Jollibee. Chow king greenwich Délifrance. 永和大王

Inside our great tasting food

JOLLIBEE FOODS CORPORATION

2004 ANNUAL REPORT

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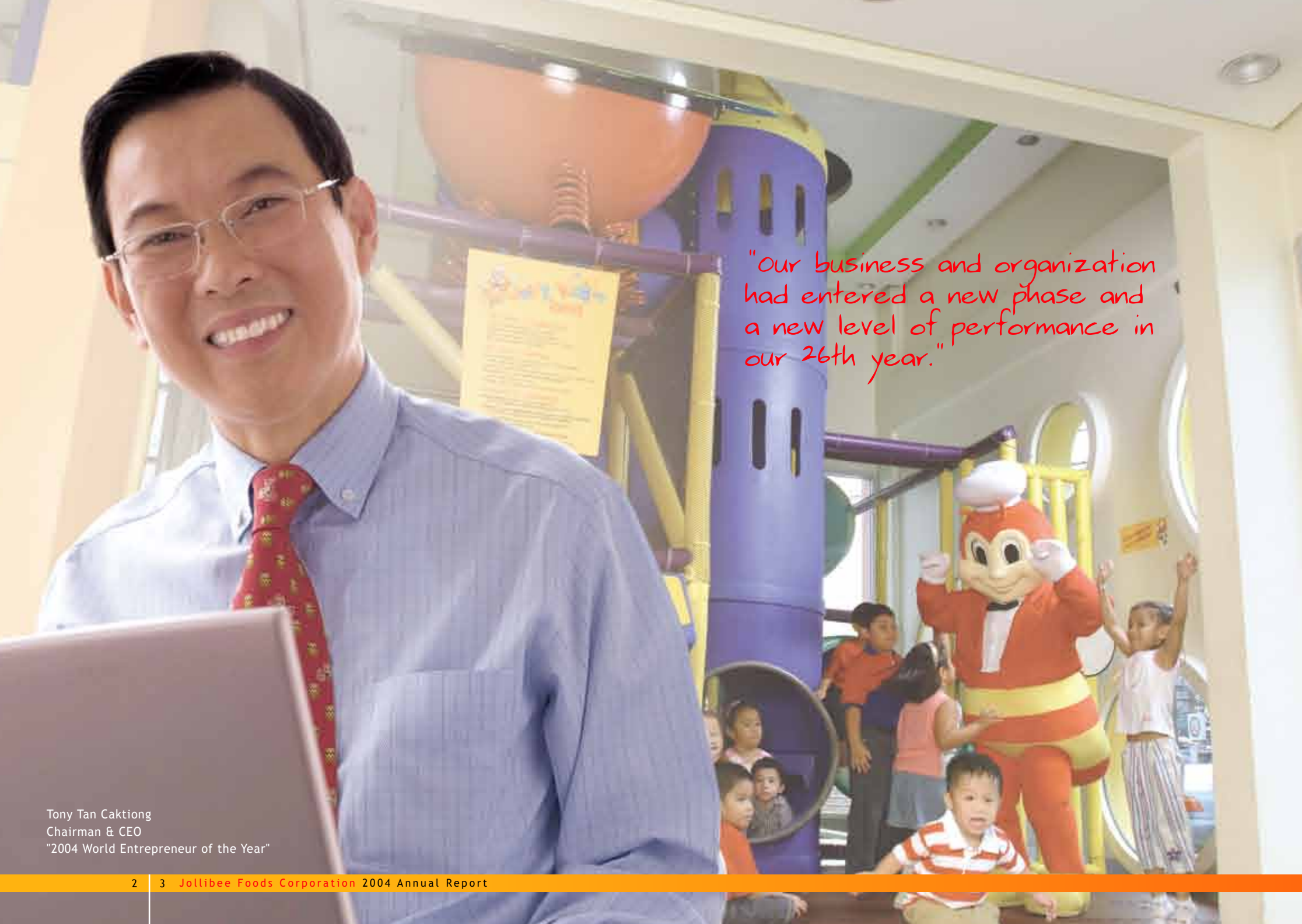
The Big, Big Kitchen behind the Store

Everyday, 1.7 million people enjoy our great tasting food in our happy and fun restaurants. When they stand before the counter, they already know more or less what they want: the crispy Chicken Joy in our Jollibee store, the rich flavored Halo-Halo dessert in Chowking, the Primo Pizza in Greenwich, the French Baguette in Delifrance, or the Deep Fried Dough Stick in Yonghe King. They want to repeat the delightful dining experience they have whenever they come to our restaurants.

But how are these great tasting food made? How do we make sure the same satisfying taste is experienced again? How do we make sure they are always safe? Many of our products are cooked inside the store and that's what our customers see as in frying the French Fries. Actually, so many many things take place before the food reaches the store, a long and complex supply chain that is so much driven by time.

In this 2004 Annual Report, we feature the Big, Big Kitchen behind the Store, our commissaries or food factories that supply the products to our stores. We show images of the raw materials, very carefully chosen to specifications, which go into our food products. We take the reader inside our commissaries to show some stages in the making of our great tasting food. We also show scenes of how food are delivered to more than 1,000 of our stores everyday in order to reach our customers on time, with products so fresh and safe. Along the way, we quote what our own people say they do to ensure our customers will be satisfied. In a way, we show what's Inside Our Great Tasting Food.

This feature is significant in its timing because we opened our new commissary in Canlubang, Laguna. in 2004. It is very big and state-of-the art. It is also a symbol of an emerging new and stronger Jollibee Group of Companies.



"Our business and organization had entered a new phase and a new level of performance in our 26th year."

Tony Tan Caktiong
Chairman & CEO
"2004 World Entrepreneur of the Year"

2004: A New Start Up

In January 2004, after 3 years of construction, the production lines in our new commissary in Canlubang, Laguna started rolling. Among other things, they can make hamburger buns sufficient to supply all our stores in the Luzon Island. The bread line is so automated, it takes only 1/4 the number of people required by our other plants. That makes our bread cheaper. And with high-speed production and no manual handling, it also makes our bread more hygienic. And fresher …and softer …and better tasting!

The start up of a new production facility inspires images of and creates the energy of a new beginning. It was like entering a new phase in one's life. Now, as we look back at the developments and achievements in 2004, it has become clearer that truly our business and organization had entered a new phase and a new level of performance in our 26th year!

In March 2004, the Company acquired 85% share of the Yonghe King fast food chain in the People's Republic of China, which had 77 stores then and is regarded as the number one Chinese fast food brand in that country of 1.4 billion people. Yonghe King sales grew by 37% during the year and generated profit according to our expectations.

In the first quarter of 2004, the Company's sales increased by 17% with profit growing by 42% to record high level, followed by 3 more quarters of very strong and record high sales and profit performance. For the entire year, the Company grew sales by 23% to P35.5 billion with net income rising by 34% to P1.6 billion, another new record high level. As a result, JFC's stock price rose by 56% from P18.25 per share at the beginning of the year to P28.50 per share at year end, one of the best performers in the Philippine equities market. The Company paid cash dividends of P0.45 per share, 28% more than the previous year. Return On Equity reached 20.3%, one of the highest levels ever achieved so far by the Company.

All our businesses grew by double digits during the year. The System Wide Sales of Jollibee brand grew by 14%, Chowking 39%, Greenwich 15%, Delifrance 11% and Yonghe King 37%.

The Jollibee Group of Companies opened a total of 158 new stores worldwide, the most number of new stores opened in any one year in its 26 years. These consisted of 37 Jollibee brand stores, 59 Chowking, 32 Greenwich, 5 Delifrance and 25 foreign stores mainly Yonghe King in China with 17 new stores opened. The Jollibee Group had a total of 1,185 stores worldwide at the end of 2004.

How were we able to accomplish so much in just one year?

The first reason was that 2004 was a good year for the economy. Agricultural production grew by 5.1% while the Gross National Product rose by 6.1%, the highest growth rates in 6 years.

The second reason was the election in May 2004. Election spending translates to higher consumer spending specially for our business.

The third reason was that we worked harder and faster on the most important things that delight our customers, specifically introducing new products and improving existing products supported by strong advertising campaigns.

Jollibee

In 2004, we reinvigorated Jollibee's product lines with the introduction of twelve products and extensions: 3 Ice Craze variations, 2 new variants of the Yumburger, 3 different flavored Savory Pies, Chicken Sotanghon Soup, and the Crispy Chicken Strips. These product introductions were supported with advertising campaigns. The "Elevator" ad targeted working adults; the Chickenjoy "Smile" ad targeted our core market – families; and the burger ad "Stars" targeted teens and introduced new endorsers Sarah Geronimo and Mark Bautista. The thematic "Mateo" ad was a huge success, contributing to our strong December sales.

We opened 37 new stores with our 500th store in Isabela, Basilan marking another milestone in Jollibee history.

Chowking

Chowking further strengthened its product line by introducing Miki Bihon, Chao Fan, Nai Cha, Beef Motong and Halo-Halo petite, supported by strong advertising campaigns.

