

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Mar 2012 (Unaudited)	Dec 2011 (Audited)	Change	
			Amount	Pct
<i>(in PHP)</i>				
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 6, 30 and 31)	7,471,980,608	6,655,312,875	816,667,733	12.3
Receivables (Notes 7, 30 and 31)	2,302,733,713	2,388,617,052	(85,883,339)	(3.6)
Inventories (Note 8)	2,602,866,670	2,860,103,279	(257,236,609)	(9.0)
Other current assets (Notes 9, 30 and 31)	1,533,817,801	1,354,914,695	178,903,106	13.2
Total Current Assets	13,911,398,792	13,258,947,901	652,450,891	4.9
Noncurrent Assets				
Available-for-sale financial assets (Notes 10, 30 and 31)	128,149,438	120,649,438	7,500,000	6.2
Interest in and advances to joint ventures (Note 11)	2,852,820,590	3,188,515	2,849,632,075	89,371.8
Property, plant and equipment (Note 12)	10,667,490,108	10,557,401,796	110,088,312	1.0
Investment properties (Note 13)	747,372,593	772,468,616	(25,096,023)	(3.2)
Goodwill and other intangible assets (Notes 14)	8,754,483,640	8,584,085,504	170,398,136	2.0
Operating lease receivables (Note 29)	25,209,671	26,838,873	(1,629,202)	(6.1)
Deferred tax assets (Note 24)	1,017,587,240	967,614,484	49,972,756	5.2
Other noncurrent assets (Notes 15, 30 and 31)	1,619,314,677	4,617,032,092	(2,997,717,415)	(64.9)
Total Noncurrent Assets	25,812,427,957	25,649,279,318	163,148,639	0.6
	39,723,826,749	38,908,227,219	815,599,530	2.1
LIABILITIES AND EQUITY				
Current Liabilities				
Trade payables and other current liabilities (Notes 16, 30 and 31)	9,343,518,834	10,165,594,869	(822,076,035)	(8.1)
Income tax payable	191,815,944	154,717,083	37,098,861	24.0
Short-term debt (Notes 18, 30 and 31)	900,000,000	900,000,000	-	-
Current portion of:				
Long-term debt (Notes 18, 30 and 31)	766,262,551	777,301,991	(11,039,440)	(1.4)
Liability for acquisition of businesses (Notes 11, 30 and 31)	164,853,965	104,763,179	60,090,786	57.4
Total Current Liabilities	11,366,451,294	12,102,377,122	(735,925,828)	(6.1)
Noncurrent Liabilities				
Provisions (Note 17)	30,500,639	30,500,639	-	-
Noncurrent portion of:				
Long-term debt (Notes 18, 30 and 31)	4,743,438,993	3,942,742,029	800,696,964	20.3
Liability for acquisition of businesses (Notes 11, 30 and 31)	209,390,110	212,334,110	(2,944,000)	(1.4)
Pension liability (Note 25)	311,432,937	278,674,514	32,758,423	11.8
Operating lease payables (Note 29)	1,357,193,627	1,343,261,889	13,931,738	1.0
Deferred tax liabilities (Note 24)	770,568,404	775,883,149	(5,314,745)	(0.7)
Total Noncurrent Liabilities	7,422,524,710	6,583,396,330	839,128,380	12.7
Total Liabilities	18,788,976,004	18,685,773,452	103,202,552	0.6
Equity Attributable to Equity Holders of the Parent Company (Note 30)				
Capital stock (Note 19)	1,057,305,925	1,054,953,233	2,352,692	0.2
Subscriptions receivable	(17,177,884)	(17,177,884)	-	-
Additional paid-in capital (Note 26)	2,998,822,456	2,914,463,925	84,358,531	2.9
Cumulative translation adjustments of foreign subsidiaries	(263,399,354)	(187,186,852)	(76,212,502)	40.7
Unrealized gain on available-for-sale financial assets (Note 10)	102,626,829	102,626,829	-	-
Excess of cost over the carrying value of non-controlling interests acquired (Note 19)	(542,764,486)	(542,764,486)	-	-
Retained earnings (Notes 19 and 32):				
Appropriated for future expansion	5,000,000,000	1,200,000,000	3,800,000,000	316.7
Unappropriated	12,046,824,454	15,174,359,248	(3,127,534,794)	(20.6)
	20,382,237,940	19,699,274,013	682,963,927	3.5
Less cost of common stock held in treasury (Note 19)	180,511,491	180,511,491	-	-
	20,201,726,449	19,518,762,522	682,963,927	3.5
Non-controlling Interests (Note 11)	733,124,296	703,691,245	29,433,051	4.2
Total Equity	20,934,850,745	20,222,453,767	712,396,978	3.5
	39,723,826,749	38,908,227,219	815,599,530	2.1

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME

	Quarters Ended March 31				Change	
	2012		2011		2011 to 2012	
	Pesos	Pct	Pesos	Pct	Amount	Pct
REVENUES						
Net sales	15,657,359,557	95.0%	13,199,540,765	94.5%	2,457,818,792	18.6%
Royalty, franchise fees and others (Note 20)	829,049,953	5.0%	770,247,136	5.5%	58,802,817	7.6%
	16,486,409,510	100.0%	13,969,787,901	100.0%	2,516,621,609	18.0%
COST OF SALES (Note 21)						
Cost of inventories	7,975,754,867	48.4%	6,616,009,839	47.4%	1,359,745,028	20.6%
Store and manufacturing costs	5,833,232,110	35.4%	4,860,780,753	34.8%	972,451,357	20.0%
	13,808,986,977	83.8%	11,476,790,592	82.2%	2,332,196,385	20.3%
	2,677,422,533	16.2%	2,492,997,309	17.8%	184,425,224	7.4%
EXPENSES						
General and administrative expenses (Note 22)	(1,522,751,553)	-9.2%	(1,350,734,655)	-9.7%	172,016,898	12.7%
Advertising and promotions	(269,711,878)	-1.6%	(285,822,507)	-2.0%	16,110,629	5.6%
	(1,792,463,431)	-10.9%	(1,636,557,162)	-11.7%	155,906,269	9.5%
OPERATING INCOME	884,959,102	5.4%	856,440,147	6.1%	28,518,955	3.3%
INTEREST INCOME (EXPENSE) (Note 23)						
Interest income	53,271,722	0.3%	23,827,296	0.2%	29,444,426	123.6%
Interest expense	(46,645,781)	-0.3%	(65,468,815)	-0.5%	(18,823,034)	-28.8%
	6,625,941	0.0%	(41,641,519)	-0.3%	48,267,460	-115.9%
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 11)	(23,131,186)	-0.1%	-	0.0%	(23,131,186)	-100.0%
OTHER INCOME (Note 23)	34,995,279	0.2%	46,425,610	0.3%	(11,430,331)	-24.6%
INCOME BEFORE INCOME TAX	903,449,136	5.5%	861,224,238	6.2%	42,224,898	4.9%
PROVISION FOR INCOME TAX (Note 24)						
Current	281,234,220	1.7%	230,595,958	1.7%	50,638,262	22.0%
Deferred	(60,213,180)	-0.4%	-	0.0%	(60,213,180)	-100.0%
	221,021,040	1.3%	230,595,958	1.7%	(9,574,918)	-4.2%
NET INCOME	682,428,096	4.1%	630,628,280	4.5%	51,799,816	8.2%
OTHER COMPREHENSIVE LOSS						
Translation adjustments	(76,212,502)	-0.5%	(41,348,704)	-0.3%	34,863,798	84.3%
TOTAL COMPREHENSIVE INCOME	606,215,594	3.7%	589,279,576	4.2%	16,936,018	2.9%
Net Income Attributable to:						
Equity holders of the Parent Company (Note 28)	672,465,206	4.1%	621,880,367	4.5%	50,584,839	8.1%
Non-controlling interests	9,962,890	0.1%	8,747,913	0.1%	1,214,977	13.9%
	682,428,096	4.1%	630,628,280	4.5%	51,799,816	8.2%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	597,678,056	3.6%	580,531,663	4.2%	17,146,393	3.0%
Non-controlling interests	8,537,538	0.1%	8,747,913	0.1%	(210,375)	-2.4%
	606,215,594	3.7%	589,279,576	4.2%	16,936,018	2.9%
Earnings Per Share for Net Income Attributable to						
Equity Holders of the Parent Company (Note 28)						
Basic	0.649		0.604		0.045	7.5%
Diluted	0.645		0.603		0.042	7.0%

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE QUARTERS ENDED MARCH 31, 2012 AND 2011

	Equity Attributable to Equity Holders of the Parent Company											Total	Non-controlling Interests (Note 11)	Total 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 the Carrying Value of Non-controlling Interests Acquired (Note 19)	Retained Earnings (Note 19) Appropriated for Future Expansion		Cost of Common Stock Held in Treasury (Note 19)					
	<i>(In PHP)</i>													
Balances at January 1, 2012	1,054,953,233	(17,177,884)	2,914,463,925	(187,186,852)	102,626,829	(542,764,486)	1,200,000,000	15,174,359,248	(180,511,491)	19,518,762,522	703,691,245	20,222,453,767		
Net income	-	-	-	-	-	-	-	672,465,206	-	672,465,206	9,962,891	682,428,097		
Other comprehensive loss														
Translation adjustments	-	-	-	(76,212,502)	-	-	-	-	-	(76,212,502)	(1,425,352)	(77,637,854)		
Total comprehensive income (loss)	-	-	-	(76,212,502)	-	-	-	672,465,206	-	596,252,704	8,537,539	604,790,243		
Movements in other equity accounts														
Issuances of and subscriptions to capital stock	2,352,692	-	63,856,818	-	-	-	-	-	-	66,209,510	-	66,209,510		
Cost of stock options granted	-	-	20,501,713	-	-	-	-	-	-	20,501,713	-	20,501,713		
Arising from business combination	-	-	-	-	-	-	-	-	-	-	20,895,512	20,895,512		
Additional appropriation during the period	-	-	-	-	-	-	3,800,000,000	(3,800,000,000)	-	-	-	-		
	2,352,692	-	84,358,531	-	-	-	3,800,000,000	(3,800,000,000)	-	86,711,223	20,895,512	107,606,735		
Balances at March 31, 2012	1,057,305,925	(17,177,884)	2,998,822,456	(263,399,354)	102,626,829	(542,764,486)	5,000,000,000	12,046,824,454	(180,511,491)	20,201,726,449	733,124,296	20,934,850,745		
Balances at January 1, 2011	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		
Net income	-	-	-	-	-	-	-	621,880,366	-	621,880,366	8,747,913	630,628,279		
Other comprehensive loss														
Translation adjustments	-	-	-	(41,348,704)	-	-	-	-	-	(41,348,704)	-	(41,348,704)		
Total comprehensive income (loss)	-	-	-	(41,348,704)	-	-	-	621,880,366	-	580,531,662	8,747,913	589,279,575		
Movements in other equity accounts														
Issuances of and subscriptions to capital stock	99,166	-	1,884,154	-	-	-	-	-	-	1,983,320	-	1,983,320		
Cost of stock options granted	-	-	16,296,377	-	-	-	-	-	-	16,296,377	-	16,296,377		
	99,166	-	18,180,531	-	-	-	-	-	-	18,279,697	-	18,279,697		
Balances at March 31, 2011	1,053,537,984	(17,177,884)	2,791,862,695	(358,371,349)	107,164,577	(542,764,486)	1,200,000,000	13,664,589,535	(180,511,491)	17,718,329,581	149,778,711	17,868,108,292		

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarters Ended March 31	
	2012	2011
	<i>(In PHP)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	903,449,137	861,224,237
Adjustments for:		
Depreciation and amortization (Notes 12, 13, 21 and 22)	652,197,443	545,953,741
Loss on disposals and retirements of property and equipment - net (Note 12)	51,772,794	46,152,588
Interest expense (Note 23)	46,645,781	65,468,815
Pension expense (Note 25)	33,618,434	34,873,212
Equity in net loss of a joint venture (Note 11)	23,131,186	-
Impairment losses on investment properties (Note 13)	21,177,361	-
Stock options expense (Note 26)	20,501,713	16,296,377
Deferred rent amortization - net (Note 29)	12,302,536	14,507,666
Net unrealized foreign exchange loss	-	2,662,718
Interest income (Note 23)	(53,271,722)	(23,827,296)
Income before working capital changes	1,711,524,663	1,563,312,058
Decreases (increases) in:		
Receivables	69,377,325	213,361,686
Inventories	257,236,609	(107,475,295)
Other current assets	(162,920,728)	(485,174,041)
Decrease in trade payables and other current liabilities	(898,946,508)	(595,905,491)
Net cash generated from operations	976,271,361	588,118,917
Interest received	37,182,189	27,970,509
Income taxes paid	(183,922,178)	(189,092,851)
Net cash provided by operating activities	829,531,372	426,996,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment (Note 12)	(835,212,579)	(721,311,153)
Subsidiaries - net of cash acquired (Note 11)	(184,864,516)	-
Available-for-sale financial assets (Note 10)	(7,500,000)	-
Investment properties (Note 13)	-	(3,079,081)
Proceeds from disposals of property and equipment	25,551,743	2,758,400
Advances to a co-venturer	-	(4,863,163)
Decrease (increase) in other noncurrent assets	74,684,062	(119,256,305)
Net cash used in investing activities	(927,341,290)	(845,751,302)

	Quarters Ended March 31	
	2012	2011
	<i>(In PHP)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Long-term debt (Note 18)	(4,391,328)	(11,200,198)
Short-term debt (Note 18)	-	(39,749,400)
Cash dividends	(2,894,441)	(68,388,868)
Proceeds from:		
Long-term debt (Note 18)	858,400,000	-
Issuances of and subscriptions to capital stock	66,209,510	1,983,320
Contributions from non-controlling interests	19,470,160	-
Interest paid	(19,594,976)	(99,105,900)
Net cash provided by (used in) financing activities	917,198,925	(216,461,046)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	819,389,007	(635,215,773)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,721,274)	(3,679,558)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,655,312,875	8,170,489,301
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	7,471,980,608	7,531,593,970

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Jollibee Group”) are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names “Jollibee”, “Chowking”, “Greenwich”, “Red Ribbon”, “Yong He King”, “Hong Zhuang Yuan”, “Mang Inasal”, “Burger King” and “San Pin Wang”. The other activities of the Jollibee Group include manufacturing and property leasing in support of the QSR systems and other business activities (see Notes 2 and 5).

