85	2.25
Book Value	13.81	15.73	16.64

SHARE INFORMATION			
Outstanding and Issued Shares (net of Treasury Shares)	1,023,558,148	1,035,010,816	1,036,991,478

Statement of Management's Responsibility for Financial Statements

The management of Jollibee Foods Corporation and Subsidiaries is responsible for all information and representation contained in the financial statements for the years ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

TONY TAN CAKTIONG
Chairman of the Board
Chief Executive Officer

YSMAEL V. BAYSA
Vice-President for Corporate Finance
and Chief Finance Officer

MARILOU N. SIBAYAN
Comptroller

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

Before me, a notary public in and for the city named above, personally appeared the following:

Name	Competent Evidence of Identity
Tony Tan Caktiong	SS # 03-5003942-0 / CTC # 12173962 issued on 1/20/11 at Pasig City
Ysmael V. Baysa	SS # 03-4228219-1 / CTC # 02219991 issued on 2/10/11 at Pasig City
Marilou N. Sibayan	SS # 03-9964176-9 / CTC # 263201171 issued on 4/12/11 at Pasig City

Who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took on oath before me as to such instrument.

Witness my hand and seal this 14th day of April 2011.

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Page No. 76
Book No. I
Series of 2011.

GONZALO D. V. GO III
Notary Public
Notarial Commission No. 216 expiring on December 31, 2011
Floor Jollibee Plaza, F. Ortigas Jr. Avenue, Ortigas Center, Pasig City 1605
MCLE Compliance No. III-0007876; 01/16/10; Pasig City
PTR No. 6642231; 01/06/11; Pasig City
IBP No. 846088; 01/06/11; Pasig City
Roll of Attorneys No. 54320

Independent Auditors' Report

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

The Stockholders and the Board of Directors
Jollibee Foods Corporation

We have audited the accompanying consolidated financial statements of Jollibee Foods Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jollibee Foods Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641521, January 3, 2011, Makati City

April 13, 2011

Consolidated Statements of Financial Position

	December 31 2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 30 and 31)	₱8,170,489,301	₱8,977,258,396
Receivables (Notes 7, 30 and 31)	1,977,158,260	1,900,210,816
Inventories (Note 8)	2,134,467,159	1,729,409,427
Other current assets (Notes 9, 30 and 31)	1,290,342,577	1,330,049,493
Total Current Assets	13,572,457,297	13,936,928,132
Noncurrent Assets		
Available-for-sale financial assets (Notes 10, 30 and 31)	176,283,046	155,228,494
Interest in and advances to a joint venture (Note 11)	21,622,471	–
Property, plant and equipment (Note 12)	8,770,518,572	8,350,573,445
Investment properties (Note 13)	777,719,894	678,070,800
Goodwill (Note 14)	7,019,519,057	4,205,123,715
Operating lease receivables (Note 29)	33,086,384	44,836,862
Deferred tax assets (Note 24)	920,139,371	841,108,196
Other noncurrent assets (Notes 15, 30 and 31)	1,483,533,516	1,515,623,750
Total Noncurrent Assets	19,202,422,311	15,790,565,262
	₱32,774,879,608	₱29,727,493,394
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 16, 30 and 31)	₱9,223,747,002	₱8,959,730,813
Income tax payable	167,751,504	135,934,261
Short-term debt (Notes 18, 30 and 31)	1,842,030,865	305,024,016
Current portion of:		
Long-term debt (Notes 18, 30 and 31)	2,341,125,065	53,697,466
Liability for acquisition of businesses (Notes 11, 30 and 31)	170,194,278	179,449,673
Total Current Liabilities	13,744,848,714	9,633,836,229
Noncurrent Liabilities		
Provisions (Note 17)	30,500,639	30,500,639
Noncurrent portion of:		
Long-term debt (Notes 18, 30 and 31)	51,588,581	2,437,980,374
Liability for acquisition of businesses (Notes 11, 30 and 31)	141,254,668	–
Pension liability (Note 25)	212,089,188	174,197,616
Operating lease payables (Note 29)	1,166,944,342	1,010,167,311
Deferred tax liabilities (Note 24)	167,104,456	155,605,498
Total Noncurrent Liabilities	1,769,481,874	3,808,451,438
Total Liabilities	15,514,330,588	13,442,287,667
Equity Attributable to Equity Holders of the Parent Company (Note 30)		
Capital stock (Note 19)	1,053,438,818	1,051,458,156
Subscriptions receivable	(17,177,884)	(17,177,884)
Additional paid-in capital (Note 26)	2,773,682,164	2,635,662,843
Cumulative translation adjustments of foreign subsidiaries	(317,022,645)	(101,234,002)
Unrealized gain on available-for-sale financial assets (Note 10)	107,164,577	89,904,594
Excess of cost over the carrying value of non-controlling interests acquired (Note 19)	(542,764,486)	(543,978,573)
Retained earnings (Note 19):		
Appropriated for future expansion	1,200,000,000	1,200,000,000
Unappropriated	13,042,709,169	12,147,867,997
	17,300,029,713	16,462,503,131
Less cost of common stock held in treasury (Note 19)	180,511,491	180,511,491
	17,119,518,222	16,281,991,640
Non-controlling Interests (Note 11)	141,030,798	3,214,087
Total Equity	17,260,549,020	16,285,205,727
	₱32,774,879,608	₱29,727,493,394

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2010	2009	2008
REVENUES			
Net sales	₱50,506,967,113	₱45,344,123,164	₱41,374,272,795
Royalty, franchise fees and others (Note 20)	2,864,757,569	2,613,570,160	2,517,286,157
	53,371,724,682	47,957,693,324	43,891,558,952
COST OF SALES (Note 21)	43,254,730,460	38,388,328,254	35,780,174,124
GROSS PROFIT	10,116,994,222	9,569,365,070	8,111,384,828
EXPENSES (Note 22)	(6,517,659,367)	(6,268,041,607)	(5,423,621,683)
FINANCE INCOME (EXPENSE) (Note 23)			
Interest income	163,081,118	163,680,615	208,464,081
Interest expense	(193,201,203)	(218,909,754)	(105,080,420)
	(30,120,085)	(55,229,139)	103,383,661
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 11)	(2,181,411)	–	–
OTHER INCOME (Note 23)	618,898,399	409,084,936	419,918,386
INCOME BEFORE INCOME TAX	4,185,931,758	3,655,179,260	3,211,065,192
PROVISION FOR INCOME TAX (Note 24)			
Current	1,040,927,979	986,027,893	829,656,114
Deferred	(67,532,217)	2,251,622	59,591,960
	973,395,762	988,279,515	889,248,074
NET INCOME	3,212,535,996	2,666,899,745	2,321,817,118
OTHER COMPREHENSIVE LOSS			
Translation adjustments	(215,377,701)	(124,186,353)	(128,087,331)
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	17,259,983	70,024,540	(11,015,313)
	(198,117,718)	(54,161,813)	(139,102,644)
TOTAL COMPREHENSIVE INCOME	₱3,014,418,278	₱2,612,737,932	₱2,182,714,474
Net Income Attributable to:			
Equity holders of the Parent Company (Note 28)	₱3,197,793,977	₱2,664,623,109	₱2,319,087,864
Non-controlling interests	14,742,019	2,276,636	2,729,254
	₱3,212,535,996	₱2,666,899,745	₱2,321,817,118
Total Comprehensive Income Attributable to:			
Equity holders of the Parent Company	₱2,999,265,317	₱2,610,461,296	₱2,179,985,220
Non-controlling interests	15,152,961	2,276,636	2,729,254
	₱3,014,418,278	₱2,612,737,932	₱2,182,714,474
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 28)			
Basic	₱3.118	₱2.610	₱2.268
Diluted	3.077	2.581	2.253

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Note 26)	Cumulative Translation Adjustments of Foreign Subsidiaries	Unrealized Gain on Available-for-Sale Financial Assets (Note 10)	Excess of Cost over the Carrying Value of Non-controlling Interests Acquired (Note 19)	Retained Earnings (Note 19) Appropriated for Future Expansion	Retained Earnings (Note 19) Unappropriated	Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
	Equity Attributable to Equity Holders of the Parent Company											
Balances at January 1, 2010	₱1,051,458,156	(₱17,177,884)	₱2,635,662,843	(₱101,234,002)	₱89,904,594	(₱543,978,573)	₱1,200,000,000	₱12,147,867,997	(₱180,511,491)	₱16,281,991,640	₱3,214,087	₱16,285,205,727
Net income	–	–	–	–	–	–	–	3,197,793,977	–	3,197,793,977	14,742,019	3,212,535,996
Other comprehensive income (loss)												
Translation adjustments	–	–	–	(215,788,643)	–	–	–	–	–	(215,788,643)	410,942	(215,377,701)
Unrealized gain on available-for-sale financial assets	–	–	–	–	17,259,983	–	–	–	–	17,259,983	–	17,259,983
Total comprehensive income (loss)	–	–	–	(215,788,643)	17,259,983	–	–	3,197,793,977	–	2,999,265,317	15,152,961	3,014,418,278
Movements in other equity accounts												
Subscriptions and issuances of shares	1,980,662	–	72,361,459	–	–	–	–	–	–	74,342,121	–	74,342,121
Cost of stock options granted	–	–	65,657,862	–	–	–	–	–	–	65,657,862	–	65,657,862
Cash dividends - ₱2.25 a share (Note 19)	–	–	–	–	–	–	–	(2,302,952,805)	–	(2,302,952,805)	–	(2,302,952,805)
Arising from business combination	–	–	–	–	–	–	–	–	–	–	70,880,657	70,880,657
Arising from incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	54,997,180	54,997,180
Acquisition of non-controlling interests	–	–	–	–	–	1,214,087	–	–	–	1,214,087	(3,214,087)	(2,000,000)
	1,980,662	–	138,019,321	–	–	1,214,087	–	(2,302,952,805)	–	(2,161,738,735)	122,663,750	(2,039,074,985)
Balances at December 31, 2010	₱1,053,438,818	(₱17,177,884)	₱2,773,682,164	(₱317,022,645)	₱107,164,577	(₱542,764,486)	₱1,200,000,000	₱13,042,709,169	(₱180,511,491)	₱17,119,518,222	₱141,030,798	₱17,260,549,020
Balances at January 1, 2009	₱1,040,005,488	(₱17,177,884)	₱2,245,675,482	₱22,952,351	₱19,880,054	(₱543,978,573)	₱1,200,000,000	₱10,349,648,543	(₱180,511,491)	₱14,136,493,970	₱3,337,451	₱14,139,831,421
Net income	–	–	–	–	–	–	–	2,664,623,109	–	2,664,623,109	2,276,636	2,666,899,745
Other comprehensive income (loss)												
Translation adjustments	–	–	–	(124,186,353)	–	–	–	–	–	(124,186,353)	–	(124,186,353)
Unrealized gain on available-for-sale financial assets	–	–	–	–	70,024,540	–	–	–	–	70,024,540	–	70,024,540
Total comprehensive income (loss)	–	–	–	(124,186,353)	70,024,540	–	–	2,664,623,109	–	2,610,461,296	2,276,636	2,612,737,932
Movements in other equity accounts												
Subscriptions and issuances of shares	11,452,668	–	242,465,182	–	–	–	–	–	–	253,917,850	–	253,917,850
Cost of stock options granted	–	–	147,522,179	–	–	–	–	–	–	147,522,179	–	147,522,179
Cash dividends - ₱0.85 a share (Note 19)	–	–	–	–	–	–	–	(866,403,655)	–	(866,403,655)	(2,400,000)	(868,803,655)
	11,452,668	–	389,987,361	–	–	–	–	(866,403,655)	–	(464,963,626)	(2,400,000)	(467,363,626)
Balances at December 31, 2009	₱1,051,458,156	(₱17,177,884)	₱2,635,662,843	(₱101,234,002)	₱89,904,594	(₱543,978,573)	₱1,200,000,000	₱12,147,867,997	(₱180,511,491)	₱16,281,991,640	₱3,214,087	₱16,285,205,727
Balances at January 1, 2008	₱1,034,139,179	(₱17,177,884)	₱2,086,941,086	₱151,039,682	₱30,895,367	(₱543,978,573)	₱1,200,000,000	₱8,884,408,730	(₱183,338,740)	₱12,642,928,847	₱5,408,197	₱12,648,337,044
Net income	–	–	–	–	–	–	–	2,319,087,864	–	2,319,087,864	2,729,254	2,321,817,118
Other comprehensive loss												
Translation adjustments	–	–	–	(128,087,331)	–	–	–	–	–	(128,087,331)	–	(128,087,331)
Unrealized loss on available-for-sale financial assets	–	–	–	–	(11,015,313)	–	–	–	–	(11,015,313)	–	(11,015,313)
Total comprehensive income (loss)	–	–	–	(128,087,331)	(11,015,313)	–	–	2,319,087,864	–	2,179,985,220	2,729,254	2,182,714,474
Movements in other equity accounts												
Subscriptions and issuances of shares	5,866,309	–	73,080,096	–	–	–	–	–	–	78,946,405	–	78,946,405
Re-issuances for stock purchase rights exercised	–	–	–	–	–	–	–	–	2,827,249	2,827,249	–	2,827,249
Cost of stock options granted	–	–	85,654,300	–	–	–	–	–	–	85,654,300	–	85,654,300
Cash dividends - ₱0.84 a share (Note 19)	–	–	–	–	–	–	–	(853,848,051)	–	(853,848,051)	(4,800,000)	(858,648,051)
	5,866,309	–	158,734,396	–	–		–	(853,848,051)	2,827,249	(686,420,097)	(4,800,000)	(691,220,097)
Balances at December 31, 2008	₱1,040,005,488	(₱17,177,884)	₱2,245,675,482	₱22,952,351	₱19,880,054	(₱543,978,573)	₱1,200,000,000	₱10,349,648,543	(₱180,511,491)	₱14,136,493,970	₱3,337,451	₱14,139,831,421