Chowking opened a total of 59 stores, the highest number of stores opened in one year in its entire history. Chowking also stepped up its makeover program for all stores. By year end, almost all of the stores were sporting the new Chowking look.

Chairman's Message

"The Company sales grew by 23% to P35.5 billion with all businesses growing by double digits. Net income rose by 34% to P1.6 billion, another new record high level with a Return on Equity of 20.3%."

Greenwich

Greenwich enhanced its product line-up with the Solo Primo and the Sari-Sari Square, a square pizza divided into four quadrants with four different flavors selected by the customers, as well as the promotional Hot Luv Pizza, Grilled Chicken Pizza and Christmas Pizza Buena. Improved product versions and new side items, desserts and breakfast meals were introduced as well. These were made possible with the launching of the "Sarap ka-Greenwich" advertising campaign in 2004. A catchy jingle was the campaign centerpiece and succeeded identifying Greenwich with the teen market.

In 2004, Greenwich opened 32 stores, bringing the total number of stores to 232, and enhanced store look with continuous store renovations.

Delifrance

In 2004, Delifrance had numerous product launches including the bestselling Clubhouse Sandwich line with variations and the Fruit and Coffee Frappes. Delifrance also added Mini Cakes and improved some bread items such as Hi-protein loaf, Potato bread, Light Rye Tower, Supreme Cheese Roll, Wholewheat Round bread and Premium Wholegrain bread. Delifrance also came out with Christmas items and in late December, introduced the Roast Beef Sandwich, the Oriental Salad and Fruit Sorbets.

Five new branches opened in Metro Manila carrying a new look to cater to the tastes and expectations of Delifrance's upscale market.

We made big strides in our brands but not without major challenges. Our competition continued to challenge us. We had to respond by striving to do even better than what we had achieved in the past in delighting our customers. Also important, together with all businesses, we faced the cost inflation pressures brought by major increases in world petroleum price and cost of electricity.

Jollibee: 499 Stores Nationwide; 22 Stores Abroad

Chowking: 303 Stores Nationwide; 10 Stores Abroad

Greenwich: 232 Stores Nationwide

"We are optimistic that we will succeed in China. We also see India and Indonesia as two other most important foreign markets in the future."

Today, the continued rise in the price of oil and utilities is contracting our profit margins. In addition, the high inflation rate is putting pressure on consumer spending in our business. These are areas of concern for us.

In the long term, however, we are optimistic about the continued profitable growth of our businesses in the Philippines and abroad. In the Philippines, there are still many cities and municipalities that we have yet to reach. There are also food segments which are growing that we may enter. In foreign operations, we are optimistic that we will succeed in China with Yonghe King, and possibly with additional brands. We also see India and Indonesia as two other important markets in the future.

Finally, let me say a few things about our organization. In 2004, I saw an emerging transformation in our people. It was driven I believe by the challenges on and opportunities in our businesses both in our domestic operations and abroad. I believe that our people have realized that we have reached a certain level of achievement and that to get to the next higher level requires very different ways of doing things. Having said that, I see that our people continue to prize our values of integrity, hard work, frugality and humility to listen and learn while keeping the spirit of family and fun!

To our people in the Jollibee Group of Companies, I share the honor of being chosen World Entrepreneur of the Year 2004. Without them, earning such recognition was just impossible.

Tony Tan Caktiong
Chairman and Chief Executive Officer

Delifrance: 31 Stores Nationwide

Yonghe King: 88 Stores in China

"Come and see the making of our great tasting food inside our commissaries!"


Greenwich - Rolando Yosa - Production Crew
Delifrance - Divina Rosales - Production Manager
Yonghe - Hong Wan Chen- R & D Staff

"To make finished products we are proud to deliver to our customers, we have to take each step in the production process strictly according to production standards."

Hamburger buns right out of the oven

"Our beef stocks undergo stringent quality examinations before they are approved for use in production. They are inspected and confirmed safe and of high quality by the regulatory agencies in Brazil or Australia. In the Commissary, they are inspected again by the receiving personnel and by the Technical Services Group."

Wilma Bocaya
Plant Manager
Zenith Foods Corporation

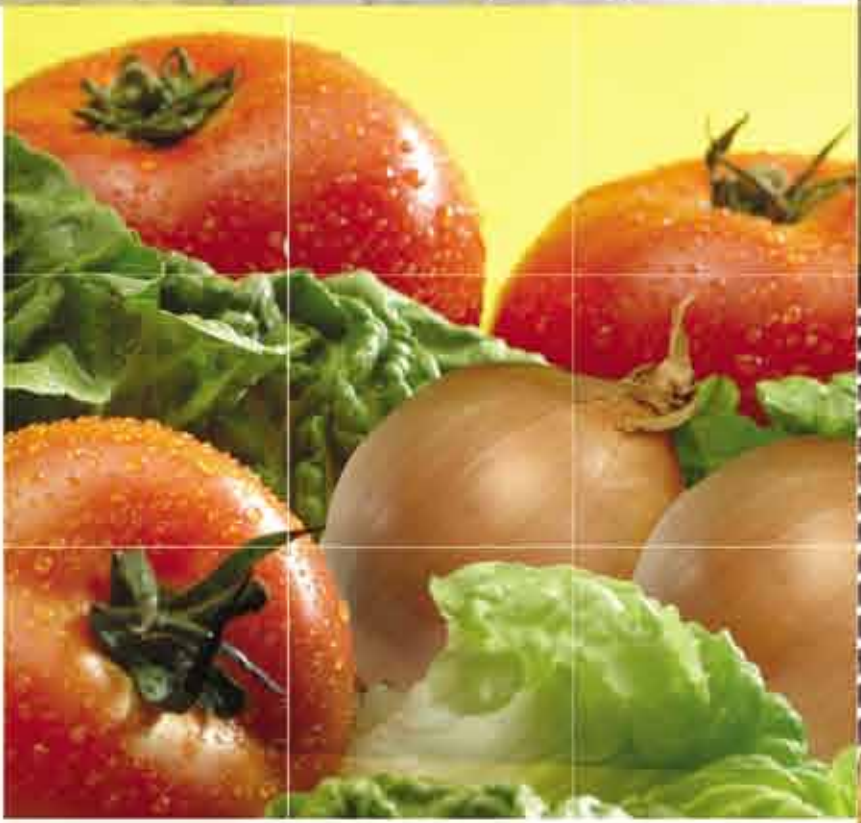
"All raw materials are thoroughly washed before these are used for production. Even the eggs for our patties are washed and cleaned first by our mechanized egg washing and breaking machines."

Rogelio Nuñez
Plant Manager
Vismin Foods Corporation

"Formed patties go through a blast freezer for 15 minutes. Freezing ensures freshness and is also the best way to seal in the flavors and juices which give the "langhap-sarap" taste of our burgers."

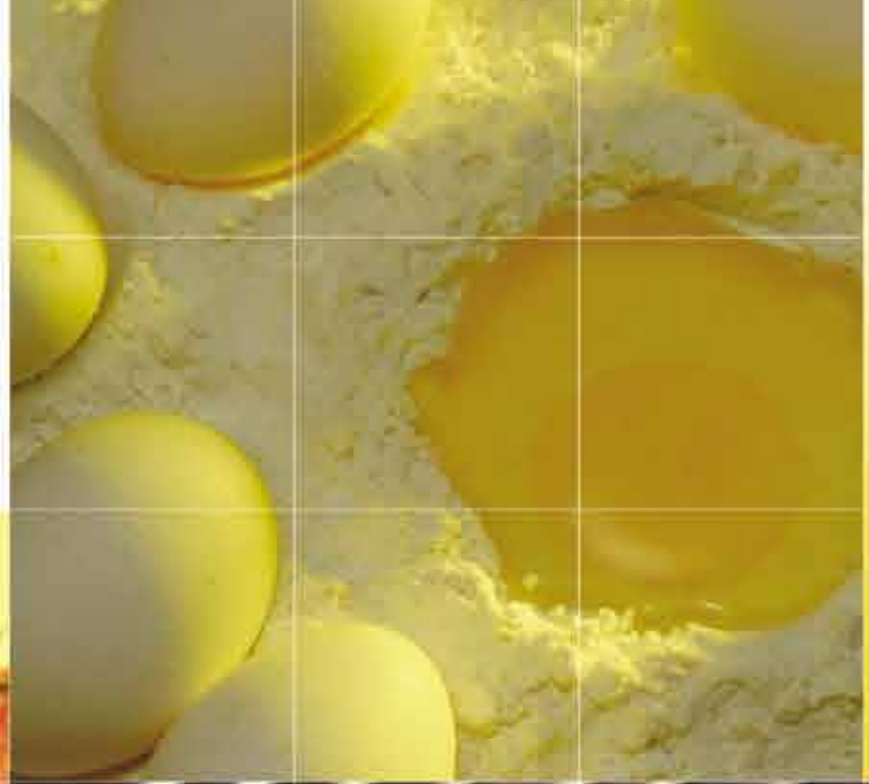
Ernesto Tanmantiong
EVP
Jollibee Foods Corporation