The common shares of the Parent Company were listed and have been traded in the Philippine Stock Exchange (PSE) beginning July 14, 1993.

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

The consolidated financial statements as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011 were reviewed and recommended for approval by the Audit Committee on May 11, 2012. The same consolidated financial statements were also approved and authorized for issuance by the Board of Directors (BOD) on May 11, 2012.

2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies, Restatement of 2010 Comparative Financial Statements and Basis of Consolidation

Basis of Preparation

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 under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with PFRS. PFRS also includes Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new, amended and improved PFRS and Philippine Interpretations that the Jollibee Group adopted starting January 1, 2011.

New Interpretation

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after July 1, 2010

Amendments to Standards and Interpretation

- PAS 24 (Amended), *Related Party Disclosures*, effective for annual periods beginning on or after January 1, 2011
- PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*, effective for annual periods beginning on or after February 1, 2010
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment), effective for annual periods beginning on or after January 1, 2011

Improvements to PFRS (Effective 2011)

- PFRS 3, *Business Combinations* - Measurement options available for non-controlling interest
- PFRS 3, *Business Combinations* - Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)
- PFRS 3, *Business Combinations* - Un-replaced and voluntarily replaced share-based payment awards, applicable for annual periods beginning on or after July 1, 2010
- PFRS 7, *Financial Instruments - Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* - determining the fair value of award credits

The adoption of these new and amended standards and interpretations did not have a significant impact on the Jollibee Group's consolidated financial statements.

Future Changes in Accounting Policies

The Jollibee Group will adopt the following standards and Philippine interpretations when these become effective. Except as otherwise indicated, the Jollibee Group does not expect the adoption of these new and amended standards to have significant impact on its consolidated financial statements.

New Standards and Amendments

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. 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, but will potentially have no impact on classification and measurements of financial liabilities. The Jollibee Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the Jollibee Group as it accounts for its JCEs using the equity method.
- PFRS 12, *Disclosure of Interests in Other Entities*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- PFRS 13, *Fair Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, 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 reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, will become effective for annual periods beginning on or after January 1, 2013. IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Amendments to Standards and Interpretation

- PAS 1, *Presentation of Financial Statement (Amendment) - Presentation of Items of Other Comprehensive Income*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Jollibee Group is in the process of assessing the impact of this amendment on its consolidated financial statements.
- 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.
- PAS 19, *Employee Benefits (Amendment)*, will become effective for annual periods beginning on or after January 1, 2013. Amendment includes removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Jollibee Group is in the process of assessing the impact of this amendment on its consolidated financial statements.
- PAS 27, *Separate Financial Statements (Amendment)*, as revised in 2011 will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, JCEs, and associates in separate financial statements.
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)* will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Jollibee Group is in the process of assessing the impact of this amendment on its consolidated financial statements.
- PAS 32, *Financial Instruments: Presentation (Amendment) - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2014, with retrospective application. These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to offset” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.
- PFRS 7, *Financial Instruments: Disclosures (Amendment) - Enhanced Derecognition Disclosure Requirements*, will become effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Jollibee Group’s financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets.

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Offsetting Financial Assets and Financial Liabilities*, are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
 - (a) the gross amounts of those recognized financial assets and recognized financial liabilities;
 - (b) the amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
 - (c) the net amounts presented in the statement of financial position;
 - (d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. amounts related to financial collateral (including cash collateral); and
 - (e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

The Jollibee Group is in the process of assessing the impact of these amendments on its consolidated financial statements.

Restatement of Comparative 2010 Financial Statements

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 restaurant business in the Philippines, for a total acquisition cost of ₱2,976.2 million. Goodwill, amounting to ₱2,814.4 million was recognized provisionally in 2010.

In 2011, the valuation of the assets of Mang Inasal Philippines Inc. (Mang Inasal) was completed resulting to the recognition of a trademark and a corresponding reduction in the amount of goodwill provisionally recognized of ₱2,004.3 million and ₱1,033.1 million, respectively. In accordance with PFRS 3, the Jollibee Group restated its comparative 2010 financial statements to reflect the results of the valuation of the assets as if the information existed as of the acquisition date. Consequently, the balances of goodwill and other intangible assets, deferred tax liabilities and non-controlling interests were restated to reflect this information.

Basis of Consolidation from January 1, 2010

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2011.

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 these result 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		
			2012	2011	2010
Fresh N' Famous Foods, Inc. (Fresh N' Famous) -	Philippines	Food service	100	100	100
▪ Chowking Food Corporation USA	United States of America (USA)	Holding company	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)	Philippines	Food service	100	100	100
▪ Red Ribbon Bakeshop, Inc. USA (RRBI USA)	USA	Food service	100	100	100
Mang Inasal Philippines Inc. (Mang Inasal)	Philippines	Food service	70	70	70
Grandworth Resources Corporation (Grandworth):	Philippines	Leasing	100	100	100
▪ Adgraphix, Inc. (Adgraphix)	Philippines	Digital printing	100	100	100
▪ IConnect Multimedia Network, Inc. (IConnect)	Philippines	Advertising	60	60	60
Honeybee Foods Corporation (Honeybee) -	USA	Food service	100	100	100
▪ Tokyo Teriyaki Corporation (TTC)	USA	Food service	100	100	100
Jollibee Worldwide Pte. Ltd. (JWPL):	Singapore	Holding company	100	100	100
▪ Regional Operating Headquarters of JWPL (JWS)	Philippines	Accounting service	100	100	100
▪ Golden Plate Pte. Ltd. (GPPL)	Singapore	Holding company	100	100	100
▪ Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)	Peoples' Republic of China (PRC)	Food service	100	100	100
▪ Southsea Binaries Ltd. (Southsea)	British Virgin Island (BVI)	Holding company	100	100	100
▪ Shanghai Yong He King Food & Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Hangzhou Yongtong Food and Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Hangzhou Yonghe Food & Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Wuhan Yonghe Food and Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	100	100	100
▪ Jollibee Foods Processing Pte. Ltd. (JFPPL) -	Singapore	Holding company	70	70	70
▫ Jollibee Foods Processing Co. Ltd. (Anhui)	PRC	Food service	100	100	100
▪ Kuai Le Feng Food & Beverage (Shenzhen) Co., Ltd.	PRC	Dormant	100	100	100
▪ Guangxi San Pin Wang Food and Beverage Management Company Limited (San Pin Wang)	PRC	Food service	55	-	-
▪ JSF Investments, Pte. Ltd. (JSF)	Singapore	Holding company	99	99	-
▪ Chow Fun Holdings LLC (Chow Fun)	USA	Food service	81	81	14
▪ Beijing Shang Shi Lin Food & Beverage Management Company Ltd.	PRC	Holding company	100	100	-
▪ Shanghai Chunlv Co. Ltd.	PRC	Management company	100	100	100
▪ Jollibee International (BVI) Ltd. (JIBL):	BVI	Holding company	100	100	100
▫ Jollibee Vietnam Corporation Ltd.	Vietnam	Food service	100	100	100
▫ PT Chowking Indonesia	Indonesia	Food service	100	100	100
▫ PT Jollibee Indonesia	Indonesia	Dormant	100	100	100
▫ Jollibee (Hong Kong) Limited -	Hong Kong	Dormant	85	85	85
• Hanover Holdings Limited (Hanover)	Hong Kong	Dormant	100	100	100
▫ Belmont Enterprises Ventures Limited (Belmont):	BVI	Holding company	100	100	100
• Shanghai Belmont Enterprises Management and Adviser Co., Ltd. (SBEMAC)	PRC	Business management service	100	100	100
• Yong He Holdings Co., Ltd.:	BVI	Holding company	100	100	100
• Centenary Ventures Limited	BVI	Holding company	100	100	100
• Colossus Global Limited	BVI	Holding company	100	100	100
• Granite Management Limited	BVI	Holding company	100	100	100
• Cosmic Resources Limited	BVI	Holding company	100	100	100
• All Great Resources Limited:	BVI	Holding company	100	100	100
• Eastpower Resources Limited -	BVI	Holding company	100	100	100
◦ Shanghai Yongjue Foods & Beverage Co., Ltd	PRC	Holding company	100	100	100
• Eaglerock Development Limited	BVI	Holding company	100	100	100

(Forward)

	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2012	2011	2010
Chanceux, Inc. -	Philippines	Holding company	100	100	-
▪ BKTitans, Inc. -	Philippines	Holding company	54	54	-
▫ PFN Holdings, Corp. -	Philippines	Holding company	99	99	-
• Perf Restaurants, Inc. ^(a)	Philippines	Food Service	100	100	-
Donut Magic Phils., Inc. (Donut Magic) ^(b)	Philippines	Dormant	100	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(b)	Philippines	Dormant	100	100	100
Mary's Foods Corporation (Mary's) ^(b)	Philippines	Dormant	100	100	100
QSR Builders, Inc.	Philippines	Inactive	100	100	100
Jollibee USA	USA	Dormant	100	100	100

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

(b) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three dormant companies. The application is pending approval from the SEC as of April 12, 2012.

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 and Measurement. 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 as liabilities were incurred whether they are quoted in an active market. Management determines the classification of its financial instruments 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, option 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 or liability. 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 as at FVPL upon initial recognition.

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 as at FVPL at initial recognition 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 March 31, 2012 and December 31, 2011.

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, receivables, long-term loan receivable and security and other deposits are classified under this category.

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 category. 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. 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 March 31, 2012 and December 31, 2011.

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 - net" account in other comprehensive income until the financial asset is derecognized or determined to be impaired at which time the accumulated gains or losses previously reported in other comprehensive income are included in profit or loss. 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, less any impairment in value. All transaction costs directly attributable to the acquisition are also included in the cost of investment.

Assets under this category are classified as current assets if expected to be realized within 12 months from reporting date and as noncurrent assets. Otherwise, these are classified as non-current assets.

The Jollibee Group's investments in club shares and shares of public utility companies are classified under this category as of March 31, 2012 and December 31, 2011.

Financial Liabilities

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

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 March 31, 2012 and December 31, 2011.

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 short-term debt, long-term debt (including current portion), liability for acquisition of businesses (including current portion) and trade payables and other current liabilities (excluding local and other taxes and unearned revenue from gift certificates).

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 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 profit or loss under "General and administrative expenses" account. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future 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 profit or loss, 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 other comprehensive income under "Unrealized gain (loss) on available-for-sale financial assets", is removed from equity and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in fair value after impairment are recognized directly as 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.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 is the current replacement cost.

Net realizable value of novelty items is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

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, buildings, condominium units and improvements	5–40 years
Leasehold rights and improvements	2–10 years or term of the lease, whichever is shorter
Office, store and food processing equipment	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 amortization and any impairment in value. Cost also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Land is carried at cost less any impairment in value.

The depreciation of 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 (5) to twenty (20) years.

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

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

Transfers 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

Business Combinations from January 1, 2010. 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" account in the consolidated statement of comprehensive income.

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

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

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.

Business Combinations prior to January 1, 2010. Business combinations were accounted for using the purchase method. For purchase method of accounting, the cost of acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired entity. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition-date, irrespective of the extent of any non-controlling interest.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest does not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Jollibee Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Goodwill

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 determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

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

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition-date, allocated to each of the Jollibee Group's 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 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.

Intangible Assets

The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The Jollibee Group assessed the useful life of the trademarks and brand names to be indefinite because based on an analysis of all of the relevant factors; there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Jollibee Group.

Trademarks and brand names with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the cash generating unit level. The useful life of an intangible asset is assessed as indefinite if it is expected to contribute net cash inflows indefinitely and is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Common Control Business Combinations

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 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.