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱4,185,931,758	₱3,655,179,260	₱3,211,065,192
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 21 and 22)	1,978,005,994	2,085,949,869	1,728,879,763
Interest expense (Note 23)	193,201,203	218,909,754	105,080,420
Loss on disposals and retirements of property, plant and equipment - net (Note 12)	183,846,481	363,767,120	3,239,280
Deferred rent amortization - net (Note 29)	168,527,509	(24,103,276)	(823,731)
Pension expense (Note 25)	156,117,874	140,753,857	145,691,982
Stock options expense (Note 26)	65,657,862	147,522,179	107,100,435
Impairment losses on:			
Receivables and inventories (Notes 7, 8, and 22)	56,255,685	231,841,183	82,225,628
Property, plant and equipment (Notes 12 and 22)	–	86,408,877	3,792,817
Equity in net loss of a joint venture (Note 11)	2,181,411	–	–
Interest income (Note 23)	(163,081,118)	(163,680,615)	(208,464,081)
Net unrealized foreign exchange loss (gain)	(48,944,543)	(46,455,820)	39,641,095
Reversals of impairment on:			
Receivables (Note 7)	(1,504,095)	(9,372,417)	–
Inventories (Note 8)	(106,906,523)	(45,038,141)	–
Investment properties (Note 13)	(18,234,341)	–	(1,950,646)
Income before working capital changes	6,651,055,157	6,641,681,830	5,215,478,154
Decreases (increases) in:			
Short-term investment	–	20,002,018	(20,002,018)
Receivables	33,443,191	(2,542,664)	(28,002,090)
Inventories	(213,528,090)	861,749,996	(1,139,807,960)
Other current assets	(133,652,904)	(128,602,837)	(263,654,852)
Increases (decreases) in:			
Trade payables and other current liabilities	201,815,255	547,063,191	1,738,990,277
Provisions	–	(15,808,350)	(11,197,205)
Net cash generated from operations	6,539,132,609	7,923,543,184	5,491,804,306
Interest received	142,162,966	139,171,673	203,340,056
Contributions to plan assets (Note 25)	(108,668,770)	(353,871,159)	(155,752,808)
Income taxes paid	(1,068,556,299)	(932,576,795)	(830,898,036)
Net cash provided by operating activities	5,504,070,506	6,776,266,903	4,708,493,518
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Subsidiary - net of cash acquired (Note 11)	(2,714,811,144)	(835,282,824)	(1,584,746,810)
Property, plant and equipment (Note 12)	(2,553,449,151)	(2,575,116,986)	(2,921,797,606)
Investment properties (Note 13)	(30,662,281)	–	–
Interest in a joint venture (Note 11)	(5,000,000)	–	–
Available-for-sale financial assets (Note 10)	(3,940,000)	(9,193,912)	(41,866,500)

(Forward)

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2010	2009	2008
Proceeds from disposals of:			
Property, plant and equipment	₱96,029,926	₱22,394,454	₱311,707,055
Investment properties	277,200	–	–
Available-for-sale financial assets	145,431	747,172	358,316
Advances to a joint venture	(18,803,882)	–	–
Decrease (increase) in other noncurrent assets	106,128,447	(122,020,031)	(296,241,955)
Net cash used in investing activities	(5,124,085,454)	(3,518,472,127)	(4,532,587,500)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	(2,556,643,476)	(843,906,023)	(1,212,783,181)
Short-term debt (Note 18)	(305,024,016)	(407,197,154)	(49,747,319)
Long-term debt (Note 18)	(53,697,466)	(37,769,129)	–
Proceeds from:			
Short-term debt (Note 18)	1,842,030,865	305,024,016	75,907,397
Long-term debt (Note 18)	–	–	2,388,856,231
Issuances of and subscriptions to capital stock	27,886,621	82,609,866	5,866,255
Contributions from non-controlling interests	54,997,180	–	–
Acquisition of non-controlling interests	(2,000,000)	–	–
Interest paid	(189,703,359)	(226,068,886)	(92,817,746)
Decrease in other noncurrent liabilities	–	–	(8,819,817)
Net cash provided by (used in) financing activities	(1,182,153,651)	(1,127,307,310)	1,106,461,820
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,600,496)	(12,078,126)	538,125
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(806,769,095)	2,118,409,340	1,282,905,963
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,977,258,396	6,858,849,056	5,575,943,093
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱8,170,489,301	₱8,977,258,396	₱6,858,849,056

See accompanying Notes to Consolidated Financial Statements.

Notes to 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", "Manong Pepe", "Yong He King", "Hong Zhuang Yuan", "Caffe Ti-Amo" and "Mang Inasal". 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 2 and 5). 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 consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 13, 2011.

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

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

<u>Statement of Compliance</u>
The accompanying consolidated financial statements have been prepared in compliance with PFRS. PFRS also includes Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by Philippine Financial Reporting Standards Council.

<u>Changes in Accounting Policies</u>
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 starting January 1, 2010, except when otherwise indicated:

New Interpretation

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, effective for annual periods beginning on or after July 1, 2009

Amendments to Standards

- PFRS 2, *Share-based Payments* (Amendment) - *Group Cash-settled and Share-based Payment Transactions*, effective for annual periods beginning on or after January 1, 2010

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*, effective for annual periods beginning on or after July 1, 2009

- PAS 39, *Financial Instruments: Recognition and Measurement* (Amendment) - *Eligible Hedged Items*, effective for annual periods beginning on or after July 1, 2009

- Improvements to PFRS (2009), effective 2010

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

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*, became 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 accounting for 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 they give rise to a gain or loss and accounted for as equity transaction.

  Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. PFRS 3 (Revised) was applied prospectively while PAS 27 (Amended) was applied retrospectively with few exceptions.

  The Jollibee Group assessed that these revised and amended standards have an impact on its current and future business acquisitions, disposals and transactions with non-controlling interests.

<u>Future Changes in Accounting Policies</u>
The Jollibee Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Jollibee Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on the consolidated financial statements.

New Standards and Interpretations Effective 2011

- PAS 24, *Related Party Disclosures* (Amendment), becomes effective for annual periods beginning on or after January 1, 2011. The amended standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The amended standard introduces a partial exemption of disclosure requirements for government-related entities.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*, becomes effective for annual periods beginning on or after February 1, 2010. It amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, becomes effective for annual periods beginning on or after January 1, 2011, with retrospective application. It provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, becomes effective for annual periods beginning on or after July 1, 2010. This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS (2010). The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to remove inconsistencies and clarify wordings. The amendments are effective for annual periods beginning January 1, 2011, except when otherwise stated. The Jollibee Group has not yet adopted the following improvements and anticipates that these changes will have no material effect on its consolidated financial statements.

- PFRS 3 (Revised), *Business Combinations*, clarifies the following:

  a. the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation*, and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is to be applied retrospectively.

  b. the amendment limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either:

     i. at fair value; or

     ii. at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by another PFRS.

     The amendment is applied prospectively from the date the entity applies PFRS 3.

  c. the amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., to split share-based between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interests and measured at their market-based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interests and post-combination expenses. This amendment is to be applied prospectively.

  The above amendments are applicable to annual periods beginning on or after July 1, 2010.

- PFRS 7, *Financial Instruments: Disclosures*, clarifies the following:

  a. the amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

  b. amendments to quantitative and credit risk disclosures are as follows:

     i. clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;

     ii. requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);

     iii. remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;

     iv. remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and,

     v. clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at reporting date.

  c. the amendment is to be applied retrospectively.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statements of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively.

- PAS 27, *Consolidated and Separate Financial Statements*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier. The amendment is applicable for annual periods beginning on or after July 1, 2010. The amendment is to be applied retrospectively.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

New Standards and Interpretation Effective 2012

- PFRS 7, *Financial Instruments: Disclosures* (Amendments) - *Transfers of Financial Assets*, will become effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for annual periods beginning on or after January 1, 2012. This interpretation 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 the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

New Standard Effective 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets. The Jollibee Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

<u>Basis of Consolidation from January 1, 2010</u>
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2010.

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 when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of comprehensive income and net assets not held by the Jollibee Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the Parent Company. Acquisition of non-controlling 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 consolidated statements of financial position as "Excess of cost over the carrying value of non-controlling interests acquired".

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Jollibee Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of Consolidation Prior to January 1, 2010

Some of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses applicable to the non-controlling interest in a consolidated subsidiary may exceed the non-controlling interest in the subsidiary's equity. The excess, and any further losses applicable to the non-controlling interest, are allocated against the controlling interest except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the controlling interest until the non-controlling interest's share of losses previously absorbed by the controlling interest has been recovered. There were no losses prior to January 1, 2010 that requires allocation between non-controlling interests and equity holders of the Parent Company.

- The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the Jollibee Group ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated statements of comprehensive income as the gain or loss on the disposal of the subsidiary.

The 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
Zenith Foods Corporation (Zenith)	Philippines	Food service	**100**	100	100
Freemont Foods Corporation	Philippines	Food service	**100**	100	100
RRB Holdings, Inc. (RRBHI):	Philippines	Holding company	**100**	100	100
• Red Ribbon Bakeshop, Inc. (RRBI)[b]	Philippines	Food service	**100**	100	100
• Red Ribbon Bakeshop, Inc. (RRBI USA)[b]	USA	Food service	**100**	100	100
Mang Inasal Philippines Inc. (Mang Inasal)	Philippines	Food service	**70**	–	–
Grandworth Resources Corporation (Grandworth):	Philippines	Leasing	**100**	100	100
• Adgraphix, Inc. (Adgraphix)[c]	Philippines	Digital printing	**100**	60	60
• IConnect Multimedia Network, Inc. (IConnect)[c]	Philippines	Advertising	**60**	60	–
Donut Magic Phils., Inc. (Donut Magic)[d]	Philippines	Dormant	**100**	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP)[d]	Philippines	Dormant	**100**	100	100
Mary's Foods Corporation (Mary's)[d]	Philippines	Dormant	**100**	100	100
QSR Builders, Inc.	Philippines	Inactive	**100**	100	–
Jollibee USA	USA	Dormant	**100**	100	100
Honeybee Foods Corporation (Honeybee) -	USA	Food service	**100**	100	100
• Tokyo Teriyaki Corporation[e]	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 (JWS)[f]	Philippines	Accounting service	**100**	100	100
• Golden Plate Pte. Ltd. (GPPL) (formerly Lao Dong Pte. Ltd.)[f]	Singapore	Holding company	**100**	100	–
• Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)[f]	Peoples' Republic of China (PRC)	Food service	**100**	100	100
• Southsea Binaries Ltd. (Southsea)[f]	British Virgin Island (BVI)	Holding company	**100**	100	100
• Tianjin Yong He King Food and Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Kuai Le Feng Food & Beverage (Shenzhen) Co., Ltd.[f]	PRC	Dormant	**100**	100	100
• Beijing Yong He King Food and Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Shenzhen Yong He King Food and Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Hangzhou Yongtong Food and Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Hangzhou Yonghong Food & Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Shanghai Yong He King Food & Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Wuhan Yongchang Food and Beverage Co., Ltd.[f]	PRC	Food service	**100**	100	100
• Shanghai Chunlv Co. Ltd.[f]	PRC	Food service	**100**	100	100
• Jollibee Foods Processing Pte. Ltd. (JFPPL)[f] -	Singapore	Holding company	**70**	–	–
□ Jollibee Foods Processing Pte. Ltd. (Anhui)[g]	PRC	Food service	**100**	–	–
• Jollibee International (BVI) Ltd. (JIBL)[f]:	BVI	Holding company	**100**	100	100
□ Jollibee Vietnam Corporation Ltd.[h]	Vietnam	Food service	**100**	100	100
□ PT Chowking Indonesia[h]	Indonesia	Food service	**100**	100	100
□ PT Jollibee Indonesia[h]	Indonesia	Food service	**100**	100	100
□ Jollibee (Hong Kong) Limited[h] -	Hong Kong	Food service	**85**	85	85
• Hanover Holdings Limited (Hanover)[i]	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. (SBEMAC)[j]	PRC	Business management service	**100**	100	100
• Yong He Holdings Co., Ltd.[j]:	BVI	Holding company	**100**	100	100
○ Centenary Ventures Limited[k]	BVI	Holding company	**100**	100	100
○ Colossus Global Limited[k]	BVI	Holding company	**100**	100	100
○ Granite Management Limited[k]	BVI	Holding company	**100**	100	100
○ Cosmic Resources Limited[k]	BVI	Holding company	**100**	100	100
• All Great Resources Limited[j]:	BVI	Holding company	**100**	100	100
○ Eastpower Resources Limited[l] -	BVI	Holding company	**100**	100	100
• Shanghai Yongjue Foods & Beverage Co., Ltd[m]	PRC	Food service	**100**	100	100
• Eaglerock Development Limited[j]	BVI	Holding company	**100**	100	100

(a) Indirectly owned through Fresh N' Famous.
(b) Indirectly owned through RRB Holdings, Inc.
(c) Indirectly owned through Grandworth.
(d) 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, 2010.
(e) Indirectly owned through Honeybee.
(f) Indirectly owned through Jollibee Worldwide.
(g) Indirectly owned through JFPPL.
(h) Indirectly owned through JIBL.
(i) Indirectly owned through Jollibee (Hong Kong) Limited.
(j) Indirectly owned through Belmont.
(k) Indirectly owned through Yong He Holdings Co., Ltd.
(l) Indirectly owned through All Great Resources Limited.
(m) Indirectly owned through Eastpower Resources Limited.