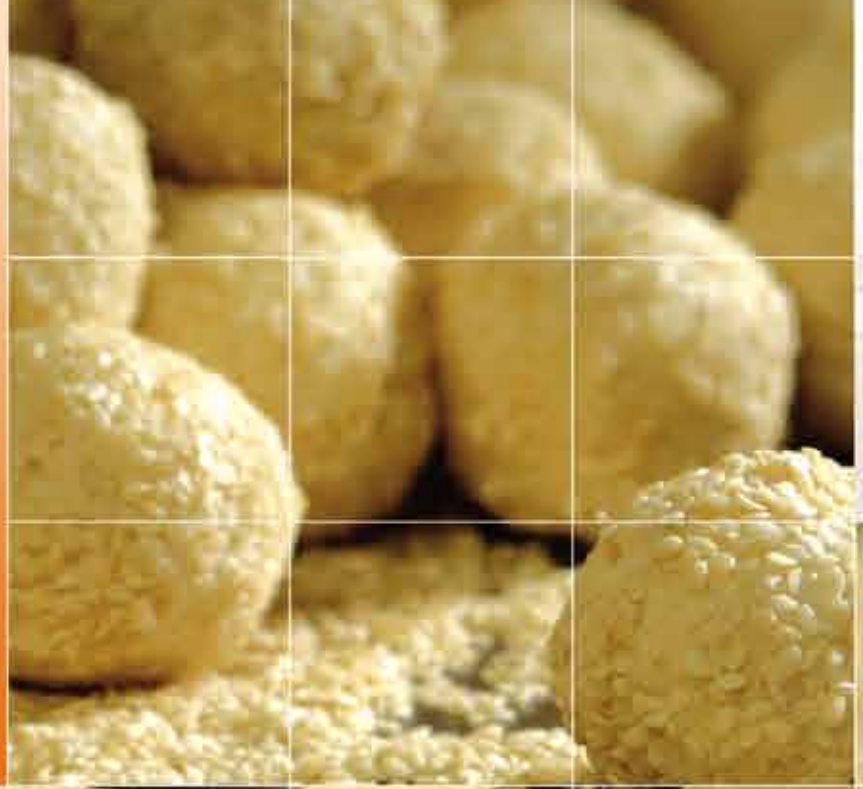
Freshest eggs...best quality flour >



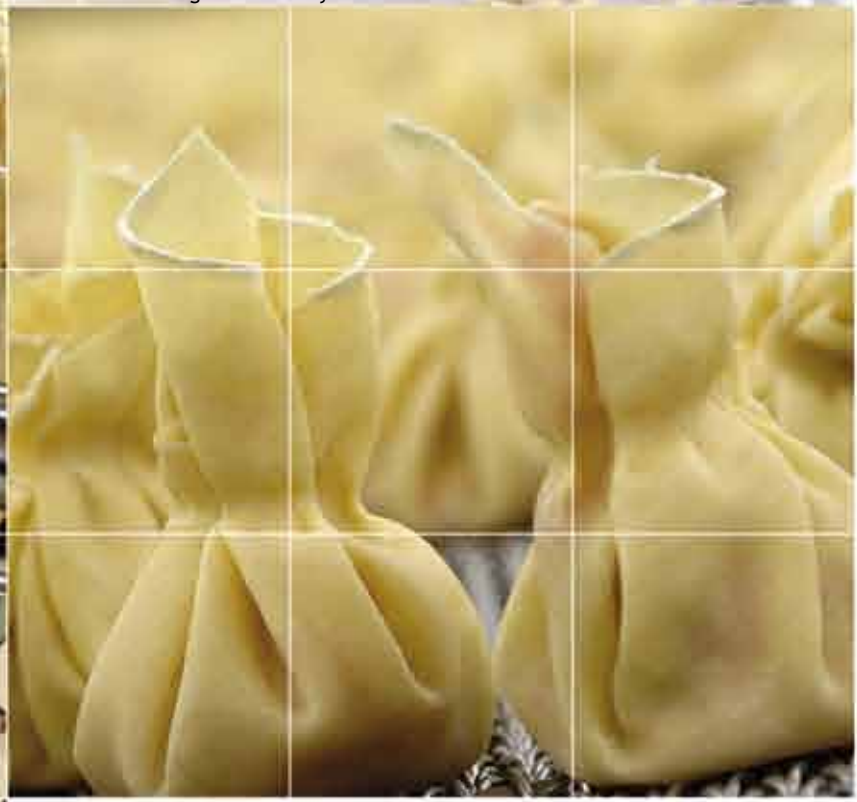
^ Finest tomatoes and onions for our rich sauces

Freshly-formed 100% beef patties for Jollibee's juicy burgers >





< Sweet-smelling buchi freshly coated with sesame seeds



Special wanton ready for steaming ^

< Chowking's very own siomai and wanton wrapper

"We have great tasting dumplings (siomai) because we use only the freshest meat, vegetables and other ingredients, mixed with spices concocted by our Chefs and wrapped in our very own dumpling wrappers."

"Our siopao has a smooth, soft and moist texture because we always use freshly mixed dough in the production process."

Floren Gatchalian
Commissary Business Manager
Chowking Food Corporation

"We boil the meat we use for our asado filling for hours, making the meat very tender and juicy and absorb all the flavorings."

George Respicio
Production Manager
Chowking Highlands

"Because we are in the food business, safety is our primary concern. Our production employees are required to undergo training on food safety, safety handling and good hygiene."

Raffy Dela Rosa
President
Chowking Food Corporation

Crispy noodles prepared especially for Chowking's pancit canton.

"In the Commissary, everything is done under controlled time and temperature so that each and every pizza crust is fresh and of the highest quality."

Greenwich's freshly-baked pizza crust

"We set aside the dough and allow it to relax before we load it to the forming line or sheeter so that it will soften and develop the right flavor and aroma".

Rolando Dela Cruz,
Plant Manager,
Greenwich Pizza Corporation

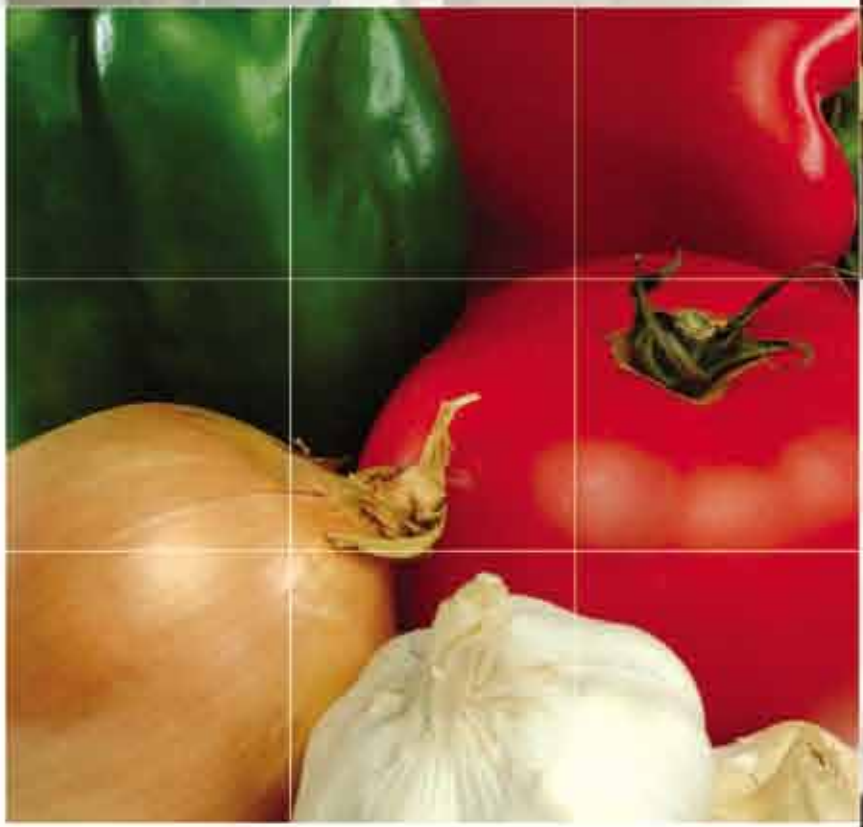
"We get sufficient samples of meat toppings and check if they conform to our raw material specifications in terms of weight, dimension, moisture, fat content, appearance and freshness."