Impairment of Nonfinancial Assets

The carrying values of interests in a joint venture, property, plant and equipment, investment properties, goodwill and other intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGU are written down to their recoverable amounts. The recoverable amount of the asset is the

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

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

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

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. 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.

Retained Earnings and Dividend on Capital Stock of the Parent Company. 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.

Treasury Shares. 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.

Revenue

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

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

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

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

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

Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses included under "Cost of sales" and "General and administrative expenses" in the consolidated statement 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 government 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. 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.

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 in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at reporting date. All differences are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currencies of the Jollibee Group's foreign operations are US dollar (USD), PRC renminbi (RMB), Indonesia rupiah, Vietnam dong and Hong Kong dollar. As of the reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date while the income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are included in the consolidated statements of changes in equity under the account "Cumulative translation adjustments of foreign 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 substantively enacted at reporting date.

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in a joint venture, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

Deferred tax 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 Equity Holders of the Parent Company

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

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

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed 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.

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 and related notes at the end of the reporting period.

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 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 ₱1,438.0 million and ₱1,118.9 million for the three months ended March 31, 2012 and 2011, respectively (see Notes 21, 22 and 29).

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

Rent income amounted to ₱23.4 million and ₱21.9 million for the three months ended March 31, 2012 and 2011, respectively (see Notes 13, 20 and 29).

Impairment of AFS Financial Assets - Significant or 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 future cash flows from the investment and its acquisition cost and recognizes the amount in the consolidated statements of comprehensive income.

There were no provisions for impairment loss on AFS financial assets in 2012 and 2011. The carrying amount of AFS financial assets amounted to ₱128.1 million and ₱120.6 million as of March 31, 2012 and December 31, 2011, 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 2011 amounted to ₱35.4 million resulting from specific and collective assessments. The carrying amount of receivables amounted to ₱2,302.7 million and ₱2,388.6 million as of March 31, 2012 and December 31, 2011, 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 ₱19.5 million in 2011. The Jollibee Group wrote-off allowance for inventory obsolescence amounting to ₱70.0 million in 2011. The carrying amount of inventories amounted to ₱2,602.9 million and ₱2,860.1 million as of March 31, 2012 and December 31, 2011, 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 2012 and 2011.

Impairment of Goodwill and Other Intangible Assets. The Jollibee Group determines whether goodwill and other intangible assets with indefinite useful life is impaired at least on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Management has determined that goodwill and other intangible assets are not impaired. The carrying amount of goodwill and other intangible assets amounted to ₱8,754.5 million and ₱8,584.1 million as of March 31, 2012 and December 31, 2011, respectively (see Note 14).

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Jollibee Group determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections.

The fair values of the identifiable net assets acquired from San Pin Wang, BK Group, Chowking US Operations and Chow Fun amounted to ₱46.4 million, ₱111.5 million, ₱260.0 million and ₱17.2 million, respectively (see Note 11).

Impairment of Property, Plant and Equipment and Investment Properties. The Jollibee Group performs 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 position and performance.

Provision for impairment losses on investment properties amounted to ₱21.1 million for the three months ended March 31, 2012. The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱11,414.9 million and ₱11,329.9 million as of March 31, 2012 and December 31, 2011, 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 excess of MCIT over RCIT and NOLCO is based on the forecasted taxable income. This forecast is based on past results and future expectations on revenue and expenses.

The carrying amount of deferred tax assets amounted to ₱1,017.6 million and ₱967.6 million as of March 31, 2012 and December 31, 2011, 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 on 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 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.

The carrying amount of pension liability amounted to ₱311.4 million and ₱278.7 million as of March 31, 2012 and December 31, 2011, respectively. Unrecognized net actuarial gains amounted to ₱293.8 million as of March 31, 2012 and December 31, 2011 (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 grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the Black-Scholes Option Pricing Model. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.

Total expense arising from share-based payment recognized by the Jollibee Group amounted to P20.5 million and P16.3 million for the three months ended March 31, 2012 and 2011, respectively (see Notes 22 and 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.

There were no additional provisions recorded in 2012 and 2011.

Total outstanding provisions for legal claims and restructuring costs amounted to P30.5 million as of March 31, 2012 and December 31, 2011 (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 March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011:

	March 2012 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenue from external customers	₱15,720,054	₱727,250	₱39,105	₱-	₱16,486,409
Inter-segment revenues	4,929,810	123,402	268,691	(5,321,903)	-
Segment revenues	20,649,864	850,652	307,796	(5,321,903)	16,486,409
Segment expenses	(20,483,007)	(123,402)	(316,944)	5,321,903	(15,601,450)
Other segment income (loss)	(3,725)	-	15,589	-	11,864
Segment result	₱163,132	₱727,250	₱6,441	₱-	896,823
Interest income					53,272
Interest expense					(46,646)
Income before income tax					903,449
Provision for income tax					221,021
Net income					₱682,428
Assets and Liabilities					
Segment assets	₱38,304,761	₱-	₱401,479	₱-	₱38,706,240
Deferred tax assets	1,000,984	-	16,603	-	1,017,587
Consolidated assets	₱39,305,745	₱-	₱418,082	₱-	₱39,723,827
Segment liabilities	₱12,185,877	₱-	₱131,013	₱-	₱12,316,890
Deferred tax liabilities	766,526	-	4,042	-	770,568
Long-term debt - including current portion	5,509,702	-	-	-	5,509,702
Income tax payable	188,716	-	3,100	-	191,816
Consolidated liabilities	₱18,650,821	₱-	₱138,155	₱-	₱18,788,976
Other Segment Information					
Capital expenditures	₱835,213	₱-	₱-	₱-	₱835,213
Depreciation and amortization	650,909	-	1,288	-	652,197

March 31, 2011 (Unaudited)					
	Food Service	Franchising	Leasing	Eliminations	Consolidated
<i>(In Thousands)</i>					
Revenue from external customers	P13,249,665	P684,641	P35,482	P-	P13,969,788
Inter-segment revenues	4,733,307	102,706	261,283	(5,097,296)	-
Segment revenues	17,982,972	787,347	296,765	(5,097,296)	13,969,788
Segment expenses	(17,789,564)	(102,706)	(318,374)	5,097,296	(13,113,348)
Other segment income	46,151	-	275	-	46,426
Segment result	P239,559	P684,641	(P21,334)	P-	902,866
Interest income					23,827
Interest expense					(65,469)
Income before income tax					861,224
Provision for income tax					(230,596)
Net income					P630,628
Assets and Liabilities					
Segment assets	P31,447,928	P-	P352,144	P-	P31,800,072
Deferred tax assets	878,654	-	41,485	-	920,139
Consolidated assets	P32,326,582	P-	P393,629	P-	P32,720,211
Segment liabilities	P11,939,053	P-	P156,174	P-	P12,095,227
Deferred tax liabilities	159,043	-	8,061	-	167,104
Long-term debt - including current portion	2,380,516	-	-	-	2,380,516
Income tax payable	205,806	-	3,449	-	209,255
Consolidated liabilities	P14,684,418	P-	P167,684	P-	P14,852,102
Other Segment Information					
Capital expenditures	P721,311	P-	P-	P-	P721,311
Depreciation and amortization	544,643	-	1,311	-	545,954

Geographical Segments

The Jollibee Group's geographical segments are based on the location of the assets producing revenues in the Philippines and in other locations (which includes PRC 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 revenues were generated from the Philippines, which is the Jollibee Group's country of domicile.

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

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

	Philippines	International	Eliminations	Consolidated
<i>(In Thousands)</i>				
March 31, 2012:				
Revenues	P13,051,321	P3,470,166	(P35,078)	P16,486,409
Segment assets	24,642,148	14,064,092	-	38,706,240
Capital expenditures	514,931	320,282	-	835,213
March 31, 2011:				
Revenues	11,353,028	2,649,524	(32,764)	13,969,788
Segment assets	22,619,866	9,180,206	-	31,800,072
Capital expenditures	485,096	236,215	-	721,311

6. Cash and Cash Equivalents

This account consists of:

	March 2012 (Unaudited)	December 2011 (Audited)
Cash on hand	₱173,981,221	₱169,886,592
Cash in banks	3,104,937,354	2,315,131,475
Short-term deposits	4,193,062,033	4,170,294,808
	₱7,471,980,608	₱6,655,312,875

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 ₱31.4 million and ₱21.0 million for the three months ended March 31, 2012 and 2011, respectively (see Note 23).

7. Receivables

This account consists of:

	March 2012 (Unaudited)	December 2011 (Audited)
Trade	₱2,178,497,588	₱2,250,407,136
Less allowance for impairment loss	164,397,880	164,744,992
	2,014,099,708	2,085,662,144
Receivable from retirement fund	127,711,364	137,745,214
Advances to employees	95,152,422	100,368,090
Current portion of employee car plan receivables	44,087,936	43,901,365
Others	21,682,283	20,940,239
	₱2,302,733,713	₱2,388,617,052

Trade receivables are noninterest-bearing and are generally on a 30-60 days term.

Receivable from retirement fund, 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 March 31, 2012 and December 31, 2011 are as follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱164,744,992	₱136,082,073
Provisions	-	35,354,094
Reversals	-	(1,711,028)
Translation adjustments	(347,112)	19,853
Write-offs	-	(5,000,000)
Balance at end of period	₱164,397,880	₱164,744,992

The provisions in 2011 resulted from specific and collective impairment assessments performed by the Jollibee Group.

8. Inventories

This account consists of:

	March 2012 (Unaudited)	December 2011 (Audited)
At cost:		
Food supplies and processed inventories	₱2,377,207,591	₱2,659,794,971
Packaging, store and other supplies	193,707,869	176,813,937
	2,570,915,460	2,836,608,908
At net realizable value -		
Novelty items	31,951,210	23,494,371
Total inventories at lower of cost and net realizable value	₱2,602,866,670	₱2,860,103,279

The cost of novelty items carried at net realizable value amounted to ₱54.7 million and ₱46.2 million as of March 31, 2012 and December 31, 2011, respectively.

The allowance for inventory obsolescence amounted to ₱22.7 million as of March 31, 2012 and December 31, 2011.

9. Other Current Assets

This account consists of:

	March 2012 (Unaudited)	December 2011 (Audited)
Deposits to suppliers and others	₱725,798,450	₱653,903,361
Prepaid expenses:		
Rent	411,092,618	364,942,365
Insurance and other prepayments	213,359,843	170,509,345
Taxes	128,744,010	112,741,258
Supplies	54,822,880	52,818,366
	₱1,533,817,801	₱1,354,914,695

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

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

10. Available-for-Sale Financial Assets

This account consists of quoted investment in club shares and shares of public utility companies amounting to ₱128.1 million and ₱120.6 million as of March 31, 2012 and December 31, 2011, respectively.

The movements on the carrying value of AFS financial assets are as follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱120,649,438	₱176,283,046
Additions	7,500,000	–
Write-offs	–	(229,360)
Reclassification	–	(50,866,500)
Fair value changes	–	(4,537,748)
Balance at end of period	₱128,149,438	₱120,649,438

As of March 31, 2012 and December 31, 2011, the unrealized gain on AFS financial assets amounted to ₱102.6 million.

Reclassification out of the AFS category includes the previously held equity interest in Chow Fun Holdings which was increased to 80.55% in 2011 (see Note 11).

11. Business Combinations, Acquisition of Non-controlling Interests, Incorporation of New Subsidiaries and Interests in and Advances to Joint Ventures

Acquisition in 2012

Business Combination through Acquisition of Equity Shares

San Pin Wang. On March 9, 2012, the Jollibee Group, through JWPL, acquired 55% of the issued and outstanding shares of Guangxi San Pin Wang Food and Beverage Management Company Limited, which operates the San Pin Wang beef noodle business in South China, from Guangxi Zong Kai Food Beverage Investment Company Limited (GZK, the seller), for a total acquisition cost of RMB30 million (₱195.9 million). The Jollibee Group paid RMB20 million (₱135.1 million) as of March 31, 2012. The present value of the remaining RMB10 million (₱60.8 million) is payable on or before March 2013.

This acquisition is pursuant to the framework agreement which was signed on April 30, 2010 and the share purchase agreement signed on October 26, 2010. As joint venture partners, JWPL and GZK will also place additional investments totaling RMB20 million into this fast food chain in anticipation of its expansion.

The fair values (provisionally determined to be equal to the book values at the date of acquisition, except as otherwise indicated) of the identifiable assets acquired and liabilities assumed from GZK as at the date of acquisition were as follows:

Cash and cash equivalents	₱7,525,090
Receivables	2,894,103
Inventories	13,041,495
Other current assets	31,336,869
Property, plant and equipment	71,613,166
Intangible assets	3,073,784
Other noncurrent assets	10,817,615
<u>Total identifiable assets acquired</u>	<u>140,302,122</u>
Less:	
Trade payables and other current liabilities	93,867,653
<u>Net identifiable assets acquired</u>	<u>₱46,434,469</u>

Goodwill acquired in the business combination was determined as follows:

Fair value of consideration	
Cash	₱135,110,309
Liability	60,826,786
<u>Total</u>	<u>195,937,095</u>
Non-controlling interests' share in the net assets acquired	20,895,511
<u>Aggregate amount</u>	<u>216,832,606</u>
Less acquisition - date fair value of net assets acquired	46,434,469
<u>Goodwill</u>	<u>₱170,398,137</u>

Goodwill comprises the value of expected synergy arising from the business combination.