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.

Financial Instruments

Date of Recognition. The Jollibee Group recognizes a financial asset or a financial liability in the consolidated statements 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. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains or losses relating to financial instruments or a component that is financial liability are reported as expense or income. Distribution to holders of financial instruments classified as equity is charged directly to equity net of any related income tax benefits.

Initial Recognition. 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). Transaction costs that are directly attributable to the acquisition or issue of the financial instruments are included in the initial measurement of all financial assets and liabilities, except for financial assets and liabilities measured at fair value through profit or loss (FVPL).

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 traded 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 costs 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. 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 December 31, 2010 and 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 assets 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, employee car plan receivables, receivables from suppliers and others, receivable from retirement fund and refundable and other deposits are classified under this category (see Note 31).

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. 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 December 31, 2010 and 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 intended to be held for an indefinite period of time and 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" account 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 other income or other expense in the statements of comprehensive income 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 investments in shares of stock and club shares are classified under this category (see Note 31).

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 repurchasing in the near term. 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 December 31, 2010 and 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, short-term debt, long-term debt and liability for acquisition of businesses (including current portion) (see Note 31).

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.

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.

Loans and Receivables. 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 has been incurred, the amount of 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 and the amount of loss is recognized in the consolidated statements of comprehensive income under "Expenses" account. Interest income continues to be recognized based on the original effective interest rate of the asset. 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 estimated 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 consolidated statements of comprehensive income, to the extent that carrying value of asset does not exceed its amortized cost at the reversal date.

Quoted AFS Equity Investments. 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 in the consolidated statements of comprehensive income under "Unrealized gain (loss) on AFS financial assets", is removed from equity and recognized in the statements of comprehensive income. 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.

Unquoted AFS Equity Investments. 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 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.

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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) 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 or has entered into a pass-through arrangement, 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.

In that case, the Jollibee Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Jollibee Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of 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 statements 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, packaging, store and other supplies, and novelty items	-	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, packaging, store and other supplies, and novelty items 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. 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

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

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

The depreciation of land improvements and 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 its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers 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.

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

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

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

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

Contingent Consideration. Any contingent consideration to be transferred by the Jollibee Group will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Jollibee Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Jollibee Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

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

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

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

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Jollibee Group tests goodwill acquired in a business combination for impairment annually.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if, and only if, the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

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

Goodwill Included in a Disposal Group Classified as Held for Sale. Where goodwill forms part of a CGU and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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.

<u>Common Control Business Combinations</u>

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. The Jollibee Group accounts for a business combination between entities under common control by applying the pooling of interests 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 Jollibee Group.

Interest in and Advances to a Joint Venture. This account consists of interest in and permanent advances to a joint venture.

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Jollibee Group jointly controls with its fellow venturer.

The Jollibee Group has interest in a joint venture which is a jointly controlled entity. The Jollibee Group's interest in a joint venture is accounted for using the equity method based on the percentage share of capitalization in accordance with the joint venture agreements. Under the equity method, the interest in joint venture is carried in the consolidated statements of financial position at cost plus the Jollibee Group's share in post-acquisition changes in the net assets of the joint venture, less any impairment in value. The consolidated statements of comprehensive income include the Jollibee Group's share in the results of operations of the joint venture.

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

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

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

Upon loss of joint control the Jollibee Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

<u>Impairment of Nonfinancial Assets</u>
The carrying values of interests in and advances to a joint venture, 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 CGU are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

<u>Capital Stock and Additional Paid-in Capital</u>
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.

<u>Retained Earnings and Dividend on Common Stock of the Parent Company</u>
The amount included in retained earnings includes profit attributable to the Parent Company's equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the shareholders of the Parent Company and its subsidiaries. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the reporting period.

<u>Cost of Common Stock Held in Treasury</u>
Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated statements 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.

<u>Revenue</u>
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 "Expenses" in the consolidated 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 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 26). 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.

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 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 USD, 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 consolidated statements 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.

Taxes

Current Tax. Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantially 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 substantially 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 consolidated statements of financial position.

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

Diluted EPS is computed by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the period, adjusted for any 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 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 consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Business Segments
The Jollibee Group is organized and managed separately according to the nature of 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.

Events after the Reporting Period
Post year-end events that provide additional information about the Jollibee Group's financial position at reporting date (adjusting events) are reflected in the Jollibee Group's consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material (see Note 32).

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts on the consolidated financial statements.

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 consolidated financial statements.

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

Operating Lease Commitments - Jollibee Group as 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 ₱88.6 million, ₱78.7 million and ₱83.0 million in 2010, 2009 and 2008, respectively (see Notes 13, 20 and 29).

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 ₱4,092.8 million, ₱3,542.0 million and ₱2,902.8 million in 2010, 2009 and 2008, respectively (see Note 29).

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.

For unquoted equity shares, the Jollibee Group estimates the expected future cash flows from the investment and calculates the amount of impairment as the difference between the present value of expected of future cash flows from the investment and its acquisition cost and recognizes the amount in the statements of comprehensive income.

No impairment loss for AFS financial assets was recognized in 2010, 2009 and 2008. The carrying values of AFS financial assets amounted to ₱176.3 million and ₱155.2 million as of December 31, 2010 and 2009, respectively (see Note 10).

Estimates and Assumptions

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

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 done quarterly and annually using a combination of specific and collective assessments. The amount and timing of recorded expenses for any period would differ if the Jollibee Group made different judgments or utilized different methodologies. An increase in allowance account would increase general and administrative expenses and decrease current and noncurrent assets.

Provision for impairment loss on receivables in 2010, 2009 and 2008 amounted to ₱50.3 million, ₱50.5 million and ₱34.9 million, respectively. The carrying value of receivables amounted to ₱1,977.2 million and ₱1,900.2 million as of December 31, 2010 and 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 provision for inventory obsolescence amounting to ₱6.0 million, ₱181.3 million and ₱47.3 million in 2010, 2009 and 2008, respectively. The carrying values of inventories amounted to ₱2,134.5 million and ₱1,729.4 million as of December 31, 2010 and 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 mentioned above. The amount and timing of recording the depreciation and amortization for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase the recorded depreciation and amortization and decrease noncurrent assets.

There was no change in the estimated useful lives of property, plant and equipment and investment properties in 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 CGU to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management has determined that goodwill is not impaired.

The carrying amount of goodwill as of December 31, 2010 and 2009 amounted to ₱7,019.5 million and ₱4,205.1 million, respectively (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 consolidated financial statements. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial condition and performance.

There were no provisions for impairment loss on property, plant and equipment in 2010. Provision for impairment loss amounted to ₱86.4 million and ₱3.8 million in 2009 and 2008, respectively. There were no provisions for impairment loss on investment properties in 2010, 2009 and 2008. As of December 31, 2010 and 2009, the aggregate carrying values of property, plant and equipment and investment properties amounted to ₱9,548.2 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 ₱920.1 million and ₱841.1 million as of December 31, 2010 and 2009, respectively (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 December 31, 2010 and 2009 amounted to ₱212.1 million and ₱174.2 million, respectively. Unrecognized net actuarial gains amounted to ₱48.4 million and unrecognized net actuarial losses amounted to ₱66.5 million as of December 31, 2010 and 2009, respectively (see Note 25).

Share-based Payments. The Parent Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the 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 ₱65.7 million, ₱147.5 million and ₱107.1 million in 2010, 2009, and 2008, respectively (see Note 26).

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 31.

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.

Reversals, net of provisions, recognized in 2009 and 2008 amounted to ₱15.8 million and ₱11.2 million, respectively. No additional provisions were recorded in 2010.

Total outstanding provisions for legal claims, restructuring costs and others amounted to ₱30.5 million as of December 31, 2010 and 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 to 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 December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010:

2010	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Revenue from external customers	₱50,726,553	₱2,478,141	₱167,031	₱–	₱53,371,725
Inter-segment revenue	14,670,445	519,205	957,085	(16,146,735)	–
Segment revenue	65,396,998	2,997,346	1,124,116	(16,146,735)	53,371,725
Segment expenses	(64,262,293)	(519,205)	(1,139,808)	16,146,735	(49,774,571)
Other segment income	616,947	–	1,951	–	618,898
Segment result	₱1,751,652	₱2,478,141	(₱13,741)	₱–	4,216,052
Interest income					163,081
Interest expense					(193,201)
Income before income tax					4,185,932
Provision for income tax					(973,396)
Net income					₱3,212,536
Assets and Liabilities					
Segment assets	₱31,489,980	₱–	₱364,761	₱–	₱31,854,741
Deferred tax assets	878,654	–	41,485	–	920,139
Total assets	₱32,368,634	–	₱406,246	₱–	₱32,774,880
Segment liabilities	₱12,617,800	₱–	₱168,961	₱–	₱12,786,761
Deferred tax liabilities	159,043	–	8,061	–	167,104
Long-term debt - including current portion	2,392,714	–	–	–	2,392,714
Income tax payable	166,154	–	1,598	–	167,752
Total liabilities	₱15,335,711	₱–	₱178,620	₱–	₱15,514,331
Other Segment Information					
Capital expenditures	₱2,584,111	₱–	₱–	₱–	₱2,584,111
Depreciation and amortization	1,972,717	–	5,289	–	1,978,006

2009	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Revenue from external customers	₱45,530,706	₱2,298,778	₱128,209	₱–	₱47,957,693
Inter-segment revenue	6,562,262	452,475	781,373	(7,796,110)	–
Segment revenue	52,092,968	2,751,253	909,582	(7,796,110)	47,957,693
Segment expenses	(51,036,368)	(452,474)	(963,637)	7,796,110	(44,656,369)
Other segment income	349,818	–	59,267	–	409,085
Segment result	₱1,406,418	₱2,298,779	₱5,212	₱–	3,710,409
Interest income					163,680
Interest expense					(218,910)
Income before income tax					3,655,179
Provision for income tax					(988,279)
Net income					₱2,666,900

2009	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Assets and Liabilities					
Segment assets	₱28,567,425	₱–	₱318,960	₱–	₱28,886,385
Deferred tax assets	793,801	–	47,307	–	841,108
Total assets	₱29,361,226	₱–	₱366,267	–	₱29,727,493
Segment liabilities	₱10,489,066	₱–	₱170,005	–	₱10,659,071
Deferred tax liabilities	155,605	–	–	–	155,605
Long-term debt - including current portion	2,491,678	–	–	–	2,491,678
Income tax payable	135,934	–	–	–	135,934
Total liabilities	₱13,272,283	₱–	₱170,005	–	₱13,442,288
Other Segment Information					
Capital expenditures	₱2,575,117	₱–	₱–	₱–	₱2,575,117
Depreciation and amortization	2,082,033	–	3,917	–	2,085,950

2008	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Revenue from external customers	₱41,558,956	₱2,220,839	₱111,764	₱–	₱43,891,559
Inter-segment revenue	5,770,314	302,665	232,087	(6,305,066)	–
Segment revenue	47,329,270	2,523,504	343,851	(6,305,066)	43,891,559
Segment expenses	(46,772,468)	(302,665)	(433,729)	6,305,066	(41,203,796)
Other segment income	419,918	–	–	–	419,918
Segment result	₱976,720	₱2,220,839	(₱89,878)	₱–	3,107,681
Interest income					208,464
Interest expense					(105,080)
Income before income tax					3,211,065
Provision for income tax					(889,248)
Net income					₱2,321,817
Assets and Liabilities					
Segment assets	₱26,015,000	₱–	₱350,577	₱–	₱26,365,577
Deferred tax assets	722,031	–	38,093	–	760,124
Total assets	₱26,737,031	₱–	₱388,670	₱–	₱27,125,701
Segment liabilities	₱10,070,347	₱–	₱238,511	₱–	₱10,308,858
Deferred tax liabilities	72,370	–	–	–	72,370
Long-term debt - including current portion	2,522,158	–	–	–	2,522,158
Income tax payable	82,483	–	–	–	82,483
Total liabilities	₱12,747,358	₱–	₱238,511	₱–	₱12,985,869

	2008				
	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Other Segment Information					
Capital expenditures	₱2,914,300	₱–	₱7,498	₱–	₱2,921,798
Depreciation and amortization	1,720,084	–	8,796	–	1,728,880

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.

Majority of the Jollibee Group's revenue were generated from the Philippines, which is the Jollibee Group's country of domicile.

The Jollibee Group does not have a single external customer which revenue amounts to 10% or more of the Jollibee Group's revenue.