Norelyn Garcia,
Quality Assurance Supervisor,
Greenwich Pizza Corporation

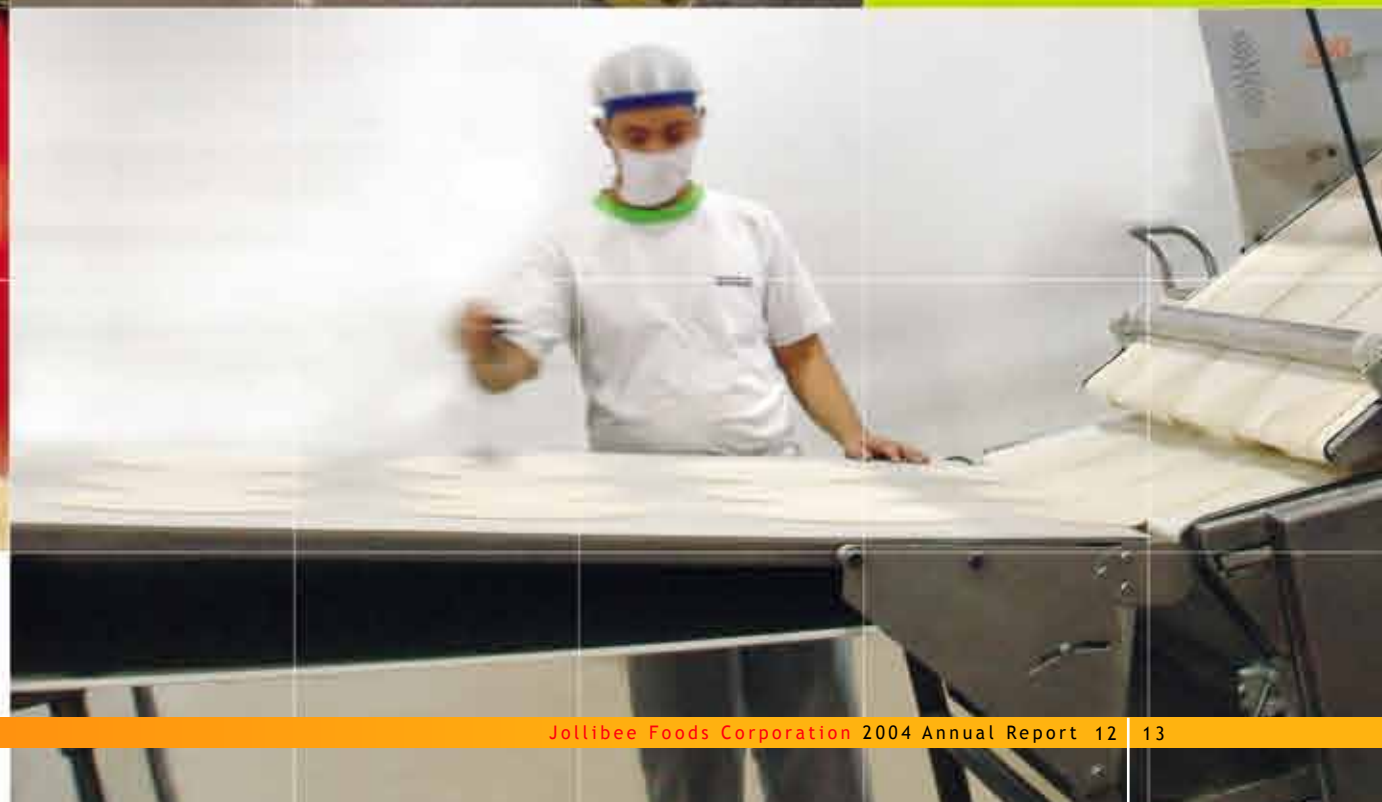
"Line leaders do quality checks on every production batch to ensure that the correct diameter, thickness, dough weight and other quality standards are achieved."

Gina Navarrete,
General Manager,
Greenwich Pizza Corporation

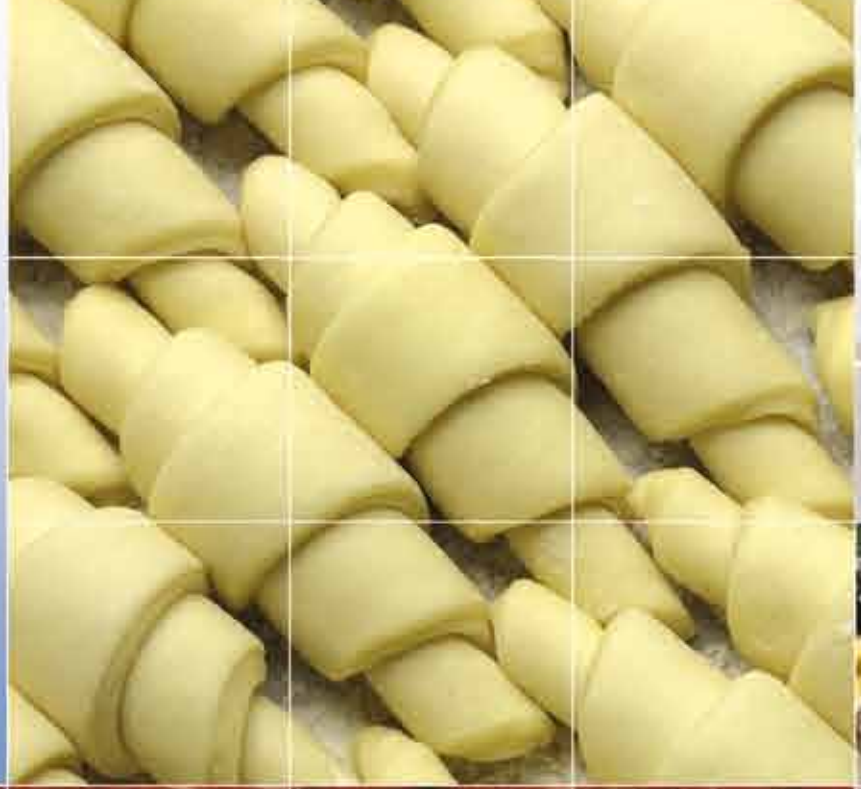
Fresh vegetables and meat toppings for Greenwich's pizza >



greenwich

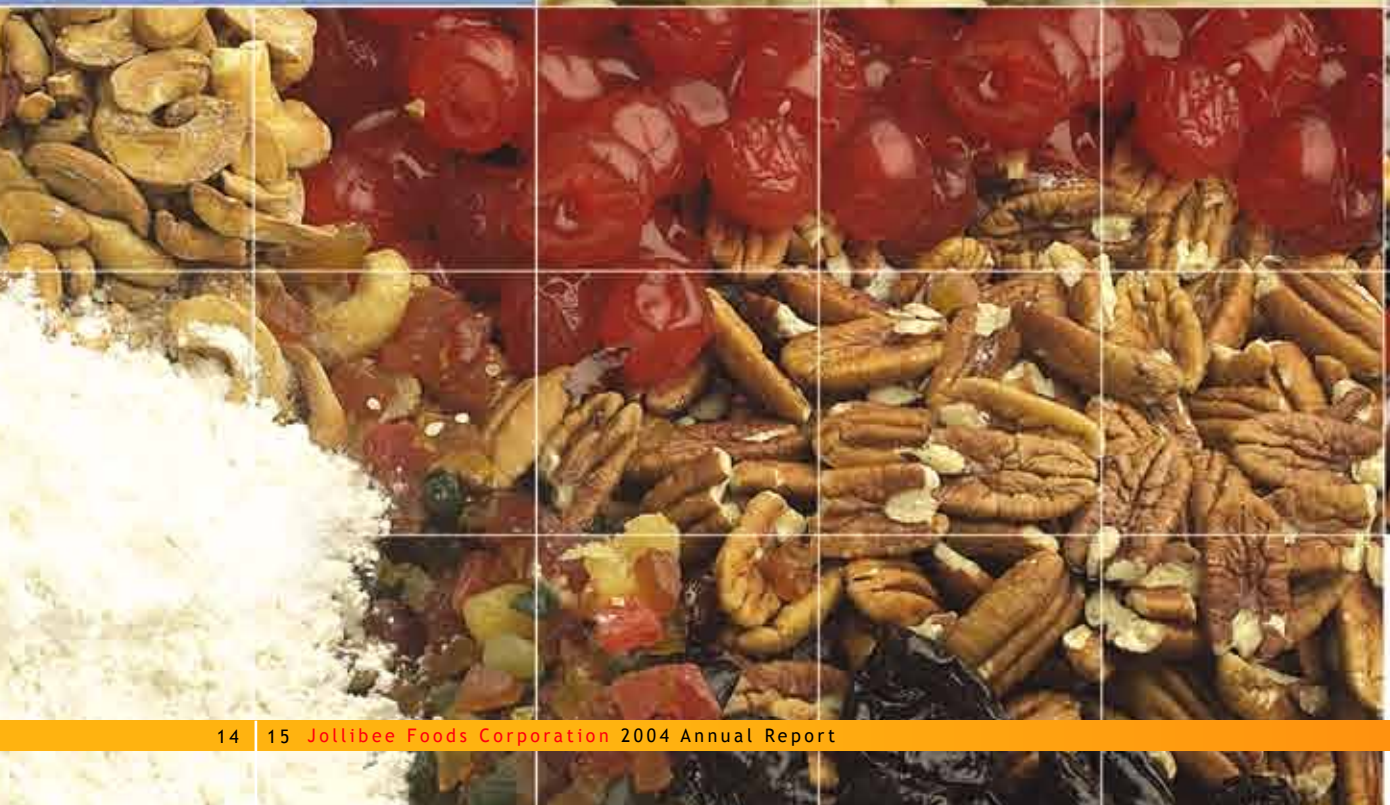


Pizza crust as they are formed and cut >



< Butter croissant, our golden pastry made of premium butter.