The net cash outflow on the acquisition is as follows:

Cash paid on acquisition	₱135,110,309
<u>Less cash acquired from subsidiary</u>	<u>7,525,090</u>
	<u>₱127,585,219</u>

Acquisitions in 2011

Business Combination through Acquisition of Equity Shares

Burger King. On September 30, 2011, the Jollibee Group, through its Parent Company, acquired a majority ownership of the firm that operates Burger King in the Philippines. The Parent Company invested ₱65.5 million to purchase 54% equity interest in BKTitans, Inc., owner of PERF Restaurants, Inc. (or collectively the BK Group), the sole franchisee of the Burger King Brand in the Philippines.

The Jollibee Group's primary reason for the business combination is to gain presence in the premium price segment of the hamburger category in the fast food market.

Business Combination through Purchase of Assets

Chowking US operations. On May 27, 2011, the Jollibee Group, through its wholly-owned subsidiary, TTC, entered into an Asset Purchase Agreement with Fortune Capital Corporation, owner and operator of all Chowking stores in the US as the master licensee therein, to purchase the latter's property and equipment, inventories and security deposits of its twenty (20) existing stores. The purchase consideration amounted to ₱693.3 million. The Jollibee Group paid ₱520.0 million of the total consideration as of December 31, 2011. The balance shall be paid over the next five (5) years.

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

Business Combination Achieved in Stages

Jinja Bar and Bistro. On March 31, 2011, the Jollibee Group, through its wholly-owned subsidiary, JWPL, acquired from Aspen Partners, LLC 2,400 shares of Chow Fun Holdings, LLC (Chow Fun) for US\$3.2 million (₱139.6 million), bringing up its equity share in Chow Fun to 80.55%. The Jollibee Group (through JWPL) previously held 13.89% equity share in Chow Fun. Chow Fun is the developer and owner of Jinja Bar and Bistro in New Mexico, USA.

The carrying amount of the previously held equity interest in Chow Fun was presented as part of AFS financial assets in 2010 (see Note 10). Prior to the business combination, the previously held equity interest was remeasured at the acquisition-date fair value resulting to a loss amounting to ₱12.8 million which was recognized in the statements of comprehensive income under "General and administrative expenses" account in 2011.

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 fair values (provisionally determined to be equal to the book values at the date of acquisitions, except as otherwise indicated) of the identifiable assets acquired and liabilities assumed from BK Group, Chowking US Operations, and Chow Fun as at the dates of acquisitions were as follows:

	BK Group	Chowking US Operations	Chow Fun
Cash and cash equivalents	₱17,071,231	₱-	₱4,870,336
Receivables	5,951,921	-	331,325
Inventories	13,302,567	14,515,550	3,883,969
Other current assets	3,245,199	-	3,073,027
Property, plant and equipment*	222,303,494	239,142,040	105,912,607
Deferred tax assets	3,323,559	-	-
Other noncurrent assets	50,269,948	6,322,410	-
Total identifiable assets acquired	315,467,919	259,980,000	118,071,264
Less:			
Trade payables and other current liabilities	168,691,196	-	23,760,278
Long-term liabilities	-	-	77,128,142
Income tax payable	1,102,058	-	-
Deferred tax liabilities	30,976,291	-	-
Pension liability (Note 25)	3,199,600	-	-
Total identifiable liabilities assumed	203,969,145	-	100,888,420
Net identifiable assets acquired	₱111,498,774	₱259,980,000	₱17,182,844

* The carrying amount of BK Group's property, plant and equipment amounted to ₱119,049,189 at the date of acquisition.

Goodwill acquired in the business combinations were determined as follows:

	BK Group (54.00%)	Chowking US Operations (100.00%)	Chow Fun (80.56%)
Fair value of consideration			
Cash	₱–	₱519,960,000	₱139,644,000
Advances	65,454,545	–	–
Liability	–	173,320,000	–
Total	65,454,545	693,280,000	139,644,000
Non-controlling interests' share in the net assets acquired	51,289,436	–	3,340,345
Previously held equity interests (13.89%)	–	–	29,092,500
Aggregate amount	116,743,981	693,280,000	172,076,845
Less acquisition - date fair value of net assets acquired	111,498,774	259,980,000	17,182,844
Goodwill	₱5,245,207	₱433,300,000	₱154,894,001

Advances were made to BK Group prior to its acquisition in 2011.

Goodwill comprises the value of expected synergies arising from the business combinations.

The net cash outflows on the acquisitions are as follows:

	BK Group	Chowking US Operations	Chow Fun
Cash paid on acquisition	₱–	₱519,960,000	₱139,644,000
Less cash acquired from subsidiary	17,071,231	–	4,870,336
	(₱17,071,231)	₱519,960,000	₱134,773,664

BK Group, Chowking US Operations and Chow Fun contributed ₱719.4 million and ₱23.6 million from the date of acquisition to December 31, 2011 to the consolidated revenue and net income for the period, respectively. If the business combinations had taken place at the beginning of 2011, consolidated revenue and net income for the year would have been ₱63,170.9 million and ₱3,262.1 million, respectively.

Prior to 2011 acquisitions

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 restaurant business in the Philippines, for a total acquisition cost of ₱2,976.2 million. The Jollibee Group paid ₱2,700.0 million as of December 31, 2010. The present value of the remaining 10% of the purchase price amounting to ₱276.2 million is payable over a 3-year period until 2013. Such amount was withheld as assurance for indemnification against the seller's representations and warranties. The first half of the remaining liability was paid in 2011.

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.

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, the Jollibee Group, through JWPL, acquired 100% of the issued and outstanding shares of Hong Zhuang Yuan and Southsea, which operates the Hong Zhuang Yuan restaurant chain in PRC. Total consideration paid amounted to ₱2,648.1 million resulting to total goodwill amounting to ₱2,497.3 million (see Note 14).

Hangzhou Yonghe. On August 12, 2008, the Jollibee Group through its wholly-owned subsidiary, Shanghai Yong He King Food & Beverage Co., Ltd. (Shanghai Yong He), 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 was transferred to and accepted by Shanghai Yong He upon the 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.

The lease contracts and store equipment of the eight (8) stores have been transferred to Shanghai Yong He in 2009. 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.

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

The restated fair values of the identifiable assets acquired and liabilities assumed from Mang Inasal, Hong Zhuang Yuan and Hangzhou Yonghe as at the dates of acquisitions were as follows:

	Mang Inasal	Hong Zhuang Yuan	Hangzhou Yonghe
Cash and cash equivalents	₱132,213,023	₱182,049,407	₱–
Receivables	113,733,554	483,296	–
Inventories	126,423,715	3,103,119	–
Other current assets	557,888	57,747,358	–
Property, plant and equipment*	263,083,640	185,401,252	–
Trademark	2,004,255,942	–	–
Leasehold rights	–	–	15,442,438
Other noncurrent assets	26,086,618	11,451,011	–
Total identifiable assets acquired	2,666,354,380	440,235,443	15,442,438
Less:			
Trade payables and other current liabilities	271,381,354	285,604,384	–
Income tax payable	59,145,715	–	–
Deferred tax liabilities	628,717,866	3,755,095	4,632,732
Total identifiable liabilities assumed	959,244,935	289,359,479	4,632,732
Net identifiable assets acquired	₱1,707,109,445	₱150,875,964	₱10,809,706

*The carrying amount of Mang Inasal and Hong Zhuang Yuan's property, plant and equipment amounted to ₱171.6 million and ₱172.9 million, respectively at the dates of acquisitions.

As discussed in Note 2, the valuation of the assets of Mang Inasal was completed in 2011 resulting to the recognition of a trademark and a corresponding reduction in the amount of goodwill provisionally recognized of ₱2,004.3 million and ₱1,033.1 million, respectively. There was also a corresponding reduction in the amount of goodwill by ₱1,033.1 million from ₱2,814.4 million to ₱1,781.3 million (see Note 14).

Goodwill acquired in the business combinations were determined as follows:

	Mang Inasal (70%)	Hong Zhuang Yuan (100%)	Hangzhou Yonghe (100%)
Fair value of consideration			
Cash	₱2,700,000,000	₱2,501,104,716	₱117,074,250
Liability	276,243,250	147,024,154	–
Total	2,976,243,250	2,648,128,870	117,074,250
Non-controlling interests' share in the net assets acquired	512,132,834	–	–
Aggregate amount	3,488,376,084	2,648,128,870	117,074,250
Less acquisition-date fair value of net assets acquired	1,707,109,445	150,875,964	10,809,706
Goodwill	₱1,781,266,639	₱2,497,252,906	₱106,264,544

The net cash outflow on the acquisition is as follows:

	2011	2010	2009
Cash paid			
Mang Inasal	₱146,459,707	₱2,700,000,000	₱–
Hong Zhuang Yuan	–	147,024,167	795,009,120
Hangzhou Yonghe	31,665,403	–	40,273,704
	178,125,110	2,847,024,167	835,282,824
Less cash acquired from subsidiary			
Mang Inasal	–	132,213,023	–
	₱178,125,110	₱2,714,811,144	₱835,282,824

The rollforward analysis of the liability for acquisition of business as of March 31, 2012 follows:

	San Pin Wang	Chowking US Operations	Mang Inasal	Hangzhou Yonghe	Hong Zhuang Yuan	Total
Balance at January 1, 2010	₱–	₱–	₱–	₱32,425,506	₱147,024,167	₱179,449,673
Additions	–	–	279,783,543	–	–	279,783,543
Payments	–	–	–	–	(147,024,167)	(147,024,167)
Translation adjustments	–	–	–	(760,103)	–	(760,103)
Balance at December 31, 2010	–	–	279,783,543	31,665,403	–	311,448,946
Accretion	–	–	11,953,746	–	–	11,953,746
Additions	–	173,320,000	–	–	–	173,320,000
Settlements	–	–	(146,459,707)	(31,665,403)	–	(178,125,110)
Acquisition price adjustment	–	–	(3,540,293)	–	–	(3,540,293)
Translation adjustments	–	2,040,000	–	–	–	2,040,000
Balance at December 31, 2011	–	175,360,000	141,737,289	–	–	317,097,289
Additions	60,826,786	–	–	–	–	60,826,786
Translation adjustments	–	(3,680,000)	–	–	–	(3,680,000)
Balance at March 31, 2012	₱60,826,786	₱171,680,000	₱141,737,289	₱–	₱–	₱374,244,075

Acquisition of Non-controlling Interest

Adgraphix. On January 1, 2010, the Jollibee Group, through Grandworth, a wholly-owned subsidiary of the Parent Company, 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 consolidated statements of financial position.

Establishment of New Subsidiaries

JFPPL. On July 27, 2010, the Jollibee Group, through JWPL, 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 started commercial operations in the last quarter of 2011.

IConnect. On August 26, 2009, Grandworth, a wholly-owned subsidiary of the Parent Company, incorporated 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, the Jollibee Group through JWPL, incorporated GPPL, a Singapore-based holding company, with initial capital of US\$0.8 million (₱41.3 million), owning 100% of its issued and outstanding shares.

Interests in Joint Ventures

SuperFoods Group. On January 20, 2012, the Jollibee Group, through JWPL, acquired ownership of 50% share in the business of the SuperFoods Group through formation of joint ventures. This consists of a 49% share in SF Vung Tau Joint Stock Company, organized in Vietnam, and a 60% share in Blue Sky Holding Limited in Hongkong. The formation of joint ventures is an implementation of the Framework Agreement made on May 20, 2011 between the Jollibee Group, through JWPL and its partner, Viet Thai International Joint Stock Company and Viet Thai International Company Limited (collectively, SuperFoods Group). The Framework Agreement provided for the Jollibee Group to contribute a total of ₱1,086.6 million to gain 50% effective ownership of the joint ventures.

Advances were made to SuperFoods Group prior to its acquisition in 2012 (see Note 15).

The details of the Jollibee Group's interest in and advances to the joint venture as of March 31, 2012 are as follows:

Interest in a joint venture - cost	₱1,086,562,975
Equity in net loss during the period	(23,131,186)
	1,063,431,789
Advances:	
Balance at beginning of period (Note 15)	2,903,505,390
Reclassification (Note 15)	(1,086,562,975)
Additions during the period	16,613,169
Translation adjustments	(47,368,251)
Balance at end of period	1,786,187,333
	₱2,849,619,122

The aggregate amounts as of March 31, 2012 related to the Jollibee Group's 50% interest in SuperFoods Group follow:

Current assets	₱531,622,777
Noncurrent assets	1,156,112,800
Total assets	₱1,687,735,577
Current liabilities	₱503,475,493
Noncurrent liabilities	250,125,733
Total liabilities	₱753,601,226
Income	₱306,615,666
Expenses	(352,878,037)
Net loss	(₱46,262,371)

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 a casual dining format. The joint venture entity, incorporated as Coffeetap Corporation, is 50%-owned by the Jollibee Group and 50%-owned by its partners, with an initial capitalization of ₱10.0 million.