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

	Philippines	International	Total
		(In Thousands)	
2010:			
Revenue	**₱43,415,325**	**₱9,956,400**	**₱53,371,725**
Segment assets	**22,539,063**	**9,315,678**	**31,854,741**
Capital expenditures	**1,584,893**	**999,218**	**2,584,111**
2009:			
Revenue	₱39,583,064	₱8,374,629	₱47,957,693
Segment assets	20,114,937	8,771,448	28,886,385
Capital expenditures	1,500,551	1,074,566	2,575,117
2008:			
Revenue	₱38,152,337	₱5,739,222	₱43,891,559
Segment assets	19,408,464	6,957,113	26,365,577
Capital expenditures	1,429,459	1,488,815	2,918,274

6. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand	**₱130,303,379**	₱115,715,200
Cash in banks	**2,795,294,557**	2,435,425,884
Short-term deposits	**5,244,891,365**	6,426,117,312
	₱8,170,489,301	₱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 ₱138.1 million, ₱132.3 million and ₱151.1 million in 2010, 2009 and 2008, respectively (see Note 23).

7. Receivables

This account consists of:

	2010	2009
Trade	**₱1,973,793,420**	₱1,854,239,723
Less allowance for impairment loss	**136,082,073**	99,709,174
	1,837,711,347	1,754,530,549
Advances to employees	**91,120,858**	90,652,777
Current portion of employee car plan receivables	**43,811,033**	41,724,556
Others	**4,515,022**	13,302,934
	₱1,977,158,260	₱1,900,210,816

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

Advances to employees, current portion of employee car plan receivables 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 December 31 are as follows:

	2010	2009
Balance at beginning of year	**₱99,709,174**	₱77,063,380
Provisions (Note 22)	**50,314,688**	50,498,053
Reversals	**(1,504,095)**	(9,372,417)
Write-offs	**(12,437,694)**	(18,479,842)
Balance at end of year	**₱136,082,073**	₱99,709,174

The provisions in 2010 and 2009 resulted from specific and collective impairment assessments performed by the Jollibee Group.

8. Inventories

This account consists of:

	2010	2009
At cost:		
Food supplies and processed inventories	₱1,973,039,104	₱1,521,464,262
Packaging, store and other supplies	155,773,504	154,552,450
	2,128,812,608	1,676,016,712
At net realizable value -		
Novelty items	5,654,551	53,392,715
Total inventories at lower of cost and net realizable value	₱2,134,467,159	₱1,729,409,427

The cost of novelty items carried at net realizable value amounted to ₱92.3 million and ₱241.0 million as of December 31, 2010 and 2009, respectively.

The allowance for inventory obsolescence amounted to ₱86.6 million and ₱187.6 million as of December 31, 2010 and 2009, respectively. In 2010, the Parent Company entered to an agreement with a third party to dispose and sell its old novelty items. This resulted to the reversal of allowance for inventory obsolescence amounting to ₱106.9 million included under "General and administrative expenses" and recognition of the same amount in cost of inventories under "Cost of sales" (see Notes 21 and 22).

9. Other Current Assets

This account consists of:

	2010	2009
Prepaid expenses		
Rent	₱281,393,792	₱247,907,106
Insurance and other prepayments	130,129,134	134,459,881
Taxes	107,447,393	127,543,322
Receivables from suppliers and others (Notes 30 and 31)	588,179,523	616,038,571
Receivable from retirement fund (Notes 30 and 31)	111,108,541	149,505,948
Supplies	72,084,194	54,594,665
	₱1,290,342,577	₱1,330,049,493

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

Receivables from suppliers and others and receivable from retirement fund are non-interest bearing and are normally collected within the next financial year.

10. Available-for-Sale Financial Assets

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

	2010	2009
Quoted equity shares - at fair value	₱125,416,546	₱107,361,994
Unquoted equity shares - at cost	50,866,500	47,866,500
	₱176,283,046	₱155,228,494

The carrying value of AFS financial assets has been determined as follows:

	2010	2009
Balance at beginning of year	₱155,228,494	₱76,757,214
Additions	3,940,000	9,193,912
Disposals	(145,431)	(747,172)
Gain on changes in fair value of AFS financial assets	17,259,983	70,024,540
Balance at end of year	₱176,283,046	₱155,228,494

As of December 31, 2010, 2009 and 2008, the unrealized gain on AFS financial assets amounted to ₱107.2 million, ₱89.9 million and ₱19.9 million, respectively.

11. Business Combinations, Acquisition of Non-controlling Interests, Incorporation of New Subsidiaries and Interest in a Joint Venture

Business Combinations

Mang Inasal. On November 22, 2010, the Jollibee Group, through its Parent Company, acquired 70% of the issued and outstanding shares of Mang Inasal from Injap Investments, Inc. (the seller), owner and operator of Mang Inasal business in the Philippines, for a total acquisition cost of ₱2,979.8 million. The Jollibee Group paid ₱2,700.0 million as of December 31, 2010. The remaining 10% of the purchase price, payable annually for the next 3 years with present value of ₱279.8 million, was withheld as assurance for indemnification against the seller's representations and warranties. The liability for acquisition of Mang Inasal (presented under current and noncurrent portion of liability for acquisition of businesses) will be settled as follows:

50%	12 months from November 22, 2010 (closing date)
25%	24 months from closing date
25%	36 months from closing date

The balance of liability for acquisition of a business as of December 31, 2010 is as follows:

Principal	₱300,000,000
Less unamortized discount	20,216,457
	279,783,543
Less current portion of liability for acquisition of a business	138,528,874
Noncurrent portion of liability for acquisition of a business	₱141,254,669

As a result of the acquisition, Mang Inasal became a partially owned local subsidiary of the Jollibee Group.

The Jollibee Group's primary reason for the business combination is to grow Mang Inasal's sales from existing stores through application of the Jollibee Group's knowledge of consumers and available recipes and products, continued expansion of Mang Inasal's store network, cost improvement on its raw materials and operational efficiency by applying the Jollibee Group's technology and scale.

The fair values (provisionally determined to be equal to the book values at the date of acquisition) of the identifiable assets acquired and liabilities assumed from Mang Inasal as at the date of acquisition were as follows:

	Fair Value
Cash and cash equivalents	₱132,213,023
Receivables	161,324,831
Inventories	90,564,116
Other current assets	26,878,935
Property, plant and equipment	175,408,049
Other noncurrent assets	24,823,843
Total identifiable assets	611,212,797
Less:	
Trade payables and other current liabilities	315,498,376
Income tax payable	59,445,563
Total identifiable liabilities	374,943,939
Acquisition-date fair value of net assets acquired	₱236,268,858

The fair value of Mang Inasal's receivables, which comprise mainly of receivables from franchisees, amounted to ₱161.3 million, the carrying value at acquisition date. None of the receivables was assessed as impaired and it is expected to be collected in full.

Goodwill acquired in the business combination was determined as follows:

Acquisition-date fair value of consideration transferred:	
Cash	₱2,700,000,000
Liability	279,783,543
Total	2,979,783,543
Non-controlling interests' proportionate share of Mang Inasal's net assets acquired	70,880,657
Aggregate amount	3,050,664,200
Less acquisition-date fair value of net assets acquired	236,268,858
Goodwill (Note 14)	₱2,814,395,342

The goodwill of ₱2,814.4 million comprises the value of expected synergies arising from the business combination and the trademark, secret recipes and other intangible assets for which fair values are still to be determined within the measurement period allowed.

The net cash outflow on the acquisition is as follows:

Cash paid	₱2,700,000,000
Less cash acquired from subsidiary	132,213,023
Net cash outflow	₱2,567,786,977

Mang Inasal contributed ₱432.2 million and ₱49.1 million from the date of acquisition to December 31, 2010 to the consolidated revenue and net income for the period, respectively. If the business combination had taken place at the beginning of 2010, consolidated revenue and net income for the year would have been ₱55,751.2 million and ₱3,392.4 million, respectively.

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 operates 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 of Hong Zhuang Yuan and Southsea and excess to goodwill. 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. 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 (see Note 14).

The final consideration was allocated as follows:

	Fair 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
Other current assets	57,747,358	57,747,358
Property, plant and equipment	185,401,252	172,884,268
Other noncurrent assets	11,451,012	11,451,012
Total identifiable assets	440,235,444	427,718,460
Less:		
Trade payables and other current liabilities	285,604,384	285,604,384
Deferred tax liabilities	3,755,095	–
Total identifiable liabilities	289,359,479	285,604,384
Net assets	150,875,965	₱142,114,076
Goodwill arising from acquisition (Note 14)	2,497,252,905	
Total consideration	₱2,648,128,870	

The net cash outflow on the acquisition is as follows:

	2010	2009	2008
Cash paid	**₱147,024,167**	₱795,009,120	₱1,706,095,596
Less cash acquired from subsidiary	**–**	–	182,049,407
Net cash outflow	**₱147,024,167**	₱795,009,120	₱1,524,046,189

Hangzhou Yonghe. On August 12, 2008, Jollibee Worldwide, through its wholly owned subsidiary, Shanghai Yong He King Food & Beverage Co., Ltd., 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 ₱6.9 million.

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

a. Assignment of the lease contracts to Shanghai Yong He, 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 Yong He.

As of December 31, 2008, lease contracts and store equipment of three stores have been transferred to Shanghai Yong He hence, a partial payment amounting to ₱33.3 million was made. Shanghai Yong He also made a deposit of ₱11.1 million which will be applied as payment for the last store to be transferred.

Pursuant to the agreements, Shanghai Yong He, 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.

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 identifiable assets at the date of acquisition.

In 2009, Shanghai Yong He 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 Value
Leasehold rights	₱15,442,438
Deferred tax liability	(4,632,732)
Net assets	10,809,706
Goodwill arising from acquisition	106,264,544
	₱117,074,250

The goodwill arising from the acquisition of the leasehold rights of Hangzhou Yonghe is expected to redound to the benefit of Yong He King stores in Hangzhou thus, added to the goodwill from the acquisition of Belmont, the operator of Yong He King chain of restaurants.

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

San Ping Wang. On April 30, 2010, the Jollibee Group, through its wholly owned subsidiary, Jollibee Worldwide, entered into an agreement with Guangxi Zong Kai Food Beverage Investment Company Limited (GZK) for the eventual majority ownership of San Pin Wang with chain of restaurants in Nanning and Liuzhou Guang Xi Zhuang Minority Autonomous Region in PRC. The Jollibee Group will own 55% interest in the business for RMB30.0 million. Both the Jollibee Group and GZK will also place additional investments totaling to RMB20.0 million in anticipation of San Pin Wang's expansion. The agreement will be finalized in 2011 pending approval from PRC government.

Acquisition of Non-controlling Interest

Adgraphix. On January 1, 2010, the Jollibee Group, through Grandworth, a wholly owned subsidiary, acquired the remaining 40% of the issued and outstanding shares of Adgraphix for a total consideration of ₱2.0 million which provided the Jollibee Group a 100% interest in Adgraphix. The difference between the consideration and the carrying value of non-controlling interest acquired of ₱1.2 million is recorded as part of "Excess of Cost over the Carrying Value of Non-controlling Interests Acquired" account in the 2010 consolidated statements of financial position.

Establishment of New Subsidiaries

JFPPL. On July 27, 2010, the Jollibee Group, through its wholly owned subsidiary, Jollibee Worldwide, signed an agreement with Hua Xia Harvest Holdings Pte. Ltd. (Hua Xia Harvest), a Singapore-based company, to undertake food manufacturing operations to supply products to food service businesses primarily to entities within the Jollibee Group. Under the terms of the agreement, the Jollibee Group and Hua Xia Harvest formed JFPPL in Singapore which is 70% owned by the Jollibee Group and 30% owned by Hua Xia Harvest. JFPPL is estimated to be operational in July 2011.

IConnect. On August 26, 2009, Grandworth, a wholly owned subsidiary of the Parent Company, established IConnect, a multimedia advertising company, with initial capital of ₱6.0 million, owning 60% of its issued and outstanding shares. On December 23, 2010, Grandworth made additional investments of ₱3.0 million without change in the ownership percentage.

GPPL. On January 1, 2009, Jollibee Worldwide, a wholly owned subsidiary of the Parent Company, incorporated GPPL, a Singapore-based holding company, with initial capital of US$0.8 million or ₱41.3 million, owning 100% of its issued and outstanding shares.

Sale of Delifrance Business Unit's Assets

Fresh N' Famous terminated its franchise agreement with Delifrance Asia Limited effective December 31, 2010. Assets of Delifrance Business Unit were sold to Café France Corporation on December 31, 2010 with cash proceeds of ₱110.3 million. The termination of the franchise agreement is part of the management's intention to concentrate its resources in building larger QSRs.

Interest in a Joint Venture

Coffeetap Corporation (Coffeetap). On May 4, 2010, the Jollibee Group, through its Parent Company, entered into a joint venture agreement with its partners to 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 entity, incorporated as Coffeetap Corporation, is 50% owned by the Jollibee Group and 50% by its partners, with an initial capitalization of ₱10.0 million.