Delifrance's Premium English Fruitcake made of the finest ingredients.



"You need to have the right skills, the right baking equipment and the right ingredients to make excellent bread. Delifrance has all these, helping us create an excellent Cafe Bakery."

"Our products are inspired by the original French recipes that came out of nearly a century of baking experience."

Lingbi Dy
Commissary Manager,
Delifrance Philippines

"The Company made sure that I have the right skills for my job as a production supervisor. Before the Delifrance Commissary in the Philippines was opened, I was sent to Singapore for a 1 1/2 months on-the-job bakery training in Delifrance Asia. I also completed over 250 hours of training on Bakery Science in Thailand. Now I am able to share my skills with my fellow production employees."

Arnold Maniego,
Production Supervisor,
Delifrance Philippines

"All Delifrance products are developed according to authentic recipes and rigorous selection of ingredients using only the finest and the freshest. The flour used in all Delifrance bread products come from controlled wheat production chain of Grands Moulins de Paris, a guarantee of highest standards."

William Tan Untiong
Head, Delifrance
Philippines

Authentic French Baguette made of premium flour from Grands Moulins de Paris.

"Our soybean milk uses premium quality raw materials and is made everyday to ensure freshness and superior quality."

"We carefully measure all ingredients to ensure that we will produce the perfect dough for our You Tiao (Dough Sticks)."

Dr. Xieliang
R&D/ QA Manager
Yonghe King

"When frying You Tiao the temperature of oil should remain at constant level to ensure good quality of the cooked You Tiao."

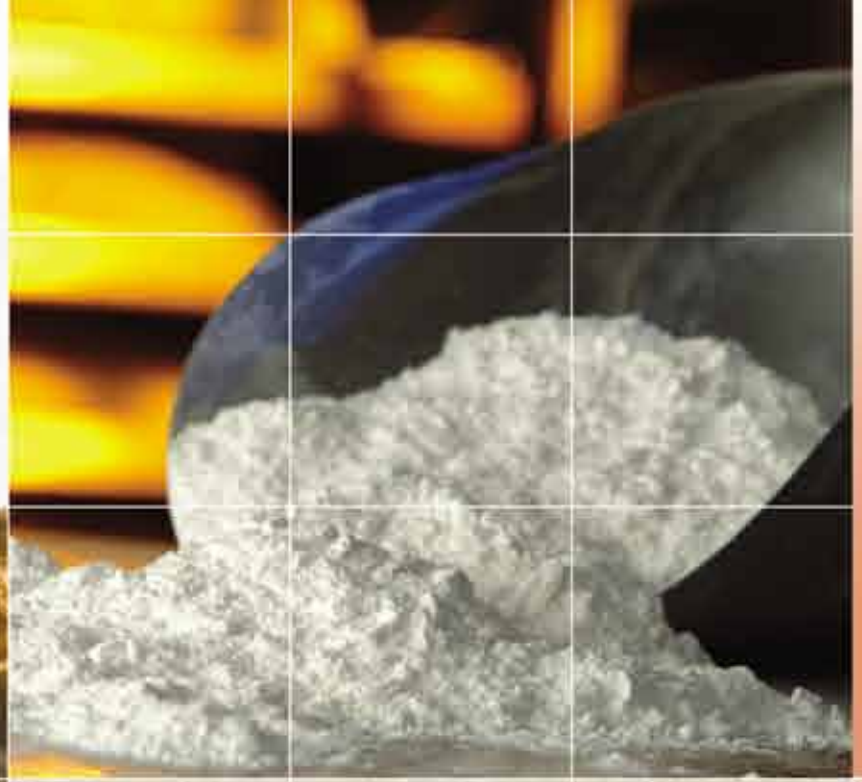
Ignacia Braga
R&D Officer
International Operations

"Our products are prepared by our supplier under well controlled condition to guarantee superior quality and consistency."

Jeffrey Chao
CEO, Yonghe King

You Tiao dough ready for frying

High grade flour for our You Tiao >



永和大王

^ Freshly produced soybean milk

Carefully preparing You Tiao dough >

"Speed, timeliness, completeness and reliability ensure everyday delivery of high quality products to our more than 1,000 stores and our millions of customers."

The Jollibee fleet: ready for dispatch

"In distribution, speed is very critical in preserving our short shelf-life products like burger buns. Our delivery procedures also ensure sustaining the 'Cold Chain' for products requiring very low temperatures."

Kent Valderrama,
Logistics Director
Zenith Foods Corporation.

Board of Directors and Senior Management Team

Jollibee Foods Corporation and Subsidiaries

DIRECTORS

ANG NGO CHIONG
Chairman Emeritus

TONY TAN CAKTIONG
Chairman of the Board

WILLIAM TAN UNTIONG
Director/Corporate Secretary

ERNESTO TANMANTIONG
Director

ANG CHO SIT
Director

ANTONIO CHUA POE ENG
Director

FELIPE ALFONSO
Director

MONICO JACOB
Director

EXECUTIVE COMMITTEE MEMBERS

Tony Tan Caktiong
President and Chief Executive Officer

Ernesto Tanmantiong
Executive Vice President and Chief Operating Officer

William Tan Untiong
VP - Real Estate and Head, Delifrance Philippines

Rufino L. dela Rosa
President and CEO, Chowking Food Corporation

Ma.Regina B. Navarrete
General Manager, Greenwich Pizza Corporation

Jeffrey Chao
Chief Executive Officer, Yonghe King

Ysmael V. Baysa
VP - Corporate Finance and Chief Finance Officer

John Victor R. Tence
VP - Corporate Human Resource Development

Paul A. Zaldarriaga
VP - Shared Services

OFFICERS - STRATEGIC BUSINESS UNIT

Robert T. Poblete
VP - Human Resource Development

Anastacia S. Masancay
VP - Controllership and Tax Management

Carolina Inez S. Reyes
VP - Marketing

Susana K. Tanmantiong
VP - Purchasing

Joseph Tan Buntiong
VP - Restaurant Systems and Quality Management

Noel F. Guerrero
VP - Information Management

Benigno M. Dizon
VP - Engineering

Ma. Lourdes S. Villamayor
VP and Regional Business Unit Head - Mega Manila

Tommy Y. King
VP and Regional Business Unit Head - South Luzon and VP Jollibee US Operations

Jose Ma. A. Miñana
VP and Regional Business Unit Head - North Luzon

Jose Filemon F. Allid
VP and Regional Business Unit Head - Visayas and Mindanao

Dennis M. Flores
VP - International Operations

Lizette G. Olandres
General Manager, Baker Fresh Foods Philippines Inc.

Selected Financial Data

Jollibee Foods Corporation and Subsidiaries

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

FOR THE YEAR	2002	2003	**2004**
Consolidated System Wide Sales	26,754,726	28,881,630	**35,543,006**
Gross Revenues	20,259,816	21,660,344	**26,227,662**
Income from Operations	1,385,431	1,284,371	**1,966,802**
Net Income	970,811	1,182,208	**1,580,673**
Payroll and Benefits	2,751,806	3,108,494	**3,461,941**
Personnel	21,992	21,479	**26,495**
Number of Stores			
Jollibee	436	467	**499**
Greenwich	191	213	**232**
Chowking	216	245	**303**
Delifrance	28	30	**31**
AT YEAR-END			
Total Assets	11,456,284	12,924,859	**15,387,948**
Property & Equipment	4,887,341	5,782,211	**6,307,689**
Stockholders' Equity	6,309,481	7,201,913	**8,366,413**
Current Ratio	1.34	1.22	**1.07**
Debt-to-Equity Ratio	0.82	0.79	**0.84**
PER SHARE DATA			
Basic Earnings Per Share	0.9966	1.2015	**1.6021**
Diluted Earnings Per Share	0.9927	1.1998	**1.6004**
Cash Dividend	0.2800	0.3500	**0.4500**
Book Value	6.4244	7.3140	**8.4710**
SHARE INFORMATION			
Outstanding and Subscribed Shares (net of Treasury Shares)	982,119,098	984,668,488	**987,647,817**

Statement of Management Responsibility for Financial Statements

Jollibee Foods Corporation and Subsidiaries

The management of Jollibee Foods Corporation is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004. The financial statement have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

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

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

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders have examined the said financial statements of Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

TONY TAN CAKTIONG
Chief Executive Officer and
Chairman of the Board

ANASTACIA S. MASANCAY
VP, Controllership and
Tax Management

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

Report of Independent Auditors

Jollibee Foods Corporation and Subsidiaries

The Stockholders and the Board of Directors
Jollibee Foods Corporation
9th Floor, Jollibee Plaza Building
No. 10 Emerald Avenue, Ortigas Center
Pasig City

SGV & Co

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

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

We have audited the accompanying consolidated balance sheets of Jollibee Foods Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jollibee Foods Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

SyCip Gorres Velayo & Co.