On November 30, 2011, Coffeetap sold its assets to CaféFrance Corporation with cash proceeds of ₱20.8 million. The Company also terminated its franchise agreement with Caffe Ti-Amo Korea on the same date. The dissolution plans for Coffeetap has been formally approved by the BOD on February 28, 2012.

The details of the Jollibee Group’s interest in and advances to the joint venture as of March 31, 2012 and December 31, 2011 are as follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Interest in a joint venture - cost	₱5,000,000	₱5,000,000
Cumulative equity in net loss:		
Balance at beginning of period	(1,881,701)	(2,181,411)
Equity in net earnings during the period	-	299,710
Balance at end of period	(1,881,701)	(1,881,701)
Advances:		
Balance at beginning of period	70,216	18,803,882
Payments during the period	-	(18,733,666)
Advances during the period	12,953	-
Balance at end of period	83,169	70,216
	₱3,201,468	₱3,188,515

The aggregate amounts as of March 31, 2012 and December 31, 2011 related to the Jollibee Group’s 50% interest in Coffeetap follow:

	March 2012 (Unaudited)	December 2011 (Audited)
Total assets	₱11,682,639	₱11,682,639
Total liabilities	₱5,446,041	₱5,446,041
Income	₱-	₱21,559,757
Expenses	-	(20,960,337)
Net income	₱-	₱599,420

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. The cessation of operations of Manong Pepe Karinderia did not have a material impact on the Jollibee Group’s consolidated financial statements.

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 CaféFrance 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 QSR businesses.

12. Property, Plant and Equipment

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

	March 2012 (Unaudited)							
	Land and Land Improvements	Plant, Buildings, Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>								
Cost								
Balance at beginning of period	₱679,254	₱966,833	₱11,203,440	₱9,187,941	₱877,229	₱404,697	₱672,799	₱23,992,193
Additions	-	736	316,409	232,419	24,393	5,062	256,193	835,212
Arising from business combination (Note 11)	-	2,906	39,122	41,801	5,832	1,742	2,275	93,678
Retirements and disposals	-	-	(512,005)	(62,053)	(7,091)	(10,845)	(6,535)	(598,529)
Reclassifications	-	56,773	18,622	50,126	(16,697)	13,653	(122,477)	0
Translation adjustments	(1,216)	(2,065)	(80,903)	(31,621)	(3,693)	(1,185)	(4,424)	(125,107)
Balance at end of period	678,038	1,025,183	10,984,685	9,418,613	879,973	413,124	797,831	24,197,447
Accumulated Depreciation and Amortization								
Balance at beginning of period	7,220	699,836	5,566,671	6,330,640	583,019	247,405	-	13,434,791
Depreciation and amortization (Notes 21 and 22)	38	9,385	320,921	277,031	31,847	11,152	-	650,374
Arising from business combination (Note 11)	-	277	6,960	12,684	1,510	634	-	22,065
Retirements and disposals	-	-	(463,445)	(44,326)	(6,254)	(7,179)	-	(521,204)
Reclassifications	-	27,325	(27,325)	-	-	-	-	0
Translation adjustments	-	(1,537)	(33,336)	(18,938)	(1,426)	(832)	-	(56,069)
Balance at end of period	7,258	735,286	5,370,446	6,557,091	608,696	251,180	-	13,529,957
Net Book Value	₱670,780	₱289,897	₱5,614,239	₱2,861,522	₱271,277	₱161,944	₱797,831	₱10,667,490

	December 2011 (Audited)							
	Land and Land Improvements	Plant, Buildings, Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>								
Cost								
Balance at beginning of year	₱657,165	₱996,048	₱9,126,262	₱8,604,349	₱611,650	₱364,786	₱205,466	₱20,565,726
Additions	-	3,675	1,520,970	1,078,019	171,422	75,017	851,346	3,700,449
Arising from business combination (Note 11)	21,826	-	571,204	312,014	158,214	6,018	7,234	1,076,510
Retirements and disposals	(278)	(36,698)	(433,903)	(873,487)	(69,066)	(42,364)	(7,185)	(1,462,981)
Reclassifications (Note 13)	541	2,359	337,400	44,583	6,017	(18)	(386,678)	4,204
Translation adjustments	-	1,449	81,507	22,463	(1,008)	1,258	2,616	108,285
Balance at end of year	679,254	966,833	11,203,440	9,187,941	877,229	404,697	672,799	23,992,193
Accumulated Depreciation and Amortization								
Balance at beginning of year	6,674	680,629	4,568,886	5,843,478	456,008	239,532	-	11,795,207
Depreciation and amortization	820	42,698	1,162,513	1,032,343	106,122	42,821	-	2,387,317
Arising from business combination (Note 11)	-	-	92,995	244,748	74,495	5,443	-	417,681
Retirements and disposals	(274)	(23,627)	(295,297)	(801,120)	(53,213)	(41,178)	-	(1,214,709)
Translation adjustments	-	136	37,574	11,191	(393)	787	-	49,295
Balance at end of year	7,220	699,836	5,566,671	6,330,640	583,019	247,405	-	13,434,791
Net Book Value	₱672,034	₱266,997	₱5,636,769	₱2,857,301	₱294,210	₱157,292	₱672,799	₱10,557,402

The cost of fully depreciated property, plant and equipment still in use amounted to ₱5,678.4 million and ₱5,809.3 million as of March 31, 2012 and December 31, 2011, respectively.

Loss on disposals and retirements of property, plant and equipment amounted to ₱51.8 million and ₱46.2 million for the three months ended March 31, 2012 and 2011, respectively.

Construction in progress account mainly pertains to costs incurred for ongoing construction of a plant, properties and soon-to-open stores.

13. Investment Properties

The rollforward analysis of this account follows:

	March 2012 (Unaudited)		
	Land	Buildings and Building Improvements	Total
	<i>(In Thousands)</i>		
Cost			
Balance at beginning of period	₱692,858	₱333,654	₱1,026,512
Translation adjustments	–	(2,392)	(2,392)
Balance at end of period	692,858	331,262	1,024,120
Accumulated Depreciation and Amortization			
Balance at beginning of period	–	228,773	228,773
Depreciation (Notes 21 and 22)	–	1,824	1,824
Translation adjustments	–	(297)	(297)
Balance at end of period	–	230,300	230,300
Accumulated Impairment Losses			
Balance at beginning of period	25,270	–	25,270
Provisions (Note 22)	21,177	–	21,177
Balance at end of period	46,447	–	46,447
Net Book Value	₱646,411	₱100,962	₱747,373
	December 2011 (Audited)		
	Land	Buildings and Building Improvements	Total
	<i>(In Thousands)</i>		
Cost			
Balance at beginning of year	₱684,853	₱331,959	₱1,016,812
Additions	8,005	6	8,011
Translation adjustments	–	5,893	5,893
Reclassifications (Note 12)	–	(4,204)	(4,204)
Balance at end of year	692,858	333,654	1,026,512
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	213,822	213,822
Depreciation	–	14,277	14,277
Translation adjustments	–	674	674
Balance at end of year	–	228,773	228,773
Accumulated Impairment Losses			
Balance at beginning and end of year	25,270	–	25,270
Net Book Value	₱667,588	₱104,881	₱772,469

The accumulated impairment loss provided in the value of land amounting to ₱46.4 million and ₱25.3 million as of March 31, 2012 and December 31, 2011, respectively, 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 ₱202.0 million as of March 31, 2012 and December 31, 2011.

The Jollibee Group's investment properties have aggregate fair values ₱1,334.2 million as determined by independent appraisers in 2011.

In determining the fair value of the investment properties, the independent appraisers used the market data approach which considered the local market conditions, the extent, character and utility of the property, sales and holding prices of similar parcels of land and the highest and best use of the investment properties. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

Rent income derived from income-generating properties amounted to ₱7.6 million and ₱7.8 million for the three months ended March 31, 2012 and 2011, 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" account in the statements of comprehensive income amounted to ₱3.7 million and ₱4.6 million for the three months ended March 31, 2012 and 2011, respectively.

14. Goodwill and Other Intangible Assets

This account consists of goodwill and trademark acquired through business combinations related to the following food restaurant concepts:

	March 2012 (Unaudited)	December 2011 (Audited)
Goodwill:		
Hong Zhuang Yuan	₱2,497,252,906	₱2,497,252,906
Mang Inasal	1,781,266,639	1,781,266,639
Red Ribbon Bakeshop:		
Philippine operations	737,939,101	737,939,101
US operations	434,651,055	434,651,055
Yong He King:		
Yong He King	429,016,109	429,016,109
Hangzhou Yonghe	106,264,544	106,264,544
Chowking US operations	433,300,000	433,300,000
San Pin Wang	170,398,136	-
Jinja Bar & Bistro	154,894,001	154,894,001
Burger King Philippines	5,245,207	5,245,207
Total goodwill	6,750,227,698	6,579,829,562
Trademark - Mang Inasal	2,004,255,942	2,004,255,942
Goodwill and other intangible assets	₱8,754,483,640	₱8,584,085,504

The valuation of trademark of Mang Inasal was completed in 2011. As a result, there was a corresponding reduction in the amount of goodwill by ₱1,033.1 million from ₱2,814.4 million to ₱1,781.3 million (see Notes 2 and 11).

The rollforward analysis of this account follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱6,579,829,562	₱5,986,390,354
Additions	170,398,136	593,439,208
Balance at end of period	₱6,750,227,698	₱6,579,829,562

Impairment Testing of Goodwill

Goodwill acquired through business combinations have been allocated to eight CGUs, which are subsidiaries of the Parent Company, owned directly or indirectly. 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
Hong Zhuang Yuan	PRC	11.91%	8.5%
Mang Inasal	Philippines	14.54%	4.0%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	13.79%	0.0%
US operations	USA	13.75%	0.0%
Yong He King	PRC	11.91%	8.5%
Chowking US operations	USA	11.91%	0.0%

Key assumptions with respect to the calculation of value in use of the CGUs as of December 31, 2011 and 2010 on which management had based its cash flow projection to undertake impairment testing of goodwill are as follows:

- a) Discount rates – discount rates represent the current market assessment of the risks specific to each 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.
- b) 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.
- c) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margin - is based on the most recent value achieved in the year preceding the start of the budget period, and adjusted for planned efficiency improvement, if any.

No impairment loss was recognized for the three months ended March 31, 2012 and 2011.

15. Other Noncurrent Assets

This account consists of:

	March 2012 (Unaudited)	December 2011 (Audited)
Security and other deposits (Notes 30 and 31)	₱1,094,045,227	₱1,069,719,992
Noncurrent portion of:		
Rent and other long-term prepayments	210,618,707	219,830,829
Employee car plan receivables (Notes 30 and 31)	92,835,860	92,835,860
Deferred rent expense	63,566,673	63,566,673
Deferred compensation	15,598,069	15,598,069
Advances to SuperFoods Group	–	2,903,505,390
Other assets	142,650,141	251,975,279
	₱1,619,314,677	₱4,617,032,092

Advances to SuperFoods Group

On May 20, 2011, the Parent Company, through JWPL, signed a Framework Agreement with SuperFoods Group to establish jointly-controlled entities that will own and operate a portfolio of restaurants in various territories including Vietnam, Hongkong, Macau and Southern China. SuperFoods Group owns and operates various brands including Highlands Coffee Shops and Hard Rock Café franchised-stores in Macau, Hong Kong and Vietnam and Pho 24 brand.

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

Loan to future co-venturer

Loan to the owners of the SuperFoods Group amounting to \$35.0 million (₱1,502.2 million), extended on June 30, 2011, is payable in June 2016. The loan bears interest of 5% per annum payable in lump sum also in June 2016. The loan is agreed to be used for general corporate purposes. Total interest from this loan amounted to ₱60.7 million as of March 31, 2012.

Deposits for formation of joint ventures

As of December 31, 2011, the formation of the joint ventures in Vietnam and Hong Kong are in process pending fulfillment of certain legal and regulatory requirements. JSF advanced a total amount of \$25.0 million (₱1,086.6 million) to gain 50% effective ownership of the joint ventures. Before the formation of the joint ventures, the deposits were treated as advances.

Loan to Blue Sky

On June 10, 2011, a loan was extended to Blue Sky, the Hong Kong-based entity, amounting to \$5.0 million (₱214.6 million) payable in June 2013. The loan bears interest of 5% per annum payable also in June 2013. Total interest from this loan amounted to ₱8.7 million as of March 31, 2012.

The advances to SuperFoods Group were reclassified to Interest in and Advances to Joint Ventures after the formation of the joint ventures in January 2012 (see Note 11).