The details of the Jollibee Group's interest in and advances to the joint venture as of December 31, 2010 are as follows:

Interest in a joint venture - cost	₱5,000,000
Equity in net loss during the year	(2,181,411)
	2,818,589
Advances during the year	18,803,882
	₱21,622,471

The aggregate amounts in 2010 related to the Jollibee Group's 50% interest in Coffeetap follow:

Current assets	₱17,980,629
Noncurrent assets	10,407,512
Total assets	₱28,388,141
Current liabilities	₱22,746,057
Noncurrent liabilities	4,906
Total liabilities	₱22,750,963
Income	₱8,362,370
Less Expenses	12,725,192
Net loss	₱4,362,822

12. Property, Plant and Equipment

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

	2010								
	Land and Land 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
				(In Thousands)				
Cost								
Balance at beginning of year	₱651,035	₱1,042,691	₱8,341,624	₱8,016,620	₱576,957	₱335,723	₱203,922	₱19,168,572
Additions (Note 11)	–	10,951	1,149,425	905,664	90,991	47,769	348,649	2,553,449
Arising from business combination (Note 11)	1,769	–	79,414	115,416	–	49,640	–	246,239
Retirements and disposals	(3,118)	(10,086)	(650,944)	(557,970)	(60,822)	(73,732)	(4,908)	(1,361,580)
Reclassifications (Note 13)	7,479	(47,508)	206,743	124,619	4,524	5,386	(342,197)	(40,954)
Balance at end of year	657,165	996,048	9,126,262	8,604,349	611,650	364,786	205,466	20,565,726

	2010							
	Land and Land 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
Accumulated Depreciation and Amortization								
Balance at beginning of year	₱–	₱626,926	₱4,011,021	₱5,362,403	₱425,460	₱256,040	₱–	₱10,681,850
Depreciation and amortization (Notes 21 and 22)	1,416	51,392	890,801	911,954	87,217	33,853	–	1,976,633
Arising from business combination (Note 11)	–	–	23,075	35,019	–	12,737	–	70,831
Retirements and disposals	–	(4,978)	(353,601)	(463,365)	(57,170)	(66,442)	–	(945,556)
Reclassifications (Note 13)	5,258	7,289	(2,410)	(2,533)	501	3,344	–	11,449
Balance at end of year	6,674	680,629	4,568,886	5,843,478	456,008	239,532	–	11,795,207
Accumulated Impairment Losses								
Balance at beginning of year	–	–	89,629	46,381	18	121	–	136,149
Retirements	–	–	(89,629)	(46,381)	(18)	(121)	–	(136,149)
Balance at end of year	–	–	–	–	–	–	–	–
Net Book Value	₱650,491	₱315,419	₱4,557,376	₱2,760,871	₱155,642	₱125,254	₱205,466	₱8,770,519

	2009							
	Land and Land 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
				(In Thousands)				
Cost								
Balance at beginning of year	₱670,915	₱910,766	₱7,112,597	₱7,362,564	₱503,731	₱318,005	₱208,849	₱17,087,427
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 Losses								
Balance at beginning of year	–	–	49,740	–	–	–	24,566	74,306
Impairment loss (Note 22)	–	–	39,889	46,381	18	121	–	86,409
Retirement	–	–	–	–	–	–	(24,566)	(24,566)
Balance at end of year	–	–	89,629	46,381	18	121	–	136,149
Net Book Value	₱651,035	₱415,765	₱4,240,974	₱2,607,836	₱151,479	₱79,562	₱203,922	₱8,350,573

The cost of fully depreciated assets still in use by the Jollibee Group amounted to ₱5,256.1 million and ₱4,460.1 million as of December 31, 2010 and 2009, respectively.

The construction in progress account as of December 31, 2010 and 2009 mainly pertains to cost incurred for soon-to-open stores and ongoing construction of damaged properties due to typhoons that hit the Philippines in 2009.

Loss on disposals and retirements of property, plant and equipment amounted to ₱183.8 million, ₱363.8 million and ₱3.2 million in 2010, 2009 and 2008, respectively.

13. Investment Properties

The rollforward analysis of this account follows:

	2010		
	Land	Buildings and Building Improvements	Total
		(In Thousands)	
Cost			
Balance at beginning of year	₱669,119	₱276,354	₱945,473
Additions	16,011	14,651	30,662
Disposals	(277)	–	(277)
Reclassifications/Transfers (Note 12)	–	40,954	40,954
Balance at end of year	684,853	331,959	1,016,812
Accumulated Depreciation			
Balance at beginning of year	–	223,898	223,898
Depreciation (Notes 21 and 22)	–	1,373	1,373
Reclassifications/Transfers (Note 12)	–	(11,449)	(11,449)
Balance at end of year	–	213,822	213,822
Accumulated Impairment Losses			
Balance at beginning of year	43,504	–	43,504
Reversal	(18,234)	–	(18,234)
Balance at end of year	25,270	–	25,270
Net Book Value	₱659,583	₱118,137	₱777,720

	2009		
	Land	Buildings and Building Improvements	Total
		(In Thousands)	
Cost			
Balance at beginning of year	₱292,230	₱276,354	₱568,584
Reclassifications/Transfers (Note 33)	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	₱625,615	₱52,456	₱678,071

The accumulated impairment loss provided in the value of land amounting to ₱25.3 million as of December 31, 2010 represents the excess of the carrying values over the estimated recoverable amounts of non-income-generating investment properties, which is its estimated fair value less costs to sell.

The cost of fully depreciated buildings still being leased out by the Jollibee Group amounted to ₱176.2 million as of December 31, 2010 and 2009.

The reversal of previously recognized impairment loss in 2010 resulted from the increase in fair value of land of ₱18.2 million as determined by an independent appraiser as of December 31, 2010.

The fair values of other investment properties were determined by independent appraisers based on appraisal reports made in 2008, which amounted to ₱1,161.7 million as at December 31, 2008. 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.

While fair values of the majority of investment properties were not determined as of December 31, 2010 and 2009, the Jollibee Group's management believes that there were no conditions present in 2010 and 2009 that would significantly reduce the fair value of the investment properties from that determined in 2008.

Rent income derived from income-generating properties amounted to ₱88.6 million, ₱78.7 million and ₱83.0 million in 2010, 2009 and 2008, respectively (see Notes 20 and 29).

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 ₱17.3 million, ₱20.8 million and ₱42.1 million in 2010, 2009 and 2008, respectively.

14. Goodwill

Goodwill acquired through business combinations have been allocated to five CGUs, which are subsidiaries of the Parent Company, owned directly or indirectly, as follows:

	Mang Inasal	Hong Zhuang Yuan	RRBHI and RRBI	RRBI USA	Belmont	Total
			(In Thousands)			
Balance at December 31, 2008	₱–	₱1,551,466	₱737,939	₱434,651	₱462,298	₱3,186,354
Additions (Note 11)	–	945,787	–	–	72,983	1,018,770
Balance at December 31, 2009	–	2,497,253	737,939	434,651	535,281	4,205,124
Additions (Note 11)	2,814,395	–	–	–	–	2,814,395
Balance at December 31, 2010	₱2,814,395	₱2,497,253	₱737,939	₱434,651	₱535,281	₱7,019,519

The carrying amount of goodwill on the acquisition of Belmont is related to the operations of the following indirectly-owned subsidiaries operating under the Yong He King brand:

- Shanghai Yong He King Food & Beverage Co., Ltd.
- Beijing Yong He King Food and Beverage Co., Ltd.
- Shenzhen Yong He King Food and Beverage Co., Ltd.
- Hangzhou Yonghong Food & Beverage Co., Ltd.
- Hangzhou Yongtong Food and Beverage Co., Ltd.
- Wuhan Yongchang Food and Beverage Co., Ltd.
- Tianjin Yong He King Food and Beverage Co., Ltd.

The amount of goodwill related to acquisition of Belmont is not allocated to individual CGUs at the date of acquisition but is allocated in full to such group of CGUs representing the lowest level at which goodwill is monitored for internal management purposes and is not larger than an operating segment.

Impairment Testing of Goodwill
The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period.

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

CGUs	Geographical Location	Pre-tax Discount Rate	Long-term Growth Rate
RRBHI and RRBI	Philippines	13.32%	3.0%
RRBI USA	USA	15.34%	0.0%
Belmont	PRC	12.73%	7.5%
Hong Zhuang Yuan	PRC	13.16%	7.5%

Discount rates - discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Jollibee Group and its CGUs and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived using the Capital Asset Pricing Model (CAPM). The cost of debt is based on the interest bearing borrowings the Jollibee Group is obliged to service. CGU-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Long-term growth rates - rates are determined with consideration of historical and projected results, as well as the economic environment in which the CGUs operate.

Aside from pre-tax discount rates and long-term growth rates, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margin is one of the key assumptions used in value in use calculations, which is based on the most recent value achieved in the year preceding the start of the budget period, and adjusted for planned efficiency improvement, if any.

Management did not identify impairment for these CGUs.

No impairment test was performed for the goodwill arising on the acquisition of 70% interest of Mang Inasal as the amount is still provisionally determined and to be finalized within the measurement period allowed by PFRS 3.

15. Other Noncurrent Assets

This account consists of:

	2010	2009
Refundable and other deposits (Notes 30 and 31)	**₱871,020,582**	₱748,014,994
Noncurrent portion of:		
Rent and other long-term prepayments	**212,322,392**	186,654,887
Employee car plan receivables (Notes 30 and 31)	**86,584,129**	130,299,281
Deferred rent expense	**59,683,173**	73,124,865
Deferred compensation	**17,143,586**	13,492,409
Other assets	**236,779,654**	364,037,314
	₱1,483,533,516	₱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 5% to 22% in 2010 and 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. Accretion of interest on financial assets amounted to ₱22.2 million, ₱28.2 million and ₱24.1 million in 2010, 2009 and 2008, respectively (see Note 23).

16. Trade Payables and Other Current Liabilities

This account consists of:

	2010	2009
Trade	₱3,601,600,450	₱3,720,413,153
Accruals for:		
Salaries, wages and employee benefits	1,216,548,292	1,241,826,410
Local and other taxes	1,150,671,727	934,234,445
Advertising and promotions	869,225,014	601,932,942
Rent	336,956,709	447,208,424
Utilities	182,225,295	82,585,784
Freight	72,588,966	68,583,461
Store operations, corporate events and others	1,109,757,160	1,132,530,077
Deposits	264,720,117	149,985,800
Unearned revenue from gift certificates	123,055,811	67,192,895
Dividends payable	103,167,855	356,858,525
Other current liabilities	193,229,606	156,378,897
	₱9,223,747,002	₱8,959,730,813

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

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

Unearned revenue from gift certificates will be recognized as revenue in the statements of comprehensive income as gift certificates are used.

17. Provisions

The movement of provisions is as follows:

	2010			
	Legal Claims	Restructuring Costs	Others	Total
Balance at beginning and end of year	₱29,269,304	₱1,231,335	₱–	₱30,500,639

	2009			
	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. Short-term and Long-term Debts

Short-term Debt
Short-term debt consists of unsecured short-term bank loans of the Parent Company and PRC-based subsidiaries. These loans are availed with maturities of one year or less with interest rates of 3.1% and 5.8% in 2010 and 2009, respectively.

Short-term debt amounted to ₱1,842.0 million and ₱305.0 million as of December 31, 2010 and 2009, respectively. Interest expense recognized on short-term debt amounted to ₱9.5 million, ₱23.1 million and ₱23.7 million in 2010, 2009, and 2008, respectively (see Note 23).

Long-term Debt
The details of the Jollibee Group's long-term debt as of December 31, 2010 and 2009 are as follows:

	2010	2009
RMB-denominated:		
Loan 1	₱2,309,794,661	₱2,351,959,832
Loan 2	45,666,920	61,151,771
USD-denominated:		
Loan 3	37,252,065	56,532,678
Loan 4	–	22,033,559
	2,392,713,646	2,491,677,840
Less current portion	2,341,125,065	53,697,466
	₱51,588,581	₱2,437,980,374

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 RMB700.0 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 1 consists of Tranches A and B for RMB350.0 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:USD1 as initial exchange rate. The Parent Company did not avail of Tranche B. The loan is payable in full in USD using the spot rate five business days before September 8, 2011.

RMB-denominated loan of Shanghai Yong He King Co., Ltd. Loan 2 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.

USD-denominated loans of RRBI USA. Loan 3 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.

Loan 4 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. All of the loans and interests related to Loan 4 were fully paid as of December 31, 2010.

As of December 31, long-term debt consists of the following:

	2010	2009
Principal	₱2,399,798,806	₱2,507,838,450
Less unamortized debt issue cost	7,085,160	16,160,610
	₱2,392,713,646	₱2,491,677,840

The repayment schedule of the outstanding long-term debt as of December 31, 2010 is as follows:

	RMB-denominated		USD-denominated	
Year	Loan 1	Loan 2	Loan 3	Total
2011	₱2,316,879,821	₱14,051,360	₱17,279,044	₱2,348,210,225
2012	–	14,051,360	18,386,342	32,437,702
2013	–	14,051,360	1,586,679	15,638,039
2014	–	3,512,840	–	3,512,840
	₱2,316,879,821	₱45,666,920	₱37,252,065	₱2,399,798,806

Interest expense recognized on long-term debt amounted to ₱180.6 million, ₱190.5 million and ₱80.0 million in 2010, 2009 and 2008, respectively (see Note 23).