Gemilo J. San Pedro
Partner
CPA Certificate No. 32614
SEC Accreditation No. 0094-A
Tax Identification No. 102-096-610
PTR No. 9404027, January 3, 2005, Makati City

March 11, 2005

Consolidated Balance Sheets

Jollibee Foods Corporation and Subsidiaries

	December 31	
	2004	2003 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**P3,001,990,853**	P2,788,514,243
Short-term investments	**281,596,838**	-
Receivables (Notes 2 and 5)	**1,276,900,695**	960,440,878
Inventories (Note 6)	**1,109,461,890**	880,984,892
Prepaid expenses and other current assets (Note 7)	**591,134,202**	693,081,357
Total Current Assets	**6,261,084,478**	5,323,021,370
Noncurrent Assets		
Interest in and advances to a joint venture (Notes 2, 9 and 24)	**49,222,705**	51,032,278
Investment properties (Note 10)	**72,443,077**	72,443,077
Property, plant and equipment (Notes 11, 14 and 26)	**6,307,689,197**	5,782,210,909
Operating lease receivable - net of current portion (Note 2)	**68,922,242**	63,812,052
Deferred tax assets (Note 20)	**686,211,288**	623,380,627
Other noncurrent assets (Notes 2, 8 and 12)	**1,942,374,692**	1,008,958,554
Total Noncurrent Assets	**9,126,863,201**	7,601,837,497
	P15,387,947,679	P12,924,858,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade payables	**P1,887,653,951**	P1,701,210,008
Accrued expenses (Notes 2, 13, 22 and 26)	**2,522,012,802**	1,987,129,644
Current portion of:		
Provisions (Notes 8 and 14)	**656,195,285**	17,000,000
Long-term debt (Note 16)	**226,666,667**	226,666,667
Other current liabilities (Note 15)	**565,818,166**	433,436,923
Total Current Liabilities	**5,858,346,871**	4,365,443,242
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**56,666,666**	283,333,333
Provisions - net of current portion (Note 14)	**63,594,910**	90,433,000
Operating lease payable - net of current portion (Note 2)	**779,491,489**	746,498,940
Other noncurrent liabilities	**24,633,275**	57,827,369
Total Noncurrent Liabilities	**924,386,340**	1,178,092,642
Minority Interests	**238,801,012**	179,409,964
Stockholders' Equity		
Capital stock (Notes 17 and 23)	**1,022,158,363**	1,032,928,362
Subscriptions receivable	**(18,155,444)**	(72,351,160)
Additional paid-in capital (Note 17)	**1,710,781,686**	1,833,141,842
Share in cumulative translation adjustments of subsidiaries	**144,291,625**	207,736,533
Retained earnings (Notes 2 and 17)	**5,947,990,508**	4,811,437,711
	8,807,066,738	7,812,893,288
Less treasury shares (Notes 17 and 23)	**440,653,282**	610,980,269
Total Stockholders' Equity	**8,366,413,456**	7,201,913,019
	P15,387,947,679	P12,924,858,867

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Jollibee Foods Corporation and Subsidiaries

	Years Ended December 31		
	2004	2003 (As restated - Note 2)	2002 (As restated - Note 2)
REVENUES			
Net sales	**P24,325,440,617**	P19,970,375,920	P18,774,292,493
Royalty, franchise fees and others (Note 18)	**1,902,221,504**	1,689,968,217	1,485,523,248
	26,227,662,121	21,660,344,137	20,259,815,741
COST OF SALES (Notes 19 and 22)	**21,170,217,720**	17,487,885,289	16,435,280,247
GROSS PROFIT	**5,057,444,401**	4,172,458,848	3,824,535,494
OTHER OPERATING INCOME - Net	**164,875,775**	88,267,343	18,638,639
OPERATING EXPENSES			
General and administrative (Notes 19 and 22)	**(2,449,020,691)**	(1,959,697,151)	(1,716,306,498)
Advertising and promotion (Note 18)	**(730,709,202)**	(799,297,120)	(683,252,041)
Provisions for:			
Legal claims and restructuring costs (Note 14)	**(62,800,910)**	(87,433,000)	(5,000,000)
Impairment in value of nonoperating assets and investment properties (Notes 10 and 12)	**(10,737,322)**	(32,899,020)	(53,184,345)
Impairment in value of trademark	**(2,250,000)**	-	-
Impairment in value of property, plant and equipment due to restructuring (Notes 11 and 14)	**-**	(97,028,695)	-
INCOME FROM OPERATIONS	**1,966,802,051**	1,284,371,205	1,385,431,249
FINANCE INCOME (CHARGES)			
Interest income	**122,669,155**	129,509,729	63,289,019
Interest expense	**(51,113,678)**	(56,813,534)	(87,648,781)
AMORTIZATION OF GOODWILL (Notes 8 and 12)	**(37,277,243)**	-	-
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 9)	**(23,093,623)**	(24,093,915)	(15,927,116)
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS	**1,977,986,662**	1,332,973,485	1,345,144,371
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 20 and 21)			
Current	**465,331,180**	397,216,896	373,755,325
Deferred	**(102,021,568)**	(253,163,097)	8,405,103
	363,309,612	144,053,799	382,160,428
INCOME BEFORE MINORITY INTERESTS	**1,614,677,050**	1,188,919,686	962,983,943
MINORITY INTERESTS	**(34,003,894)**	(6,711,932)	7,827,292
NET INCOME	**P1,580,673,156**	P1,182,207,754	P970,811,235
Earnings Per Share (Note 25)			
Basic	**P1.6021**	P1.2015	P0.9966
Diluted	**1.6004**	1.1998	0.9927

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

Jollibee Foods Corporation and Subsidiaries

	Years Ended December 31		
	2004	2003 (As restated - Note 2)	2002 (As restated - Note 2)
CAPITAL STOCK (Notes 17 and 23)			
Issued and subscribed:			
Balance at beginning of year	**P1,032,928,362**	P1,030,081,688	P1,017,238,784
Subscriptions and issuances	**1,881,053**	2,846,674	12,842,904
Cancelled subscriptions under the Stock Purchase Plan	**(12,651,052)**	-	-
Balance at end of year	**1,022,158,363**	1,032,928,362	1,030,081,688
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(72,351,160)**	(97,303,721)	-
Collections	**63,818,966**	50,264,557	-
New subscriptions	**(9,623,250)**	(25,311,996)	(97,303,721)
Balance at end of year	**(18,155,444)**	(72,351,160)	(97,303,721)
ADDITIONAL PAID-IN CAPITAL (Note 17)			
Balance at beginning of year	**1,833,141,842**	1,788,889,996	1,656,967,805
Premium on new issuances, subscriptions and treasury shares	**21,988,347**	44,251,846	131,922,191
Discount on reissuances of treasury shares for stock purchase exercised	**(24,806,615)**	-	-
Premium on cancelled subscriptions under the Stock Purchase Plan	**(119,541,888)**	-	-
Balance at end of year	**1,710,781,686**	1,833,141,842	1,788,889,996
SHARE IN CUMULATIVE TRANSLATION ADJUSTMENTS OF SUBSIDIARIES			
Balance at beginning of year	**207,736,533**	190,492,509	85,196,487
Share in translation adjustments during the year	**(63,444,908)**	17,244,024	105,296,022
Balance at end of year	**144,291,625**	207,736,533	190,492,509
RETAINED EARNINGS			
Appropriated for future expansion	**1,200,000,000**	1,200,000,000	1,200,000,000
Unappropriated (Note 17):			
Balance at beginning of year:			
As previously reported	**4,098,507,799**	3,186,731,055	2,420,244,231
Effect of change in accounting for operating leases (Note 2)	**(487,070,088)**	(413,080,889)	(344,535,050)
As restated	**3,611,437,711**	2,773,650,166	2,075,709,181
Net income	**1,580,673,156**	1,182,207,754	970,811,235
Cash dividends - P0.45 a share in 2004, P0.35 a share in 2003 and P0.28 a share in 2002	**(444,120,359)**	(344,420,209)	(272,870,250)
Balance at end of year	**4,747,990,508**	3,611,437,711	2,773,650,166
	5,947,990,508	4,811,437,711	3,973,650,166
TREASURY SHARES (Notes 17 and 23)			
Balance at beginning of year	**(610,980,269)**	(574,255,490)	(703,962,598)
Acquisitions	**-**	(136,425,205)	-
Reissuances	**13,327,432**	99,700,426	129,707,108
Reissuances for stock purchase exercised	**156,999,555**	-	-
Balance at end of year	**(440,653,282)**	(610,980,269)	(574,255,490)
	P8,366,413,456	P7,201,913,019	P6,311,555,148

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Jollibee Foods Corporation and Subsidiaries