Security and Other Deposits

Security and other deposits represent deposits for operating leases entered into by the Jollibee Group as lessee, including returnable containers and other deposits. The security 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 2% to 22% in 2011. The difference between the fair value at initial recognition and the notional amount of the security deposits is charged to “Deferred rent expense” account and amortized on straight-line basis over the lease terms.

Accretion of interest on financial assets amounted to ₱3.2 million and ₱2.8 million for the three months ended March 31, 2012 and 2011, respectively (see Note 23).

16. Trade Payables and Other Current Liabilities

This account consists of:

	March 2012	December 2011
	(Unaudited)	(Audited)
Trade	₱4,200,421,712	₱4,727,839,645
Accruals for:		
Local and other taxes	966,940,181	1,218,775,444
Salaries, wages and employee benefits	908,714,680	994,079,595
Advertising and promotions	608,463,515	583,427,974
Rent	372,049,400	375,760,995
Utilities	207,846,444	205,784,551
Freight	106,205,724	112,605,492
Store operations, corporate events and others	1,350,927,169	1,336,924,567
Deposits	285,617,021	300,922,559
Unearned revenue from gift certificates	75,359,816	95,225,956
Dividends payable	3,806,571	6,563,034
Other current liabilities	257,166,601	207,685,057
	₱9,343,518,834	₱10,165,594,869

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 as the gift certificates are redeemed.

17. Provisions

The Jollibee Group has outstanding provisions amounting to ₱30.5 million as of March 31, 2012 and December 31, 2011, consisting of provisions for legal claims and restructuring costs.

Provisions for legal claims which amounted to ₱29.3 million include estimates of legal services, settlement amounts and other costs of claims made against the Jollibee Group. Other information on the claims are not disclosed as this may prejudice the Jollibee Group’s position on such claims. The Jollibee Group’s management, after consultation with its legal counsel, believes that the provisions are sufficient to meet the costs related to the claims.

The provision for restructuring costs amounting to ₱1.2 million relates to the Jollibee Group'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 loan of the Parent Company. This loan is availed with maturity of one year with interest rate of 2.63% in 2011.

Short-term debt amounted to ₱900.0 million as of March 31, 2012 and December 31, 2011. Interest expense recognized on short-term debt amounted to ₱7.5 million and ₱20.0 million for the three months ended March 31, 2012 and 2011, respectively (see Note 23).

Long-term Debt

The details of the Jollibee Group's long-term debt as of March 31, 2012 and December 31, 2011 are as follows:

	March 2012 (Unaudited)	December 2011 (Audited)
<u>USD-denominated:</u>		
Loan 1	₱1,716,800,000	₱1,747,538,268
Loan 2	1,277,459,964	1,310,653,702
Loan 3	300,440,000	-
Loan 4	557,960,000	-
Loan 5	15,162,551	19,973,021
<u>PHP-denominated:</u>		
Loan 6	1,492,650,649	1,492,650,649
Loan 7	149,228,380	149,228,380
	5,509,701,544	4,720,044,020
<u>Less current portion</u>	766,262,551	777,301,991
	₱4,743,438,993	₱3,942,742,029

USD-denominated loans of JWPL. Loan 1 consists of a 3-year unsecured loan acquired from a local bank on April 29, 2011 amounting to US\$40.0 million (₱1,712.0 million) with a fixed interest rate of 2.53%. The principal is payable in 4 semi-annual installments commencing on October 29, 2012 up to April 28, 2014, the date of maturity.

Loan 2 consists of a 3-year unsecured loan acquired from a foreign bank on May 9, 2011 amounting to US\$30.0 million (₱1,287.9 million) with a fixed interest rate of 2.72%. The principal is payable in 4 semi-annual installments commencing on November 9, 2012 up to May 8, 2014, the date of maturity.

Loan 3 consist of a 2-year unsecured loan acquired from a local bank on March 1, 2012 amounting to US\$7.0 million (₱300.4 million) with a fixed interest rate of 1.23%. The principal is payable on February 28, 2014, the date of maturity.

Loan 4 consist of a 2-year unsecured loan acquired from a local bank on March 9, 2012 amounting to US\$13.0 million (₱558.0 million) with a fixed interest rate of 1.22%. The principal is payable on March 7, 2014, the date of maturity.

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2011 and 2010, the Jollibee Group is in compliance with the terms of its loan covenants.

USD-denominated loan of RRBI USA. Loan 5 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.

PHP-denominated loan of the Parent Company. Loan 6 resulted from the combination of extended short-term debts as of December 16, 2011 consisting of the remaining ₱700.0 million of the ₱1,000.0 million loan together with the ₱800.0 million loan to form a single long-term loan due on December 16, 2013. The fixed interest rate on the loan is 3.9% payable on a quarterly basis.

PHP-denominated loan of PERF Restaurants, Inc. Loan 7 was originally a five-year USD-denominated loan availed on December 20, 2011 by PERF Restaurants, Inc. On the same day, the loan of US\$3.4 million was converted to ₱149.2 million bearing fixed interest rate of 5.32% per annum.

Long-term debt consists of the following:

	March 2012 (Unaudited)	December 2011 (Audited)
Principal	₱5,526,524,469	₱4,738,001,401
Unamortized debt issue cost	(16,822,925)	(17,957,381)
	₱5,509,701,544	₱4,720,044,020

The movements in unamortized debt issue cost are as follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱17,957,381	₱7,085,160
Additions	-	18,108,030
Amortization	(1,134,456)	(7,235,809)
Balance at end of period	₱16,822,925	₱17,957,381

The repayment schedule of the outstanding long-term debt as of March 31, 2012 is as follows:

	2012	2013	2014	2016	Total
USD-denominated:					
Loan 1	₱430,552,555	₱861,105,110	₱430,552,555	₱-	₱1,722,210,220
Loan 2	320,380,829	640,761,660	320,380,829	-	1,281,523,318
Loan 3	-		300,440,000	-	300,440,000
Loan 4	-		557,960,000	-	557,960,000
Loan 5	15,162,551	-	-	-	15,162,551
PHP-denominated:					
Loan 6	-	1,500,000,000	-	-	1,500,000,000
Loan 7	-	-	-	149,228,380	149,228,380
	₱766,095,935	₱3,001,866,770	₱1,609,333,384	₱149,228,380	₱5,526,524,469

Interest expense recognized on long-term debt amounted to ₱38.4 million and ₱44.3 million for the three months ended March 31, 2012 and 2011, respectively (see Note 23).

19. Equity

a. Capital Stock

The movements in the number of shares follow:

	March 2012 (Unaudited)	December 2011 (Audited)
Authorized - ₱1 par value	1,450,000,000	1,450,000,000
Issued:		
Balance at beginning of period	1,052,943,936	1,051,429,521
Issuances	2,352,692	1,514,415
Balance at end of period	1,055,296,628	1,052,943,936
Subscribed:		
Balance at beginning of period	2,009,297	2,009,297
Subscriptions	2,352,692	1,514,415
Issuances	(2,352,692)	(1,514,415)
Balance at end of period	2,009,297	2,009,297
	1,057,305,925	1,054,953,233

On February 15, 1993, the SEC approved the increase of the Company's authorized capital stock from 6.6 million shares, with a par value of ₱10 per share, to 750.0 million shares, with a par value of ₱1 per share, for the Company's initial public offering (IPO). The offer price of the shares for such IPO ranged from ₱7.50 to ₱10.50 per share.

The total number of shareholders is 3,395 and 3,437 as of March 31, 2012 and December 31, 2011, respectively.

b. Treasury Shares

The cost of common stock held in treasury of ₱180.5 million consists of 16,447,340 shares as of March 31, 2012 and December 31, 2011.

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 as of March 31, 2012 and December 31, 2011, recognized as part of "Equity Attributable to Equity Holders of the Parent Company" section in the consolidated statements of financial position resulted from the following acquisitions of non-controlling interests:

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

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 percentage of the EPS are 34.1%, 72.2%, and 32.6% in 2011, 2010 and 2009, respectively.

The retained earnings of the Parent Company is restricted to the extent of ₱5,180.5 million as of March 31, 2012, representing appropriation for future expansion and cost of common stock held in treasury amounting to ₱5,000.0 million and ₱180.5 million, respectively.

Consolidated retained earnings include undeclared retained earnings of subsidiaries amounting to ₱773.7 million and ₱593.2 million as of March 31, 2012 and December 31, 2011, respectively. The Parent Company's retained earnings available for dividend declaration, computed based on the guidelines provided in SEC Memorandum Circular No. 11, amounted to ₱14,465.4 million and ₱14,076.4 million as of March 31, 2012 and December 31, 2011, respectively.

The Parent Company's cash dividend declarations for 2011 and 2010 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
<u>2011</u>				
April 13, 2011	May 5, 2011	May 31, 2011	₱0.50	₱513,586,071
November 4, 2011	November 22, 2011	December 16, 2011	0.57	586,430,790
			₱1.07	₱1,100,016,861
<u>2010</u>				
April 12, 2010	May 7, 2010	June 3, 2010	₱1.43	₱1,461,036,350
November 10, 2010	November 25, 2010	December 21, 2010	0.82	841,916,455
			₱2.25	₱2,302,952,805

An important part of the Jollibee Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were acquisitions of 85% of Yonghe King in 2004 in PRC (₱1,200.0 million), 100% of Red Ribbon in 2005 (₱1,700.0 million), the remaining 20% minority share in Greenwich in 2007 (₱384.0 million), the remaining 15% share of Yonghe King in 2007 (₱413.7 million), 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million) and 70% of Mang Inasal in 2010 (₱2,979.8 million).

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

20. Royalty, Franchise Fees and Others

This account consists of:

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Royalty fees	₱717,994,683	₱651,840,791
Rent income (Note 29)	23,430,807	21,926,546
Service fees	15,674,016	13,555,668
Franchise fees	9,255,357	32,799,748
Other revenues	62,695,090	50,124,383
	₱829,049,953	₱770,247,136

21. Cost of Sales

This account consists of:

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Cost of inventories	₱7,975,754,867	₱6,616,009,839
Personnel costs:		
Salaries, wages and employee benefits	1,812,471,976	1,547,832,216
Pension expense	18,596,049	18,089,266
Rent (Note 29)	1,330,545,142	1,063,960,524
Electricity and other utilities	741,924,949	610,046,820
Depreciation and amortization (Notes 12 and 13)	595,602,364	490,928,048
Supplies	400,138,588	343,508,366
Contracted services	273,918,260	220,198,811
Repairs and maintenance	147,046,218	128,558,044
Security and janitorial	70,103,987	72,924,160
Communication	27,875,347	25,434,443
Professional fees	27,385,710	20,880,768
Entertainment, amusement and recreation (EAR)	6,858,235	5,462,007
Others	380,765,285	312,957,280
	₱13,808,986,977	₱11,476,790,592

22. General and Administrative Expenses

This account consists of:

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Personnel costs:		
Salaries, wages and employee benefits	₱747,870,969	₱676,466,006
Pension expense	15,022,385	15,240,076
Stock options expense (Note 26)	20,501,714	16,296,377
Taxes and licenses	186,266,059	170,797,238
Rent (Note 29)	107,490,227	54,957,652
Professional fees	68,573,677	61,803,743
Transportation and travel	62,608,524	63,929,174
Depreciation and amortization (Notes 12 and 13)	56,595,079	55,025,693
EAR	22,225,872	26,053,128
Impairment in value of investment properties (Note 13)	21,177,361	-
Donations	20,000,000	-
Communication	18,407,531	15,566,347
Supplies	15,686,057	15,583,500
Training	15,485,212	11,057,452
Electricity and other utilities	13,687,089	13,486,951
Contracted services	11,463,726	8,361,835
Repairs and maintenance	5,354,536	22,379,913
Security and janitorial	5,128,037	6,960,530
Insurance	2,455,910	5,741,609
Corporate events and others	106,751,588	111,027,431
	₱1,522,751,553	₱1,350,734,655

23. Interest Income (Expense) and Other Income

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Interest income:		
Cash and cash equivalents:		
Cash in banks	₱4,588,093	₱2,678,343
Short-term deposits	26,864,723	18,307,960
Accretion of interest on financial assets (Note 15)	3,199,901	2,840,993
Loan and advances	18,619,005	-
	₱53,271,722	₱23,827,296

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Interest expense:		
Long-term debt (Note 18)	(P38,408,711)	(P44,276,880)
Short-term debt (Note 18)	(7,463,160)	(19,975,624)
Accretion of interest on financial liabilities	(773,910)	(1,216,311)
	(P46,645,781)	(P65,468,815)
Other income:		
Pre-termination of operating leases	P17,499,136	P1,024,654
Charges to franchisees	4,452,589	3,185,455
Rebates and suppliers' incentives	4,445,897	18,229,218
Write-off of other liabilities	2,896,664	7,677,327
Foreign exchange gain (loss)	(2,574,306)	629,294
Penalties and charges	2,228,148	3,605,090
Other rentals	1,948,585	1,549,786
Insurance claims	241,595	751,890
Gain on asset sale	-	7,584,630
Miscellaneous income	3,856,971	2,188,266
	P34,995,279	P46,425,610

24. Income Taxes

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

	March 2012	March 2011
	(Unaudited)	(Unaudited)
Final tax withheld on:		
Royalty and franchise fee income	P163,469,449	P131,861,532
Interest income	5,596,384	3,569,947
RCIT:		
With itemized deduction	70,164,646	60,821,888
With optional standard deduction	32,088,060	28,131,717
MCIT	9,915,681	6,210,874
	P281,234,220	P230,595,958

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 periods ended March 31, 2012 and December 31, 2011, Zenith, Grandworth and RRBHI, wholly-owned subsidiaries, elected to use OSD in computing for its taxable income. In 2010, only ZFC elected to use OSD. The total tax benefit from the availment of OSD amounted to ₱43.8 million and ₱35.7 million in 2011 and 2010, respectively.