19. Equity

a. Capital Stock

The movements in the number of shares follow:

	2010	2009
Authorized - P1 par value	1,450,000,000	1,450,000,000
Issued:		
Balance at beginning of year	1,049,448,859	1,037,996,191
Issuances	1,980,662	11,452,668
Balance at end of year	1,051,429,521	1,049,448,859

	2010	2009
Subscribed:		
Balance at beginning of year	2,009,297	2,009,297
Subscriptions	1,980,662	11,452,668
Issuances	(1,980,662)	(11,452,668)
Balance at end of year	2,009,297	2,009,297
	1,053,438,818	1,051,458,156

b. Treasury Shares

The cost of common stock held in treasury of ₱180.5 million consists of 16,447,340 shares as of December 31, 2010 and 2009.

c. Excess of cost over the carrying value of non-controlling interests acquired

The amount of excess of cost over the carrying value of non-controlling interests acquired, recognized as part of equity attributable to Parent Company section in the consolidated statements of financial position resulted from the following acquisitions of non-controlling interests:

	2010	2009
20% of Greenwich in 2006	₱168,257,659	₱168,257,659
15% of Belmont in 2007	375,720,914	375,720,914
40% of Adgraphix in 2010	(1,214,087)	–
	₱542,764,486	₱543,978,573

d. Retained Earnings

The Jollibee Group has a Cash Dividend Policy of declaring one-third of its net income for the year as cash dividends. It uses best estimate of its net income as basis for declaring cash dividends. Actual cash dividends per share declared as a percent of the EPS are 72.2%, 32.6% and 37.0% in 2010, 2009 and 2008, respectively.

The unappropriated retained earnings is restricted to the extent of ₱1,487.1 million and ₱1,443.3 million as of December 31, 2010 and 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 December 31, 2010 and 2009 and accumulated earnings of subsidiaries amounting to ₱973.0 million and ₱1,429.6 million as of December 31, 2010 and 2009, respectively.

On November 10, 2010, the BOD approved the declaration of a regular cash dividend of ₱0.57 a share and a special cash dividend of ₱0.25 a share of common stock in favor of stockholders of record as of November 25, 2010. Both regular and special cash dividends totaling to ₱0.82 a share were paid on December 21, 2010. On April 12, 2010, the BOD approved the declaration of a regular cash dividend of ₱0.43 a share and a special cash dividend of ₱1.00 a share of common stock in favor of 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.

On November 5, 2009, the BOD approved the declaration of cash dividend of ₱0.48 a share in favor of 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 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. 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 Yong He 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 Yong He King in 2007 (₱413.7 million), 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million) and 70% of Mang Inasal in 2010 (₱2,979.8 million).

The Jollibee Group plans to continue to make substantial acquisitions in 2011 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, rent income and service revenues.

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", "Yong He King", "Red Ribbon" and "Mang Inasal" 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:

	2010	2009	2008
Cost of inventories	**₱24,186,870,163**	₱21,520,003,001	₱20,867,044,942
Personnel costs:			
Salaries, wages and employee benefits	**6,515,788,872**	5,782,749,258	5,034,672,489
Net pension expense (Note 25)	**78,542,800**	74,930,373	85,298,371
Rent (Note 29)	**3,903,657,688**	3,359,382,394	2,751,207,602
Electricity and other utilities	**2,491,684,514**	2,081,613,784	1,862,476,746
Depreciation and amortization (Notes 12 and 13)	**1,801,293,696**	1,829,244,905	1,570,869,765

(Forward)

	2010	2009	2008
Supplies	**₱1,244,811,120**	₱1,036,947,263	₱1,053,362,489
Freight	**866,667,589**	697,193,711	576,891,935
Contracted services	**707,195,005**	654,434,173	586,221,240
Repairs and maintenance	**515,366,896**	468,109,510	399,622,914
Security and janitorial	**243,980,998**	225,145,839	217,615,854
Communication	**104,033,676**	109,664,719	107,192,628
Professional fees	**76,501,931**	76,027,727	90,893,405
Entertainment, amusement and recreation (EAR)	**22,066,898**	19,563,502	19,059,695
Others	**496,268,614**	453,318,095	557,744,049
	₱43,254,730,460	₱38,388,328,254	₱35,780,174,124

22. Expenses

This account consists of:

	2010	2009	2008
General and administrative expenses	**₱5,214,811,160**	₱4,997,335,552	₱4,275,192,846
Advertising and promotions	**1,246,592,522**	952,455,995	1,062,410,392
Provisions	**56,255,685**	318,250,060	86,018,445
	₱6,517,659,367	₱6,268,041,607	₱5,423,621,683

The general and administrative expenses consist of:

	2010	2009	2008
Personnel costs:			
Salaries, wages and employee benefits	**₱2,477,525,828**	₱2,361,989,088	₱1,954,662,398
Net pension expense (Note 25)	**77,575,074**	65,823,484	60,393,611
Stock options expense (Note 26)	**65,657,862**	147,522,179	107,100,435
Taxes and licenses	**625,572,401**	589,132,269	538,841,273
Professional fees	**326,009,405**	179,442,357	214,608,747
Transportation and travel	**250,493,661**	226,739,595	222,620,660
Rent (Note 29)	**189,141,489**	182,629,169	151,548,685
Depreciation and amortization (Notes 12 and 13)	**176,712,298**	256,704,964	158,009,998
EAR	**84,790,392**	74,319,667	47,234,312
Communication	**65,940,549**	72,778,718	68,528,787
Electricity and other utilities	**52,076,181**	44,715,764	53,597,374
Training	**47,662,662**	33,706,633	45,269,836
Supplies	**46,652,158**	57,269,728	57,711,424
Security and janitorial	**35,886,424**	35,882,287	43,695,410
Repairs and maintenance	**35,286,344**	50,413,062	34,754,003
Contracted services	**34,570,979**	36,776,355	46,270,595
Donations	**26,668,997**	46,373,823	42,457,680
Insurance	**5,643,678**	8,443,845	10,243,369
Corporate events and others	**590,944,778**	526,672,565	417,644,249
	₱5,214,811,160	₱4,997,335,552	₱4,275,192,846

The provisions consist of:

	2010	2009	2008
Impairment in value of:			
Receivables and inventories (Notes 7 and 8)	₱56,255,685	₱231,841,183	₱82,225,628
Property, plant and equipment (Note 12)	–	86,408,877	3,792,817
	₱56,255,685	₱318,250,060	₱86,018,445

23. Finance and Other Income (Expense)

These accounts consist of:

Finance Income

	2010	2009	2008
Interest income:			
Cash and cash equivalents			
Cash in banks	₱19,426,990	₱11,371,809	₱23,518,116
Short-term deposits	118,650,729	120,932,443	127,568,200
Accretion of interest on financial assets (Note 15)	22,219,843	28,208,279	24,092,552
Loan and advances	2,783,556	2,405,324	33,088,018
Short-term investment	–	762,760	197,195
	₱163,081,118	₱163,680,615	₱208,464,081

Finance Expense

	2010	2009	2008
Interest expense:			
Long-term debt (Note 18)	₱180,594,225	₱190,545,110	₱80,002,485
Short-term debt (Note 18)	9,502,363	23,086,379	23,666,702
Accretion of interest on financial liabilities	3,104,615	5,278,265	1,411,233
	₱193,201,203	₱218,909,754	₱105,080,420

Other Income

This account consists of foreign currency exchange gains and losses, gains from reversal of liabilities and other miscellaneous income.

24. Income Taxes

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

	2010	2009
Final tax withheld on:		
Royalty and franchise fee income	₱535,435,633	₱496,153,214
Interest income	20,458,463	22,984,385
RCIT		
With itemized deduction	341,920,182	457,840,744
With optional standard deduction	107,504,110	–
MCIT	35,609,591	9,049,550
	₱1,040,927,979	₱986,027,893

The components of the Jollibee Group's deferred tax assets and liabilities follow:

	2010	2009
Deferred tax assets:		
Operating lease payables	₱341,711,440	₱325,002,630
NOLCO:		
PRC-based entities	174,770,129	121,143,597
Philippine-based entities	51,392,531	8,065,957
Pension liability and other benefits	103,229,414	93,790,046
Unamortized past service costs	67,487,877	72,117,864
Excess of MCIT over RCIT	41,579,894	21,839,946
Allowance for impairment losses on receivables	34,662,921	25,238,955
Unaccreted discount on refundable deposits and employee car plan receivables	26,011,175	25,922,628
Allowance for inventory obsolescence	25,993,290	56,282,948
Provision for impairment in value of property, plant and equipment, investment properties, and other nonfinancial assets	22,470,114	53,794,452
Unrealized foreign exchange loss	14,196,618	21,772,687
Provisions for legal claims, restructuring costs and others	9,150,192	9,150,192
Others	7,483,776	6,986,294
	₱920,139,371	₱841,108,196

	2010	2009
Deferred tax liabilities:		
Excess of fair value over book value of property, plant and equipment of acquired businesses	₱73,662,469	₱75,571,670
Unrealized foreign exchange gain	33,779,228	18,196,668
Prepaid rent	21,063,776	22,884,818
Deferred lease expense	17,904,952	18,441,274
Operating lease receivables	8,783,367	13,451,059
Others	11,910,664	7,060,009
	₱167,104,456	₱155,605,498

As of December 31, 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, 2010	December 31, 2013	₱144,421,913	₱25,221,846
December 31, 2009	December 31, 2012	26,886,523	9,126,973
December 31, 2008	December 31, 2011	–	7,885,310
December 31, 2007	December 31, 2010	–	4,905,086
		171,308,436	47,139,215
Less:			
Applied against regular taxable income in 2010		–	654,235
Expired in 2010		–	4,905,086
		₱171,308,436	₱41,579,894

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, except Shenzhen Yong He King Food and Beverage Co., Ltd. who benefits from 24% preferential tax rate, which are operating in a special economic zone and were previously taxed at a preferential rate of 15%, will apply increased tax rates of 20%, 22%, 24% and 25% for the years ending December 31, 2009, 2010, 2011 and 2012, respectively.

Year Incurred	Carry Forward Benefit up to	Tax Losses
December 31, 2010	December 31, 2015	₱178,088,357
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
		710,611,582
Less expired in 2010		6,400,222
Balance at end of year		₱704,211,360

The reconciliation of provision for income tax computed at the statutory income tax rates to provision for income tax as shown in the consolidated statements of comprehensive income are as follows:

	2010	2009	2008
Provision for income tax at statutory income tax rates	₱1,255,779,527	₱1,096,553,778	₱1,123,872,818
Income tax effects of:			
Effect of different tax rate for royalty fees and interest	(279,194,311)	(248,450,444)	(371,579,442)
Difference between OSD and itemized deductions	(35,690,321)	–	–
Nondeductible expenses	25,168,148	44,256,654	40,828,955
Expired/applied NOLCO and excess of MCIT over RCIT	11,959,542	90,371,430	–
Effects of changes in tax rate	–	–	46,286,375
Others	(4,626,823)	5,548,097	49,839,368
	₱973,395,762	₱988,279,515	₱889,248,074

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.

On December 18, 2008, the BIR issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act 9504 (R.A. 9504) on Optional Standard Deduction (OSD). This regulation allowed both individuals and corporate tax payers to use OSD in computing for taxable income. Corporations may elect a standard deduction equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the year ended December 31, 2010, Zenith, a wholly owned subsidiary elected to use OSD in computing for its taxable income. The tax benefit from the availment of OSD amounted to ₱35.7 million in 2010.

For the year ended December 31, 2009, the current provision for income tax of Zenith was based on the itemized deduction method.

On the basis of management review, Zenith expects to continue availing of the OSD method in the foreseeable future. Deferred tax assets and liabilities which do not have future tax consequences under the OSD method were not recognized. The underlying tax base of the remaining deferred tax assets and liabilities with future consequences under the OSD method was reduced by the 40% allowable deduction.

25. 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

	2010	2009	2008
Current service cost	₱91,496,560	₱82,275,495	₱91,054,355
Interest cost on benefit obligation	135,969,783	97,064,311	88,432,474
Expected return on plan assets	(71,412,182)	(40,469,083)	(34,803,756)
Net actuarial loss	63,713	1,883,134	1,008,909
	₱156,117,874	₱140,753,857	₱145,691,982

Pension Liability

	2010	2009
Present value of defined benefit obligation	₱1,364,744,185	₱1,213,954,564
Fair value of plan assets	(1,201,052,350)	(973,263,844)
Present value of underfunded obligation	163,691,835	240,690,720
Unrecognized net actuarial gains (losses)	48,397,353	(66,493,104)
	₱212,089,188	₱174,197,616

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

	2010	2009
Balance at beginning of year	₱1,213,954,564	₱985,573,966
Interest cost on benefit obligation	135,969,783	97,064,311
Current service cost	91,496,560	82,275,495
Actual benefits paid from:		
Actual benefits paid	(103,951,840)	–
Actual benefits paid out of Jollibee Group's funds	(9,557,532)	(13,212,061)
Actuarial loss on benefit obligation	36,832,650	62,252,853
Balance at end of year	₱1,364,744,185	₱1,213,954,564

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

	2010	2009
Balance at beginning of year	₱973,263,844	₱531,760,226
Contributions	108,668,770	353,871,159
Expected return on plan assets	71,412,182	40,469,083
Actual benefits paid	(103,951,840)	–
Actuarial gain on plan assets	151,659,394	47,163,376
Balance at end of year	₱1,201,052,350	₱973,263,844
Actual return on plan assets	₱223,071,576	₱87,632,459

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

	2010	2009
Investment in government debt securities	59.80%	33.08%
Investments in shares of stock	24.54%	20.36%
Cash in banks	13.75%	37.47%
Other receivables	1.09%	2.09%
Loans and receivable	0.82%	7.00%
	100.00%	100.00%

The Jollibee Group expects to contribute in 2011, an amount equivalent to the underfunded defined benefit obligation based on the Actuarial Valuation in 2011.