	Years Ended December 31		
	2004	2003 (As restated - Note 2)	2002 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interests	**P1,977,986,662**	P1,332,973,485	P1,345,144,371
Adjustments for:			
Depreciation and amortization (Note 19)	**1,192,156,344**	980,008,172	900,469,994
Loss (gain) on disposals and retirement of property and equipment	**(13,683,052)**	184,696,128	22,790,473
Interest income	**(122,669,155)**	(129,509,729)	(63,289,019)
Provisions for:			
Legal claims and restructuring costs (Note 14)	**62,800,910**	87,433,000	5,000,000
Impairment in value of nonoperating assets and investment properties	**10,737,322**	32,899,020	53,184,345
Impairment in value of trademark	**2,250,000**	-	-
Impairment in value of property, plant and equipment due to restructuring (Notes 11 and 14)	**-**	97,028,695	-
Interest expense	**51,113,678**	56,813,534	87,648,781
Equity in net loss of a joint venture (Note 9)	**23,093,623**	24,093,915	15,927,116
Amortization of goodwill (Notes 12 and 19)	**37,277,243**	-	-
Foreign exchange gain	**(2,865,755)**	-	-
Loss on write-off of nonoperating assets	**-**	-	12,015,739
Operating income before working capital changes	**3,218,197,820**	2,666,436,220	2,378,891,800
Decrease (increase) in:			
Short-term investments	**(281,596,838)**	-	-
Receivables	**(371,262,951)**	(14,619,629)	(31,682,125)
Inventories	**(214,868,644)**	(62,642,795)	251,152,967
Prepaid expenses and other current assets	**129,545,489**	253,746,382	93,945,254
Increase (decrease) in:			
Trade payables	**6,453,062**	190,227,596	344,682,063
Accrued expenses	**365,063,735**	504,430,676	44,664,530
Operating lease payable	**32,992,549**	86,817,409	99,582,460
Provisions	**(15,487,420)**	(5,500,000)	-
Other current liabilities	**21,946,598**	(122,934,236)	(54,961,840)
Net cash generated from operations	**2,890,983,400**	3,495,961,623	3,126,275,109
Income taxes paid	**(402,666,094)**	(399,534,193)	(320,180,263)
Net cash provided by operating activities	**2,488,317,306**	3,096,427,430	2,806,094,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 11)	**(1,414,417,478)**	(2,011,102,142)	(1,612,554,479)
Acquisition of a subsidiary - net of cash acquired (Note 8)	**(448,148,009)**	-	-
Interest received	**122,669,155**	129,509,729	63,005,656
Proceeds from disposal of property and equipment	**118,851,345**	91,906,018	61,195,527
Increase in other noncurrent assets	**(150,965,643)**	(284,347,708)	(55,448,506)
Net cash used in investing activities	**(1,772,010,630)**	(2,074,034,103)	(1,543,801,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	**(P407,225,435)**	(P321,558,314)	(P252,265,022)
Long-term debt	**(226,666,667)**	(226,666,667)	(113,333,333)
Proceeds from:			
Issuances of warrants and treasury shares	**145,822,545**	99,700,426	129,707,108
Issuances of and subscriptions to capital stock	**77,762,943**	72,051,081	47,461,374
Interest paid	**(45,128,088)**	(56,883,534)	(87,648,781)
Increase (decrease) in other noncurrent liabilities	**(33,194,094)**	37,223,189	1,477,492
Increase (decrease) in minority interest	**(17,067,025)**	-	86,963,526
Acquisition of treasury shares	-	(136,425,205)	-
Net used in financing activities	**(505,695,821)**	(532,559,024)	(187,637,636)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**2,865,755**	791,941	65,519,638
NET INCREASE IN CASH AND CASH EQUIVALENTS	**213,476,610**	490,626,244	1,140,175,046
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,788,514,243**	2,297,887,999	1,157,712,953
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**P3,001,990,853**	P2,788,514,243	P2,297,887,999

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Jollibee Foods Corporation and Subsidiaries

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) is incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as "the Group") are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names "Jollibee," "Chowking," "Greenwich" and "Yonghe King" (see Note 8). A joint venture is also into the QSR business under the "Delifrance" trade name (see Note 9). Other activities of the Group include manufacturing and property leasing in support of the QSR systems and in other independent business activities (see Notes 3 and 8). The Parent Company's shares of stock are listed in the Philippine Stock Exchange.

The total number of the Group's employees was 6,373, 5,648 and 5,496 as of December 31, 2004, 2003 and 2002, respectively. The registered office address of the Parent Company is 9th Floor, Jollibee Plaza Building, No. 10 Emerald Avenue, Ortigas Centre, Pasig City.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 11, 2005.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines using the historical cost basis.

Changes in Accounting Policies

On January 1, 2004, the Group adopted the following Statements of Financial Accounting Standard (SFAS)/International Accounting Standards (IAS):

- SFAS 17/IAS 17, "Leases," which resulted in the recognition of lease expense (the Group as "lessee") and lease income (the Group as "lessor") under operating leases on a straight-line basis. Previously, all lease payments were recognized as expense or income on the basis of the terms of the lease agreements. The change in accounting policy was accounted for on a retroactive basis and prior years' financial statements were restated. The restatement resulted in the increase in assets and liabilities by P317.7 million and P804.7 million, respectively, as of December 31, 2003. Retained earnings decreased by P487.1 million (net of tax effect of P229.2 million) as of January 1, 2004, P413.1 million (net of tax effect of P194.4 million) as of January 1, 2003 and P344.5 million (net of tax effect of P162.1 million) as of January 1, 2002. Net income decreased by P48.2 million (net of tax effect of P22.7 million), P74.0 million (net of tax effect of P34.8 million) and P68.5 million (net of tax effect of P32.2 million) for the years ended December 31, 2004, 2003 and 2002, respectively.

- SFAS 12/IAS 12, "Income Taxes," which requires deferred income taxes to be determined using the balance sheet liability method. The standard also requires the classification of deferred tax assets and liabilities as noncurrent items in the balance sheets. Accordingly, the deferred income taxes of P2.0 million, comprised of allowance for doubtful accounts and allowance for inventory losses, reported in 2003 as part of current assets in the consolidated balance sheet, have been reclassified as noncurrent asset in the balance sheets. Adoption of this standard has no material impact on the Group's financial position and results of operations.

Basis of Consolidation

The consolidated financial statements include the financial statements of Jollibee Foods Corporation and its subsidiaries as of December 31 of each year (see Note 8).

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Belmont Enterprises Ventures Limited (Belmont) has been included in the 2004 consolidated financial statements using the purchase method of accounting. Accordingly, the 2004 consolidated statements of income and cash flows include the results and cash flows of Belmont for the nine-month period from its acquisition date on March 25, 2004. The purchase consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition. The residual cost of acquisition after recognizing the acquirer's interest in the fair value of identifiable assets and liabilities acquired at acquisition date is recognized as goodwill and amortized generally over 20 years.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Minority interests represent the equity in Greenwich Pizza Corporation, Tokyo Teriyaki Corporation, Hanover Holdings Limited, Jollibee (Hong Kong) Limited, and Belmont and its subsidiaries, not held by the Group (see Note 8).

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include investments in commercial papers with original maturities of more than three months to one year and are stated at cost, adjusted for any loss on price decline of the investment.

Receivables

Receivables are recognized and carried at original invoice amounts less an allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

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

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

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

Interest in a Joint Venture
The Group's interest in a joint venture is accounted for under the equity method of accounting. The interest in the joint venture is carried in the consolidated balance sheets at cost plus post acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in value. The consolidated statements of income reflect the share in the results of operations of the joint venture.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization, and any impairment in value. Land is stated at cost less any impairment in value, if any.

The initial cost of property, plant and equipment consists of its purchase price and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets 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 computed using the straight-line method over the following estimated useful lives of the assets:

Land improvements	5	years
Plant and buildings, commercial condominium units and improvements	20	years
Leasehold rights and improvements	3-10	years or term of the lease, whichever is shorter
Office, store and food processing equipment	5-10	years
Furniture and fixtures	3-5	years
Transportation equipment	5	years

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Construction in progress is stated at cost. This includes the cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Asset Impairment
The carrying values of property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's-length transaction. 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss, if any, is recognized in the consolidated statements of income.

Reversal of impairment losses recognized in prior years, if any, is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded as income. However, the increased carrying amount of an asset due to a reversal of an accumulated impairment loss is recognized to the extent that it does not exceed the carrying amount (net of accumulated depreciation or amortization) that would have been determined had no impairment loss been recognized for that asset in prior years.

Investment Properties
Investment properties consist of land in excess of the Group's requirements. These are carried at cost less any impairment in value.

Nonoperating Assets
Properties and other assets which are not being used in operations are excluded from "Property, plant and equipment" account and other accounts and are shown as nonoperating assets under "Other noncurrent assets" account in the consolidated balance sheets. These are carried at net carrying value at transfer date, less impairment in value.

Goodwill
Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is stated at cost less accumulated amortization and any impairment in value. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. Goodwill is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Treasury Shares
Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated balance sheets as a deduction from the total stockholders' equity. Upon issuance or resale of the treasury shares, treasury shares account is credited for the cost of the treasury shares. Cost is determined using the simple average method. Gains on sale are credited to additional paid-in capital. Losses are charged against additional paid-in capital but only to the extent of previous gains from original issuance, sale or retirement for the same class of stock; otherwise, losses are charged to retained earnings.