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

	March 2012 (Unaudited)	December 2011 (Audited)
Deferred tax assets:		
Operating lease payables	₱372,784,822	₱375,501,157
NOLCO:		
PRC-based entities	238,991,600	178,380,252
Philippine-based entities	65,316,061	88,474,713
Pension liability and other benefits	102,087,175	93,269,607
Excess of MCIT over RCIT	77,125,874	67,210,194
Unamortized past service costs	56,558,901	58,718,821
Allowance for impairment loss on receivables	40,497,598	40,497,598
Unaccrued discount on security deposits and employee car plan receivables	24,965,998	25,835,415
Accumulated impairment loss in value of property, plant and equipment, investment properties, and other nonfinancial assets	13,976,165	14,883,112
Provisions for legal claims and restructuring costs	9,150,192	9,150,192
Allowance for inventory obsolescence	6,817,002	6,819,589
Unrealized foreign exchange loss	1,622,366	1,622,647
Others	7,693,486	7,251,187
	1,017,587,240	967,614,484
Deferred tax liabilities:		
Excess of fair value over book value of property, plant and equipment and other intangible assets of acquired businesses	722,649,188	727,268,779
Deferred rent expense	18,538,895	18,689,914
Prepaid rent	17,026,475	16,683,538
Operating lease receivables	3,857,674	4,210,150
Unrealized foreign exchange gain	252,068	252,068
Others	8,244,104	8,778,700
	770,568,404	775,883,149
Deferred tax assets - net	₱247,018,836	₱191,731,335

The rollforward analysis of the account follows:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱191,731,335	₱151,758,133
Provisions	60,213,180	83,696,480
Arising from business combination	-	(55,093,816)
Translation adjustments	(4,925,679)	11,370,538
	₱247,018,836	₱191,731,335

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

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

	March 2012 (Unaudited)	December 2011 (Audited)
Deferred tax assets:		
Operating lease payables	₱16,284,938	₱12,798,357
Allowance for impairment losses on:		
Receivables	3,963,705	3,963,705
Investment properties	3,980,982	3,980,982
Other noncurrent assets	1,641,000	1,641,000
Pension liability	1,879,014	1,696,689
Unamortized past service costs	761,833	790,318
Unaccreted discount on financial instruments	239,476	250,180
Unrealized foreign exchange loss	4,056	4,056
Others	185,968	185,968
	28,940,972	25,311,255
Deferred tax liabilities:		
Operating lease receivables	2,453,164	2,251,507
Deferred rent expense	380,088	380,088
Others	345,778	345,778
	3,179,030	2,977,373
	₱25,761,942	₱22,333,882

As of March 31, 2012, NOLCO and excess of MCIT over RCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carry Forward Benefit Up to	NOLCO	Excess of MCIT over RCIT
2012	December 31, 2015	₱-	₱9,915,680
2011	December 31, 2014	123,607,275	31,785,395
2010	December 31, 2013	144,421,913	26,782,117
2009	December 31, 2012	26,886,523	8,642,682
		294,915,711	77,125,874
Less applied in 2012		77,195,508	-
		₱217,720,203	₱77,125,874

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As of March 31, 2012, NOLCO of the PRC-based entities that can be claimed as deductions from taxable income are as follows:

Year Incurred	Carry Forward Benefit Up to	Tax Losses	Deferred Tax at 25%
2012	December 31, 2017	₱242,445,394	₱60,611,348
2011	December 31, 2016	293,103,064	73,275,766
2010	December 31, 2015	111,775,152	27,943,788
2009	December 31, 2014	136,958,228	34,239,557
2008	December 31, 2013	113,216,809	28,304,202
2007	December 31, 2012	58,467,755	14,616,939
		₱955,966,402	₱238,991,600

The following are the movements in NOLCO of the PRC-based entities:

	March 2012 (Unaudited)	December 2011 (Audited)
Balance at beginning of period	₱178,380,252	₱174,770,129
Additions	63,958,561	73,275,766
Increase in effective tax rate	–	1,250,624
Write-off	–	(73,363,383)
Expired	–	(2,412,380)
Translation adjustments	(3,347,213)	4,859,496
	₱238,991,600	₱178,380,252

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.

	2011	2010	2009
Current service cost	₱103,419,805	₱91,496,560	₱82,275,495
Interest cost	152,865,858	135,969,783	97,064,311
Expected return on plan assets	(96,084,188)	(71,412,182)	(40,469,083)
Recognized net actuarial loss (gain)	(2,879,732)	63,713	1,883,134
	₱157,321,743	₱156,117,874	₱140,753,857

Pension Liability

	2011	2010
Present value of defined benefit obligation	₱1,301,088,666	₱1,364,744,185
Fair value of plan assets	(1,316,251,463)	(1,201,052,350)
Present value of underfunded (overfunded) obligation	(15,162,797)	163,691,835
Unrecognized net actuarial gains	293,837,311	48,397,353
	₱278,674,514	₱212,089,188

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

	2011	2010
Balance at beginning of year	₱1,364,744,185	₱1,213,954,564
Interest cost	152,865,858	135,969,783
Current service cost	103,419,805	91,496,560
Arising from business combination (Note 11)	3,199,600	-
Actual benefits paid:		
Out of plan assets	(103,908,857)	(103,951,840)
Out of Jollibee Group's funds	(22,958,089)	(9,557,532)
Net actuarial loss (gain):		
Due to experience adjustments	(559,592,159)	36,832,650
Due to change in assumptions	363,318,323	-
Balance at end of year	₱1,301,088,666	₱1,364,744,185

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

	2011	2010
Balance at beginning of year	₱1,201,052,350	₱973,263,844
Contributions	70,977,928	108,668,770
Expected return on plan assets	96,084,188	71,412,182
Actual benefits paid	(103,908,857)	(103,951,840)
Actuarial gain on plan assets	52,045,854	151,659,394
Balance at end of year	₱1,316,251,463	₱1,201,052,350
Actual return on plan assets	₱148,130,042	₱223,071,576

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

	2011	2010
Investments in government debt securities	69.64%	59.80%
Investments in shares of stocks	19.42%	24.54%
Cash in banks	9.65%	13.75%
Loans and receivables	1.29%	1.91%
	100.00%	100.00%

The Jollibee Group expects to contribute in 2012 an amount equivalent to the underfunded defined benefit obligation based on 2011 actuarial valuation.

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 expected to be settled. The latest actuarial valuation of the defined benefit plan is as of December 31, 2011.

As of December 31, 2011 and 2010, the principal actuarial assumptions used to determine pension benefits obligations are as follow:

	2011	2010
Discount rate	6.50%–7.20%	11.00%–11.31%
Salary increase rate	5.00%–7.50%	8.00%
Rate of return on plan assets	5.00%–7.00%	8.00%

The amounts for the previous five periods are as follows:

	2011	2010	2009	2008	2007
Defined benefit obligation	₱1,301,088,666	₱1,364,744,185	₱1,213,954,564	₱985,573,966	₱896,922,683
Plan assets	1,316,251,463	1,201,052,350	973,263,844	531,760,226	433,325,653
Deficit (surplus)	(₱15,162,797)	₱163,691,835	₱240,690,720	₱453,813,740	₱463,597,030
Experience adjustments on:					
Plan obligation	₱559,592,159	(₱36,832,650)	(₱62,252,853)	₱–	(₱220,551,925)
Plan assets	52,045,854	151,659,394	47,163,376	(34,311,708)	2,211,130

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 ₱121.2 million, ₱94.9 million and ₱106.8 million in 2011, 2010 and 2009, 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 for the 1st up to the 7th MSOP cycle. Starting with the 8th MSOP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the market closing price as at 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 2011, the Compensation Committee granted series of MSOP grants under the 2nd to 8th MSOP cycle to eligible participants. The options vest similar to the 1st MSOP cycle.

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

	March 2012 (Unaudited)		December 2011 (Audited)		December 2010 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted as of end of period	26,790,664	₱46.89	26,790,664	₱46.89	23,273,694	₱40.39
Outstanding at beginning of period	17,505,395	₱52.39	15,904,997	₱43.46	15,911,282	₱39.43
Options granted during the period	–	–	3,516,970	89.90	3,172,744	57.77
Options exercised during the period	(1,669,592)	31.45	(1,507,813)	43.07	(2,730,984)	36.78
Options forfeited during the period	–	–	(408,759)	62.03	(448,045)	42.36
Outstanding at end of period	15,835,803	₱54.60	17,505,395	₱52.39	15,904,997	₱43.46
Exercisable at end of period	8,777,214	₱41.70	10,424,829	₱40.10	8,234,603	₱37.86

The average share price is ₱104.27, ₱85.48, and ₱71.74 as of March 31, 2012, December 31, 2011 and 2010, respectively. The weighted average remaining contractual life for the stock options outstanding as of December 31, 2011, 2010, and 2009 is 4.88 years, 5.31 years, and 5.59 years, respectively.

The weighted average fair value of stock options granted in 2011, 2010, and 2009 is ₱23.67, ₱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:

MSOP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3rd	2006	1.72%	36.91%	6.20%	5-7 years	31.50	32.32
4th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90

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 be granted.

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, a total entitlement of 20,399,999 options under the 2nd ELTIP cycle was given to eligible participants. The options vest similar to the 1st ELTIP cycle.

The movements in the number of stock options outstanding and related WAEP are as follows:

	March 2012 (Unaudited)		December 2011 (Audited)		December 2010 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options given as of end of period	43,149,999	₱29.38	43,149,999	₱29.38	42,399,999	₱29.20
Outstanding at beginning of period	27,674,569	₱32.52	30,661,735	₱32.72	33,387,498	₱31.53
Options granted during the period	–	–	750,000	39.85	250,000	39.85
Options exercised during the period	(7,035,930)	20.00	(787,166)	20.00	(2,975,763)	20.00
Options forfeited during the period	–	–	(2,950,000)	39.85	–	–
Outstanding at end of period	20,638,639	₱36.78	27,674,569	₱32.52	30,661,735	₱32.72
Exercisable at end of period	3,188,640	₱20.00	10,224,570	₱20.00	11,011,736	₱20.00

The weighted average remaining contractual life for the stock options outstanding as of 2011, 2010, and 2009 is 3.02 years, 3.74 years, and 3.95 years, respectively.

The fair value of stock options granted in 2011 and 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:

ELTIP Cycle	Year of Grant	Dividend yield	Expected volatility	Risk-free interest rate	Expected life of the option	Stock price on grant date	Exercise price
1st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	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 ₱20.5 million and ₱16.3 million for the three months ended March 31, 2012 and 2011, 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 in 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Salaries and short-term benefits	₱391,620,377	₱389,010,761	₱387,276,428
Stock options expense (Note 26)	73,596,182	65,657,862	147,522,179
Net pension expense from defined benefit plan	28,897,958	23,822,756	42,141,407
Employee car plan and other long-term benefits	25,322,690	23,818,817	23,454,128
	₱519,437,207	₱502,310,196	₱600,394,142

28. Earnings Per Share

Basic and diluted EPS are computed as follows:

	March 2012 (Unaudited)	March 2011 (Unaudited)
(a) Net income attributable to the equity holders of the Parent Company	₱672,465,206	₱621,880,367
(b) Weighted average number of shares - basic	1,036,017,158	1,028,810,848
Weighted average number of shares exercisable under the stock option plan	9,144,706	4,863,259
Weighted average number of shares that would have been purchased at fair market value	(2,273,296)	(1,750,675)
(c) Adjusted weighted average shares – diluted	1,042,888,568	1,031,923,432
EPS:		
Basic (a/b)	₱0.649	₱0.604
Diluted (a/c)	0.645	0.603

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 ₱1,430.1 million and ₱1,105.9 million for the three months ended March 31, 2012 and 2011, respectively.

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

	2011	2010
Within one year	₱2,434,760,040	₱2,267,533,317
After one year but not more than five years	8,818,752,035	8,426,563,541
More than five years	5,572,429,106	5,237,059,679
	<u>₱16,825,941,181</u>	<u>₱15,931,156,537</u>

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 ₱7.9 million and ₱13.0 million for the three months ended March 31, 2012 and 2011, respectively, are charged to “Operating lease payables” account in the consolidated statements of financial position. Rent expense recognized on a straight-line basis amounted to ₱1,438.0 million and ₱1,118.9 million for the three months ended March 31, 2012 and 2011, 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 and various sublease agreements. 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 ₱23.5 million and ₱22.3 million for the three months ended March 31, 2012 and 2011, respectively.