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, 2010 and 2009, the principal actuarial assumptions used to determine pension benefits obligations are as follow:

	2010	2009
Discount rate	11.00%	11.00%-11.31%
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:

	2010	2009	2008	2007	2006
Defined benefit obligation	₱1,364,744,185	₱1,213,954,564	₱985,573,966	₱896,922,683	₱1,208,554,155
Plan assets	1,201,052,350	973,263,844	531,760,226	433,325,653	430,319,438
Deficit	P163,691,835	₱240,690,720	₱453,813,740	₱463,597,030	₱778,234,717
Experience adjustments on:					
Plan obligation	(₱36,832,650)	(₱62,252,853)	₱–	(₱220,551,925)	₱28,704,737
Plan assets	151,659,394	47,163,376	(34,311,708)	2,211,130	103,583,944

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 ₱94.9 million, ₱106.8 million and ₱82.8 million in 2010, 2009 and 2008, respectively.

26. Stock Option Plans

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

Each MSOP cycle refers to the period commencing on the MSOP grant date and ending on the last day of the MSOP exercise period. Vesting is conditional on the employment of the employee-participants 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 years ended December 31, 2010 and 2009 follow:

	1st MSOP Cycle (2004)	2nd MSOP Cycle (2005)	3rd MSOP Cycle (2006)	4th MSOP Cycle (2007)	5th MSOP Cycle (2008)	6th MSOP Cycle (2009)	7th MSOP Cycle (2010)	Total	WAEP
Total options granted as of 2010	2,385,000	2,577,000	3,231,500	3,014,700	4,202,450	4,690,300	3,172,744	23,273,694	₱40.39
Outstanding at December 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 forfeited during the year	(58,699)	(83,698)	(301,930)	(318,097)	(256,999)	(20,000)	–	(1,039,423)	39.00
Option exercised during the year	(193,665)	(154,467)	(452,958)	(68,325)	(224,528)	–	–	(1,093,943)	32.16
Outstanding at December 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 year	–	–	–	–	–	–	3,172,744	3,172,744	57.77
Options forfeited during the year	–	(66,667)	(16,667)	(86,999)	(143,165)	(104,514)	(30,033)	(448,045)	42.36
Option exercised during the year	(401,333)	(368,866)	(566,935)	(641,048)	(500,806)	(251,996)	–	(2,730,984)	36.78
Outstanding at December 31, 2010	991,167	1,128,699	1,351,447	1,900,231	3,076,952	4,313,790	3,142,711	15,904,997	43.46
Exercisable at December 31, 2009	1,392,500	1,564,232	1,935,049	1,623,378	919,290	–	–	7,434,449	33.96
Exercisable at December 31, 2010	991,167	1,128,699	1,351,447	1,900,231	1,676,135	1,186,923	–	8,234,602	37.86

The weighted average share price was ₱71.74 and ₱48.25 as of December 31, 2010 and 2009, respectively. The weighted average remaining contractual life for the stock options outstanding as of December 31, 2010 and 2009 is 5.31 years and 5.59 years, respectively.

The weighted average fair value of stock options granted in 2010 and 2009 is ₱22.77 and ₱13.11, 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:

	1st MSOP Cycle (2004)	2nd MSOP Cycle (2005)	3rd MSOP Cycle (2006)	4th MSOP Cycle (2007)	5th MSOP Cycle (2008)	6th MSOP Cycle (2009)	7th MSOP Cycle (2010)
Dividend yield	1.72%	1.72%	1.72%	1.70%	1.80%	2.00%	2.00%
Expected volatility	36.91%	36.91%	36.91%	28.06%	26.79%	30.37%	29.72%
Risk-free interest rate	6.20%	6.20%	6.20%	6.41%	8.38%	5.28%	5.25%
Expected life of the option	5-7 years	5-7 years	5-7 years	3-4 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	₱70.00
Exercise price	₱20.00	₱27.50	₱32.32	₱50.77	₱39.85	₱45.45	₱57.77

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

ELTIP. The ELTIP entitlement is given to members of the corporate management committee.

Each ELTIP cycle refers to the period commencing on the ELTIP entitlement 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 given 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 grant date 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 entitlement.

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 gave an entitlement of 22,750,000 options under the 1st ELTIP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted from the start of the grant date and 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 and 2010, total entitlement of 19,649,999 options under 2nd ELTIP cycle were given 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 years ended December 31, 2010 and 2009 follow:

	1st ELTIP Cycle (2004)	2nd ELTIP Cycle (2008)	Total	WAEP
Total entitlement to options given as of 2010	22,750,000	19,649,999	42,399,999	₱29.20
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
Entitlement to options given during the year	–	250,000	250,000	39.85
Options exercised during the year	(2,975,763)	–	(2,975,763)	20.00
Outstanding at December 31, 2010	11,011,736	19,649,999	30,661,735	32.72
Exercisable at December 31, 2009	13,987,499	–	13,987,499	20.00
Exercisable at December 31, 2010	11,011,736	–	11,011,736	20.00

The weighted average remaining contractual life for the stock options outstanding as of December 31, 2010 and 2009 is 3.74 years and 3.95 years, respectively.

The fair value of stock options granted in 2010 is ₱7.26. 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	1.72%	1.80%
Expected volatility	36.91%	26.79%
Risk-free interest rate	6.20%	8.38%
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 ₱65.7 million, ₱147.5 million and ₱107.1 million in 2010, 2009 and 2008, respectively.

27. 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 or exercise significant influence, directly or indirectly, 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, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Salaries and short-term benefits	**₱389,010,761**	₱387,276,428	₱351,368,465
Stock options expense (Note 26)	**65,657,862**	147,522,179	107,100,435
Net pension expense from defined benefit plan	**23,822,756**	42,141,407	22,636,807
Employee car plan and other long-term benefits	**23,818,817**	23,454,128	24,509,655
	₱502,310,196	₱600,394,142	₱505,615,362

28. Earnings Per Share Computation

Basic and diluted EPS are computed as follows:

		2010	2009	2008
(a)	Net income attributable to the equity holders of the Parent Company	**₱3,197,793,977**	₱2,664,623,109	₱2,319,087,864
(b)	Weighted average number of shares - basic	**1,025,590,715**	1,020,900,233	1,022,431,961
	Weighted average number of shares exercisable under the stock option plan	**22,434,043**	21,915,140	15,250,887
	Weighted average number of shares that would have been purchased at fair market value	**(8,649,309)**	(10,348,245)	(8,551,814)
(c)	Adjusted weighted average shares - diluted	**1,039,375,449**	1,032,467,128	1,029,131,034
EPS:				
	Basic (a/b)	**₱3.118**	₱2.610	₱2.268
	Diluted (a/c)	**3.077**	2.581	2.253

In 2009, 1,287,108 options outstanding related to MSOP Cycle 4 were not included in the calculation of diluted EPS because they are anti-dilutive in 2009. There were no anti-dilutive options outstanding as of December 31, 2010.

29. 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 ₱3,936.0 million, ₱3,519.4 million and ₱2,723.7 million in 2010, 2009 and 2008, respectively.

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

	2010	2009
Within one year	**₱753,175,831**	₱722,356,139
After one year but not more than five years	**3,342,741,983**	3,409,121,611
More than five years	**2,222,589,650**	2,402,465,406
	₱6,318,507,464	₱6,533,943,156

The difference of rent expense recognized under the straight-line method and the rent amounts due in accordance with the terms of the lease agreements amounting to ₱156.8 million and ₱22.9 million in 2010 and 2009, respectively, are charged to "Operating lease payables" account. Rent expense recognized on a straight-line basis amounted to ₱4,092.8 million, ₱3,542.0 million and ₱2,902.8 million in 2010, 2009 and 2008, respectively (see Notes 21 and 22).

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 ₱221.1 million, ₱113.0 million and ₱89.8 million in 2010, 2009 and 2008, respectively.

The future minimum rent receivables for the noncancellable periods of the operating leases follows:

	2010	2009
Within one year	**₱40,020,952**	₱11,051,749
After one year but not more than five years	**215,947,396**	48,864,219
More than five years	**68,268,412**	123,333,400
	₱324,236,760	₱183,249,368

The difference of rent income recognized under the straight-line method and the rent amounts receivable in accordance with the terms of the lease agreements amounting to ₱11.8 million and ₱1.2 million in 2010 and 2009, respectively, are included under "Operating lease receivables" account. Rent income recognized on a straight-line basis amounted to ₱88.6 million, ₱78.7 million and ₱83.0 million in 2010, 2009 and 2008, 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.

30. 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 other financial assets and liabilities such as receivables, employee car plan receivables, refundable and other deposits, AFS financial assets and trade payable and other current liabilities which arises from the Jollibee Group's current operations. The main risks arising from the Jollibee Group's financial instruments are foreign currency risk, credit 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 from the Parent Company's investments outside the Philippines, which are mainly in PRC and USA. While the foreign business has been rapidly growing, the net assets of foreign business account for only 11.44% and 10.7% of the consolidated net assets of the Jollibee Group as of December 31, 2010 and 2009, respectively. 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 long-term debt in foreign currencies.

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

	2010					
	Philippine Operations			Foreign Operations		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	2,270,158	253,911,777	1,782,958,808	24,894,237	159,830,557	2,151,039,943
Receivables	3,677,910	7,269,611	209,437,095	976,110	19,733,519	173,625,893
	5,948,068	261,181,388	1,992,395,903	25,870,347	179,564,076	2,324,665,836
Liabilities						
Payables	–	–	–	(849,727)	(13,231,410)	(124,976,280)
Long-term debt	–	(350,000,000)	(2,320,500,000)	(9,106,360)	(132,754,424)	(1,279,384,654)
	–	(350,000,000)	(2,320,500,000)	(9,956,087)	(145,985,834)	(1,404,360,934)
Net exposure	5,948,068	(88,818,612)	(328,104,097)	15,914,260	33,578,242	920,304,902

	2009					
	Philippine Operations			Foreign Operations		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
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						
Payables	–	–	–	(1,700,586)	(53,951,730)	(444,898,483)
Long-term debt	–	(350,000,000)	(2,376,500,000)	(7,590,579)	(116,713,463)	(1,143,169,149)
	–	(350,000,000)	(2,376,500,000)	(9,291,165)	(170,665,193)	(1,588,067,632)
Net exposure	17,784,160	(209,128,311)	(598,353,040)	18,079,116	(64,824,166)	395,099,896

Foreign Currency Risk Sensitivity Analysis

The Jollibee Group has recognized in its profit or loss, foreign currency exchange gain included under "Other income" account which amounted to ₱37.4 million, ₱46.5 million and ₱71.6 million on its net foreign currency-denominated assets and liabilities for the years ended December 31, 2010, 2009 and 2008, 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
December 31, 2010	₱6.63	₱43.84
December 31, 2009	6.79	46.20

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 December 31:

	Increase (Decrease) in ₱ per Foreign Currency	2010 Effect on Income Before Income Tax	2009 Effect on Income Before Income Tax
		(In Millions)	
USD			
	₱1.50	₱8.9	₱26.7
	(1.50)	(8.9)	(26.7)
	1.00	5.9	17.8
	(1.00)	(5.9)	(17.8)
RMB			
	0.95	(84.4)	(198.7)
	(0.95)	84.4	198.7
	0.63	(56.0)	(131.8)
	(0.63)	56.0	131.8

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

	2010	2009
Loans and Receivables		
Cash and cash equivalents (excluding cash on hand)	₱8,040,185,922	₱8,861,543,196
Receivables:		
Trade	1,837,711,347	1,754,530,549
Advances to employees	91,120,858	90,652,777
Current portion of employee car plan receivables	43,811,033	41,724,556
Others	4,515,022	13,302,934
Other current assets:		
Receivables from suppliers and others	588,179,523	616,038,571
Receivable from retirement fund	111,108,541	149,505,948
Other noncurrent assets:		
Refundable and other deposits	₱871,020,582	₱748,014,995
Noncurrent portion of employee car plan receivables	86,584,129	130,299,281
AFS Financial Assets	176,283,046	155,228,494
	₱11,850,520,003	₱12,560,841,301

(Forward)

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 of 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.