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

	2011	2010
Within one year	₱41,985,306	₱40,020,952
After one year but not more than five years	153,200,822	215,947,396
More than five years	43,667,310	68,268,412
	<u>₱238,853,438</u>	<u>₱324,236,760</u>

The difference of rent income recognized under the straight-line method and the rent amounts in accordance with the terms of the lease agreements amounting to (₱0.1 million) and (₱0.4 million) for the three months ended March 31, 2012 and 2011, respectively, are included under “Operating lease receivables” account in the consolidated statements of financial position. Rent income recognized on a straight-line basis amounted to ₱23.4 million and ₱21.9 million for the three months ended March 31, 2012 and 2011, respectively (see Note 20).

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 financial instruments are cash and cash equivalents, trade payables and other current liabilities (excluding accruals for local and other taxes and unearned revenue from gift certificates) and short-term and long-term debts. 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, long-term loan receivable, security and other deposits, AFS financial assets and liability for acquisition of businesses which arise 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.

Equity Price Risk

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

Interest Rate Risk

The Jollibee Group is not exposed to significant interest rate risk as all of its interest-bearing short-term and long-term debts bear fixed interest rates.

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 businesses have been rapidly growing, the net assets of foreign businesses account for only 10.54% and 10.44% of the consolidated net assets of the Jollibee Group as of March 31, 2012 and December 31, 2011, 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 the Jollibee Group's Philippine operations' cash and cash equivalents and receivables in foreign currencies.

The following table shows the Jollibee Group's Philippine operations' foreign currency-denominated monetary assets and their peso equivalents as of March 31, 2012 and December 31, 2011:

	March 2012 (Unaudited)			December 2011 (Audited)		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	1,513,300	8,067	65,005,857	1,624,507	8,067	71,274,453
Receivables	163,361	-	7,011,458	140,089	-	6,141,502
Net exposure	1,676,661	8,067	72,017,315	1,764,596	8,067	77,415,955

Foreign Currency Risk Sensitivity Analysis

The Jollibee Group has recognized in its profit or loss, foreign currency exchange gain (loss) included under "Other income" account which amounted to (P2.6 million) and P0.6 million on its net foreign currency-denominated assets for the three months ended March 31, 2012 and 2011, respectively (see Note 23). This resulted from the movements of the Philippine peso against the USD and RMB as shown in the following table:

	Peso to	
	USD	RMB
March 31, 2012	P42.92	P6.82
March 31, 2011	43.39	6.56

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 March 31, 2012 and December 31, 2011:

	Increase (Decrease) in P per Foreign Currency	March 2012 (Unaudited)	December 2011 (Audited)
		Effect on Income Before Income Tax	Effect on Income Before Income Tax
<i>(In Thousands)</i>			
USD	P1.50	P2,515	P2,647
	(1.50)	(2,515)	(2,647)
	1.00	1,677	1,765
	(1.00)	(1,677)	(1,765)
RMB	0.95	7.7	7.7
	(0.95)	(7.7)	(7.7)
	0.63	5.1	5.1
	(0.63)	(5.1)	(5.1)

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 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, 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 March 31, 2012 and December 31, 2011.

	March 2012 (Unaudited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
	<i>(In Millions)</i>				
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	P7,298.0	P7,298.0	P-	P-	P-
Receivables:					
Trade	2,178.5	1,021.7	130.1	9.8	1,016.9
Employee car plan receivables*	136.9	136.9	-	-	-
Receivable from retirement fund	127.7	127.7	-	-	-
Advances to employees	95.2	95.2	-	-	-
Other receivables	21.7	21.7	-	-	-
Other noncurrent assets:					
Long-term loan receivable	210.6	210.6	-	-	-
Security and other deposits	1,094.0	1,094.0	-	-	-
	P11,162.6	P10,005.8	P130.1	P9.8	P1,016.9

*Including noncurrent portion shown as part of "Other noncurrent assets" account in the consolidated statements of financial position.

	December 2011 (Audited)				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
	<i>(In Millions)</i>				
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	P6,485.4	P6,485.4	P-	P-	P-
Receivables:					
Trade	2,250.4	1,249.8	159.2	12.0	829.4
Receivable from retirement fund	137.7	137.7	-	-	-
Employee car plan receivables*	136.7	136.7	-	-	-
Advances to employees	100.4	100.4	-	-	-
Other receivables	20.9	20.9	-	-	-
Other noncurrent assets:					
Long-term loan receivable	225.3	225.3	-	-	-
Security and other deposits	1,069.7	1,069.7	-	-	-
	P10,426.5	P9,425.9	P159.2	P12.0	P829.4

*Including noncurrent portion shown as part of "Other noncurrent assets" account in the consolidated statements of financial position.

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

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

The aging analyses of receivables are as follows:

March 2012 (Unaudited)							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Receivables:							
Trade	₱2,178.5	₱1,161.6	₱170.1	₱110.3	₱195.3	₱376.9	₱164.3
Employee car plan receivables*	136.9	136.9	—	—	—	—	—
Receivable from retirement fund	127.7	127.7	—	—	—	—	—
Advances to employees	95.2	95.2	—	—	—	—	—
Other receivables	21.7	21.7	—	—	—	—	—
Other noncurrent assets:							
Long-term loan receivable	210.6	210.6	—	—	—	—	—
Security and other deposits	1,094.0	1,094.0	—	—	—	—	—
	₱3,864.6	₱2,847.7	₱170.1	₱110.3	₱195.3	₱376.9	₱164.3

*Including noncurrent portion shown as part of "Other noncurrent assets" account in the consolidated statements of financial position.

December 2011 (Audited)							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Receivables:							
Trade	₱2,250.4	₱1,421.1	₱192.8	₱115.0	₱156.5	₱200.3	₱164.7
Receivable from retirement fund	137.7	137.7	—	—	—	—	—
Employee car plan receivables*	136.7	136.7	—	—	—	—	—
Advances to employees	100.4	100.4	—	—	—	—	—
Other receivables	20.9	20.9	—	—	—	—	—
Other noncurrent assets:							
Long-term loan receivable	225.3	225.3	—	—	—	—	—
Security and other deposits	1,069.7	1,069.7	—	—	—	—	—
	₱3,941.1	₱3,111.8	₱192.8	₱115.0	₱156.5	₱200.3	₱164.7

*Including noncurrent portion shown as part of "Other noncurrent assets" account in the consolidated statements of financial position.

Liquidity Risk

The Jollibee Group's exposure to liquidity risk refers to the risk that its financial liabilities are not serviced in a timely manner and that its working capital requirements and planned capital expenditures are not met. To manage this exposure and to ensure sufficient liquidity levels, the Jollibee Group closely monitors its cash flows.

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 periods ended March 31, 2012 and December 31, 2011.

The Jollibee Group's financial assets, which have maturity of less than 12 months and are used to meet its short-term liquidity needs, are cash and cash equivalents and receivables amounting to ₱7,472.0 million and ₱2,302.7 million, respectively, as of March 31, 2012.

The tables below summarize the maturity profile of the Jollibee Group's financial liabilities based on the contractual undiscounted cash flows as of March 31, 2012 and December 31, 2011:

	March 2012 (Unaudited)			Total
	Within 1 Year	2-3 Years	4-5 Years	
Trade payables and other current liabilities*	₱8,301,218,837	₱-	₱-	₱8,301,218,837
Short-term debt	900,000,000	-	-	900,000,000
Long-term debt (including current portion)	766,095,935	4,611,200,154	149,228,380	5,526,524,469
Liability for acquisition of businesses (including current portion)	164,853,965	209,390,110	-	374,244,075
	₱10,132,168,737	₱4,820,590,264	₱149,228,380	₱15,101,987,381

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

	December 2011 (Audited)			Total
	Within 1 Year	2-3 Years	4-5 Years	
Trade payables and other current liabilities*	₱8,851,593,469	₱-	₱-	₱8,851,593,469
Short-term debt	923,670,000	-	-	923,670,000
Long-term debt (including current portion)	806,816,334	3,904,007,733	157,167,330	4,867,991,397
Liability for acquisition of businesses (including current portion)	110,072,000	145,144,000	70,144,000	325,360,000
	₱10,692,151,803	₱4,049,151,733	₱227,311,330	₱14,968,614,866

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

Capital Management

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

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

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing 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 March 31, 2012 and December 31, 2011, the Jollibee Group's debt ratio and net debt ratio are as follows:

Debt Ratio

	March 2012 (Unaudited)	December 2011 (Audited)
Total debt (a)	₱18,788,976,004	₱18,685,773,452
Total equity attributable to equity holders of the Parent Company	20,201,726,449	19,518,762,522
Total debt and equity attributable to equity holders of the Parent Company (b)	₱38,990,702,453	₱38,204,535,974
Debt ratio (a/b)	48%	49%

Net Debt Ratio

	March 2012 (Unaudited)	December 2011 (Audited)
Total debt	₱18,788,976,004	₱18,685,773,452
Less cash and cash equivalents	7,471,980,608	6,655,312,875
Net debt (a)	11,316,995,396	12,030,460,577
Total equity attributable to equity holders of the Parent Company	20,201,726,449	19,518,762,522
Total net debt and equity attributable to equity holders of the Parent Company (b)	₱31,518,721,845	₱31,549,223,099
Net debt ratio (a/b)	36%	38%

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 March 31, 2012 and December 31, 2011. There are no material unrecognized financial assets and liabilities as of March 31, 2012 and December 31, 2011.

	March 2012 (Unaudited)		December 2011 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱7,297,999,387	₱7,297,999,387	₱6,655,312,875	₱6,655,312,875
Receivables:				
Trade	2,014,099,708	2,014,099,708	2,085,662,144	2,085,662,144
Receivable from retirement fund	127,711,364	127,711,364	137,745,214	137,745,214
Employee car plan receivables*	136,923,796	136,923,796	136,737,225	152,335,294
Advances to employees	95,152,422	95,152,422	100,368,090	100,368,090
Other receivables	21,682,283	21,682,283	20,940,239	20,940,239
Other noncurrent assets:				
Long-term loan receivable	210,618,707	210,618,707	225,288,889	225,288,889
Security and other deposits	1,094,045,227	1,094,045,227	1,069,719,992	1,133,286,665
	10,998,232,894	10,998,232,894	10,431,774,668	10,510,939,410
AFS Financial Assets				
Investments in club shares and shares of public utility companies	128,149,438	128,149,438	120,649,438	120,649,438
	₱11,126,382,332	₱11,126,382,332	₱10,552,424,106	₱10,631,588,848

	March 2012 (Unaudited)		December 2011 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Other Financial Liabilities				
Trade payables and other current liabilities**	₱8,301,218,837	₱8,301,218,837	₱8,851,593,469	₱8,851,593,469
Short-term debt	900,000,000	900,000,000	900,000,000	900,000,000
Long-term debt (including current portion)	5,509,701,544	5,526,524,469	4,720,044,020	4,738,001,401
Liability for acquisition of businesses (including current portion)	374,244,075	374,244,075	317,097,289	321,130,578
	₱15,085,164,456	₱15,101,987,381	₱14,788,734,778	₱14,810,725,448

*Including noncurrent portion shown as part of "Other noncurrent assets" account in the consolidated statements of financial position.

**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, trade payables and other current liabilities and short-term debt 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 security and other deposits, noncurrent portion of employee car plan receivables, long-term debt and liability for acquisition of business (including noncurrent portion) are based on the discounted value of future cash flows using applicable rates as follows:

	2011	2010
Security and other deposits	1.72%–7.64%	1.29%–7.67%
Employee car plan receivables	1.66%–5.08%	1.29%–4.97%
Long-term debt (including current portion)	1.78%–2.64%	1.30%–2.06%
Liability for acquisition of businesses (including current portion)	1.57%–2.11%	2.25%–4.70%

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 their 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 that 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 ₱128.1 million and ₱120.6 million as of March 31, 2012 and December 31, 2011, 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 12, 2012, the BOD of the Parent Company approved a regular cash dividend of ₱0.58 a share of common stock to all stockholders of record as of May 9, 2012. The cash dividend is expected to be paid out by May 31, 2012. The cash dividend is 16.0% higher than the ₱0.50 regular dividend a share declared in April 2011.

33. Non-cash Transactions

The Jollibee Group's principal non-cash transaction under financing activities pertains to the extension of the terms of two short-term loans that have both matured in 2011 totaling ₱1,500.0 million, combined to form a new loan which are now due to be paid in 2013, under a new loan agreement.

The Jollibee Group's non-cash transaction under investing activities pertains to the acquisition of 50% equity interest in SuperFoods Group and 54% equity interest in BK Group through advances given prior to 2012 and 2011, respectively.