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

	2010				
		Neither Past Due nor Impaired			Past Due or
	Total	A	B	C	Impaired
		(In Millions)			
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	₱8,040.2	₱8,040.2	₱–	₱–	₱–
Receivables:					
Trade	1,837.7	928.9	89.1	5.9	813.8
Advances to employees	91.1	91.1	–	–	–
Current portion of employee car plan receivables	43.8	43.8	–	–	–
Others	4.5	4.5	–	–	–
Other current assets:					
Receivables from suppliers and others	588.2	588.2	–	–	–
Receivable from retirement fund	111.1	111.1	–	–	–
Other noncurrent assets:					
Refundable and other deposits	871.0	854.6	–	16.4	–
Noncurrent portion of employee car plan receivables	86.6	86.6	–	–	–
AFS Financial Assets	176.3	176.3	–	–	–
	₱11,850.5	₱10,925.3	₱89.1	₱22.3	₱813.8

	2009				
		Neither Past Due nor Impaired			Past Due or Impaired
	Total	A	B	C	
	(In Millions)				
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	₱8,861.5	₱8,861.5	₱–	₱–	₱–
Receivables:					
Trade	1,754.5	884.4	8.4	3.6	858.1
Advances to employees	90.7	90.7	–	–	–
Current portion of employee car plan receivables	41.7	41.7			
Others	13.3	13.3	–	–	–
Other current assets:					
Receivables from suppliers and others	616.0	616.0	–	–	–
Receivable from retirement fund	149.5	149.5	–	–	–
Other noncurrent assets:					
Refundable and other deposits	748.0	732.4	–	15.6	–
Noncurrent portion of employee car plan receivables	130.3	130.3	–	–	–
AFS Financial Assets	155.2	155.2	–	–	–
	₱12,560.7	₱11,675.0	₱8.4	₱19.2	₱858.1

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 financial institutions, related parties and customers who pay on or before due date.

B - For counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Jollibee Group. The delays may be due to cut-off differences and/or clarifications on contracts/billings.

C - For counterparty who consistently defaults in settling its obligation 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:

	2010						
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
			(In Millions)				
Receivables:							
Trade	₱1,973.8	₱1,160.0	₱207.6	₱63.7	₱84.1	₱322.3	₱136.1
Advances to employees	91.1	91.1	–	–	–	–	–
Current portion of employee car plan receivables	43.8	43.8					
Others	4.5	4.5	–	–	–	–	–
Other current assets:							
Receivables from suppliers and others	588.2	588.2	–	–	–	–	–
Receivable from retirement fund	111.1	111.1	–	–	–	–	–
Other noncurrent assets:							
Refundable and other deposits	871.0	871.0	–	–	–	–	–
Noncurrent portion of employee car plan receivables	86.6	86.6	–	–	–	–	–
	₱3,770.1	₱2,956.3	₱207.6	₱63.7	₱84.1	₱322.3	₱136.1

	2009						
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
			(In Millions)				
Receivables:							
Trade	₱1,854.2	₱996.1	₱406.7	₱80.5	₱135.1	₱136.1	₱99.7
Advances to employees	90.7	90.7	–	–	–	–	–
Current portion of employee car plan receivables	41.7	41.7	–	–	–	–	–

(Forward)

		2009					
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
			(In Millions)				
Others	₱13.3	₱13.3	₱–	₱–	₱–	₱–	₱–
Other current assets:							
Receivables from suppliers and others	616.0	616.0	–	–	–	–	–
Receivable from retirement fund	149.5	149.5	–	–	–	–	–
Other noncurrent assets:							
Refundable and other deposits	748.0	748.0	–	–	–	–	–
Noncurrent portion of employee car plan receivables	130.3	130.3	–	–	–	–	–
	₱3,643.7	₱2785.6	₱406.7	₱80.5	₱135.1	₱136.1	₱99.7

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 of the Jollibee Group during the years ended December 31, 2010 and 2009.

The Jollibee Group's financial assets, which have maturity of less than 12 months and used to meet its short-term liquidity needs, are cash and cash equivalents and receivables amounting to ₱8,170.5 million and ₱2,676.4 million, respectively, as of December 31, 2010.

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 cash flows as of December 31:

	2010				
	On Demand	Within 1 Year	2–3 Years	4–5 Years	Total
Cash and cash equivalents	₱2,925,597,936	₱5,244,891,365	₱–	₱–	₱8,170,489,301
Receivables:					
Trade	677,723,887	1,159,987,460	–	–	1,837,711,347
Advances to employees	–	91,120,858	–	–	91,120,858
Current portion of employee car plan receivables	–	43,811,033	–	–	43,811,033
Others	–	4,515,022	–	–	4,515,022
Other current assets:					
Receivables from suppliers and others	–	588,179,523	–	–	588,179,523
Receivable from retirement fund	–	111,108,541	–	–	111,108,541
Other noncurrent assets:					
Refundable and other deposits	–	–	871,020,582	–	871,020,582
Noncurrent portion of employee car plan receivables	–	–	86,584,129	–	86,584,129
	₱3,603,321,823	₱7,243,613,802	₱957,604,711	₱–	₱11,804,540,336
Trade payables and other current liabilities*	₱–	₱7,950,019,464	₱–	₱–	₱7,950,019,464
Short-term debt	–	1,899,133,822	–	–	1,899,133,822
Long-term debt (including current portion)	–	2,501,278,495	50,992,704	3,715,180	2,555,986,379
Liability for acquisition of businesses (including current portion)	–	170,194,278	141,254,668	–	311,448,946
	₱–	₱12,520,626,059	₱192,247,372	₱3,715,180	₱12,716,588,611

Excluding accruals for local and other taxes and unearned revenue from gift certificates.

	2009				
	On Demand	Within 1 Year	2–3 Years	4–5 Years	Total
Cash and cash equivalents	₱2,551,141,084	₱6,426,117,312	₱–	₱–	₱8,977,258,396
Receivables:					
Trade	758,400,000	996,130,549	–	–	1,754,530,549
Advances to employees	–	90,652,777	–	–	90,652,777
Current portion of employee car plan receivables	–	41,724,556	–	–	41,724,556
Others	–	13,302,934	–	–	13,302,934
Other current assets:					
Receivables from suppliers and others	–	616,038,571	–	–	616,038,571
Receivable from retirement fund	–	149,505,948	–	–	149,505,948
Other noncurrent assets:					
Refundable and other deposits	–	748,014,994	–	–	748,014,994
Noncurrent portion of employee car plan receivables	–	130,299,281	–	–	130,299,281
	₱3,309,541,084	₱9,211,786,922	₱–	₱–	₱12,521,328,006

(Forward)

	2009				
	On Demand	Within 1 Year	2–3 Years	4–5 Years	Total
Trade payables and other current liabilities*	₱–	₱7,958,303,473	₱–	₱–	₱7,958,303,473
Short-term debt	–	322,715,409	–	–	322,715,409
Long-term debt (including current portion)	–	57,081,325	2,774,128,009	20,802,577	2,852,011,911
Liability for acquisition of businesses (including current portion)	–	179,449,673	–	–	179,449,673
	₱–	₱8,517,549,880	₱2,774,128,009	₱20,802,577	₱11,312,480,466

Excluding accruals for local and other taxes and unearned revenue from gift certificates.

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

Debt-to-equity

	2010	2009
Total debt (a)	₱15,514,330,588	₱13,442,287,667
Total equity attributable to equity holders of the Parent Company	17,119,518,222	16,281,991,640
Total debt and equity attributable to equity holders of the Parent Company (b)	₱32,633,848,810	₱29,724,279,307
Debt-to-equity ratio (a/b)	48%	45%

Net Debt-to-equity

	2010	2009
Total debt	₱15,514,330,588	₱13,442,287,667
Less cash and cash equivalents	8,170,489,301	8,977,258,396
Net debt (a)	7,343,841,287	4,465,029,271
Total equity attributable to equity holders of the Parent Company	17,119,518,222	16,281,991,640
Total net debt and equity attributable to equity holders of the Parent Company (b)	₱24,463,359,509	₱20,747,020,911
Net debt-to-equity ratio (a/b)	30%	22%

31. 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 December 31. There are no material unrecognized financial assets and liabilities as of December 31, 2010 and 2009.

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱8,170,489,301	₱8,170,489,301	₱8,977,258,396	₱8,977,258,396
Receivables:				
Trade	1,837,711,347	1,837,711,347	1,754,530,549	1,754,530,549
Advances to employees	91,120,858	91,120,858	90,652,777	90,652,777
Current portion of employee car plan receivables	43,811,033	43,811,033	41,724,556	41,724,556
Others	4,515,022	4,515,022	13,302,934	13,302,934
Other current assets:				
Receivables from suppliers and others	588,179,523	588,179,523	616,038,571	616,038,571
Receivable from retirement fund	111,108,541	111,108,541	149,505,948	149,505,948
Other noncurrent assets:				
Refundable and other deposits	871,020,582	930,703,755	748,014,994	821,139,859
Noncurrent portion of employee car plan receivables	86,584,129	103,727,715	130,299,281	143,791,690
	11,804,540,336	11,881,367,095	12,521,328,006	12,607,945,280
AFS Financial Assets				
Investments in shares of stock and club shares	176,283,046	176,283,046	155,228,494	155,228,494
	₱11,980,823,382	₱12,057,650,141	₱12,676,556,500	₱12,763,173,774
Other Financial Liabilities				
Trade payables and other current liabilities*	₱7,950,019,464	₱7,950,019,464	₱7,958,303,473	₱7,958,303,473
Short-term debt	1,842,030,865	1,842,030,865	305,024,016	305,024,016
Long-term debt (including current portion)	2,392,713,646	2,483,536,758	2,491,677,840	2,507,838,450
Liability for acquisition of businesses (including current portion)	311,448,946	311,448,946	179,449,673	179,449,673
	₱12,496,212,921	₱12,587,036,033	₱10,934,455,002	₱10,950,615,612

Excluding accruals for local and other taxes and unearned revenue from gift certificates.

Financial Instruments with Carrying Amounts Approximate Fair Value

Management has determined that the carrying amounts of cash and cash equivalents, receivables, other current assets, trade payables and other current liabilities, short-term debt and liability for acquisition of businesses 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.

AFS Financial Assets
The fair value of investments that are 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 ₱125.4 million and ₱107.4 million as of December 31, 2010 and 2009, respectively, 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 year.

32. Events after the Reporting Period

Dividend Declaration
On April 13, 2011, the BOD of the Parent Company approved a regular cash dividend of ₱0.50 a share of common stock to all stockholders of record as of May 5, 2011. The cash dividend is expected to be paid out by May 31, 2011. The cash dividend is 16.3% higher than the ₱0.43 regular dividend a share declared in April 2010.

Loan Availments for Capital Expenditures and Acquisitions
On April 12, 2011, the Parent Company entered into a loan agreement for ₱900.0 million to be paid after one year bearing fixed interest rate. Likewise, the Jollibee Group, through JWPL, entered into separate loan agreements to borrow US$40.0 million and US$30.0 million from separate foreign financial institutions. Both loans are payable after 3 years bearing fixed interest rates. The proceeds of the loans shall be used to finance new store openings, existing store renovations, the construction of the Jollibee Group's logistics center in Metro Manila and its commissary to be managed by JFPPL in Anhui Province in the PRC.

Cessation of Operations of Manong Pepe Karinderia
On April 9, 2011, the Jollibee Group, through its wholly owned subsidiary, Fresh N' Famous, discontinued the operations of its Manong Pepe Karinderia business unit. The move is part of the Jollibee Group's plan to concentrate resources in building larger QSR businesses. Management believes that the cessation of operation of Manong Pepe Karinderia will not have a material impact on the Jollibee Group's consolidated financial statements.

Acquisition of Majority Stake in Chow Fun Holdings, LLC
On March 31, 2011, the Jollibee Group, through its wholly owned subsidiary, Jollibee Worldwide, acquired from Aspen Partners, LLC 2,400 shares in Chow Fun Holdings, LLC ("Chow Fun") for US$3,240,000, bringing up its equity share in Chow Fun to 80.55%. The Jollibee Group (through JWPL) had previously acquired in July 2008 a 12.25% equity share in Chow Fun for US$950,000. Chow Fun is the developer and owner of Jinja Bar and Bistro in New Mexico, USA. It presently has three (3) restaurants in New Mexico, two (2) in Albuquerque and one (1) in Santa Fe. Jinja Bar and Bistro serves Asian cuisine adapted to Western preferences to mainstream American consumers. The Jollibee Group's objective in this venture is to enhance its capability in developing Asian food restaurant concepts for the mainstream consumers in the United States as part of its long-term strategy. The carrying amount of previously held equity interest in Chow Fun is presented as part of AFS financial assets.

33. Non-cash Transaction

In 2009, significant non-cash investing activities pertain 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.

Investor Information

Company Headquarters

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#10 F. Ortigas Jr. Avenue
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Telephone: (632) 634-1111
Facsimile: (632) 633-9504
Website: www.jollibee.com.ph

Common Stock

Jollibee's common stock is listed and traded on the Philippine Stock Exchange under the symbol "JFC."

It is one of the companies which comprise the PSE Composite Index.

Annual Stockholder's Meeting

The Annual Stockholders' Meeting will be held on June 24, 2011 at 2:00 P.M., (registration starts at 1:00 P.M.) Friday at the Philippine Stock Exchange Center Auditorium, Ground Floor, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

Stockholder Inquiries

Inquiries regarding dividend payments, account status, address changes, stock certificates and other pertinent matters may be addressed to the Company's registrar and transfer agent:

Rizal Commercial Banking Corporation
Stock Transfer Office
Ground Floor, West Wing
Grepalife Building
221 Senator Gil Puyat Avenue
Makati City

SEC Form 17-A

The financial information in this report, in the opinion of Management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request to the Office of the Corporate Secretary.

Produced by **Jollibee Foods Corporation**
Design and Concept by **OP Communications, Inc.**

Jollibee Foods
CORPORATION

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