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

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the customers.
- Revenue from royalty fees is recognized as the royalty accrues based on certain percentages of the franchisees' net sales.
- Revenue from franchise fees is recognized when all services or conditions relating to the transaction have been substantially performed.
- Dividend income is recognized when the Group's right to receive the payment is established.
- Rental income from operating leases is recognized on a straight-line basis over the lease term. For tax reporting, the rental income is continued to be recognized on the basis of the terms of the lease agreements.
- Interest income is recognized as the interest accrues.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations, if any. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT), and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and interest in a joint venture. With respect to investments in foreign subsidiaries, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilized.

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

Retirement Costs
The Parent Company and certain domestic subsidiaries have funded, independently administered, noncontributory defined benefit retirement plans, covering their permanent employees. The other domestic subsidiaries provide for estimated pension required to be paid under Republic Act (RA) No. 7641 to qualified employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

The Group's foreign subsidiaries in the People's Republic of China participate in various government-defined contribution schemes applicable in the local region where the subsidiaries operate. Under these schemes, retirement benefits of existing and retired employees are guaranteed by the local retirement plan and each subsidiary has no further contributions beyond the annual contribution. Management of the Group's foreign subsidiary in the People's Republic of China intends to continue making payments in the future.

Foreign Currency Translation
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income.

Financial statements of consolidated foreign subsidiaries, whose operations are not integral to the operations of the Group, are translated at closing exchange rates with respect to the balance sheet accounts, and at the weighted average exchange rate for the year with respect to the statements of income. Resulting translation differences are included in stockholders' equity and are shown as "Share in cumulative translation adjustments of subsidiaries" account in the consolidated balance sheets. On the disposal of a foreign entity, the cumulative share in translation adjustment will be recognized in the consolidated statements of income as a component of the gain or loss on disposal.

Borrowing Costs
Borrowing costs are expensed as incurred.

Research Costs
Research costs are expensed as incurred.

Stock Option Plan
The Group has a stock option plan granting management and employees of the Group an option to purchase a fixed number of shares of stock of the Parent Company at a stated price during a specified period. Options exercised are recorded at the option price.

Operating Lease
Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term. For tax reporting, operating lease payments continue to be recognized as expense on the basis of the terms of the lease agreements.

Earnings Per Share
Basic earnings per share is calculated by dividing the net income for the year attributable to the common shareholders 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 by the weighted average number of common shares outstanding during the period, adjusted for any subsequent stock dividends declared and potential common shares resulting from the assumed exercise of outstanding stock options. Outstanding stock options will have dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events
Subsequent events that provide evidence of conditions that existed at balance sheet date are reflected in the consolidated financial statements. Subsequent events that are indicative of conditions that arose after balance sheet date are disclosed in the consolidated financial statements when material.

New Accounting Standards Effective in 2005
The Group will adopt on January 1, 2005 the following relevant Philippine Accounting Standards (PAS) (corresponding to the revised IAS) and Philippine Financial Reporting Standards (PFRS) (corresponding to new International Financial Reporting Standards):

- PAS 1, "Presentation of Financial Statements," provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the balance sheets and statements of income.

  The change in the presentation of minority interest in the balance sheet and statement of income will be effected in the 2005 financial statements and prior years' financials will be restated to conform to the 2005 presentation. Required disclosures will be included in the 2005 financial statements, where applicable.

- PAS 2, "Inventories," reduces the alternatives for measurement of inventories. It does not permit the use of the last-in, first-out (LIFO) formula to measure the cost of inventories.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 2.

- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 8.

- PAS 10, "Events After the Balance Sheet Date," provides a limited clarification of the accounting for dividends declared after the balance sheet date.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 10.

- PAS 16, "Property, Plant and Equipment," provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The Group currently accounts for each significant asset separately. Depreciation expense for each asset is, likewise, computed separately.

  The standard also requires that the cost of an item of property, plant and equipment should include the costs of dismantling, removal or restoration, the obligation for which the entity incurs when it installs or uses the assets. Due to the significant number of leases that the Company is a party to, the Company is still in the process of determining its constructive and legal liability to restore the assets to their original form.

- PAS 17, "Leases," provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 17.

- PAS 19, "Employee Benefits," requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires a company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

  Based on the latest actuarial valuations of the Group's retirement plans, the Group expects to recognize additional liability for retirement obligations with a corresponding charge to retained earnings upon adoption of the new standard. The Group will avail of the services of an actuary to conduct an updated actuarial valuation of the Group's retirement benefit obligations to determine the amount of the transitional liability that would have to be recognized under the new standard. As allowed under the standard, the Group will recognize as expense the additional liability on a prospective basis over a five-year period.

- PAS 21, "The Effects of Changes in Foreign Exchange Rates," prohibits the capitalization of foreign exchange losses. PAS 21 further requires a company to determine its functional currency and measure its results of operation and financial position in that currency. Translation procedures are specified when the presentation currency used for reporting differs from the company's functional currency.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 21.

- PAS 24, "Related Party Disclosures," provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel and by benefit types.

  The Group does not expect any significant change in the accounting policies when it adopts PAS 24. Required disclosures will be included in the 2005 financial statements, where applicable.

- PAS 27, "Consolidated and Separate Financial Statements," reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiaries' financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.

Upon adoption of PAS 27, the accumulated equity in net losses of subsidiaries of P506.2 million and share in cumulative translation adjustments of subsidiaries of P144.3 million as of December 31, 2004 will be reversed against the investments account and retained earnings, thereby, increasing these accounts, and will serve as the initial difference in the reported amounts of stockholders' equity in the consolidated and separate parent company financial statements. The cost of such investments will be subject to impairment tests (see Note 7).

- PAS 31, "Interests in Joint Ventures," reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements.

  The Group does not expect any significant change in the accounting policies followed in the preparation of the consolidated financial statements when it adopts PAS 27 and 31. However, in the separate financial statements of the Parent Company, the equity method will no longer be applied to the investments in subsidiaries and joint venture. Upon adoption of these standards, the accumulated equity in net losses of subsidiaries and the joint venture of P608.8 million and share in cumulative translation adjustments of subsidiaries of P144.3 million as of December 31, 2004 will be reversed against investments account and retained earnings in the separate financial statements of the Parent Company, thereby, increasing these accounts, and will serve as the initial difference in the reported amounts of stockholders' equity in the consolidated and separate parent company financial statements. The cost of such investments will be subject to impairment tests.

- PAS 32, "Financial Instruments: Disclosure and Presentation," covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. Required disclosures, as applicable, will be included in the 2005 consolidated financial statements.

- PAS 39, "Financial Instruments: Recognition and Measurement," establishes the accounting and reporting standards for the recognition and measurement of a company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

  PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Adoption of PAS 32 and PAS 39 is expected to have operational and financial statement impact to the Group which is not presently quantifiable. Volatility in the financial statements is anticipated because of the requirement to fair value most financial instruments, including derivative financial instruments. The Group plans to undertake certain detailed activities, which include, among others, the following:

1. Review of contracts for the purpose of identifying and, where required, bifurcating derivatives that are embedded in both financial and non-financial contracts;

2. Development of a financial instruments policy that will cover accounting for financial instruments, to include the preparation of hedge accounting guidelines and requirements for derivatives that are designated and qualify as hedges;

3. Evaluation of the proper classification of financial instruments, including determining whether a financial instrument should be accounted for as debt or equity; and,

4. Assessment of required process and systems changes.

In 2005, the impact of adopting PAS 39 will be retroactively computed, as applicable, and adjusted to the January 1, 2005 retained earnings. Prior years' consolidated financial statements will not be restated as allowed by the Securities and Exchange Commission (SEC).

- PAS 40, "Investment Property," prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses.

  Upon adoption of PAS 40, the Group will adopt the cost model and will continue to carry its investment property at depreciated cost less any accumulated impairment losses. The adoption of the new standard would result in items of property and equipment leased to franchisees to be reclassified to investment properties. The Group does not expect any significant change in the accounting policies when it adopts the new standard.

- PFRS 2, "Share-Based Payments," will result in a charge to net income for the cost of share options granted. The Group currently does not recognize an expense from share options granted but discloses required information for such options. The Group still has to develop policies and procedures to quantify the stock option value on grant date to determine the impact of adopting this standard (see Note 23).

- PFRS 3, "Business Combination," which will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted.

  Upon adoption of the standard, the goodwill amortization of P37.3 million under the present standard will no longer be recognized in the consolidated statements of income. However, the balance of goodwill of P956.8 million as of December 31, 2004 will be subjected to the detailed annual tests of impairment.

- PFRS 5, "Noncurrent Assets Held for Sale and Discontinued Operations," specifies the accounting for assets held for sale and presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the balance sheets and the results of discontinued operations to be presented separately in the statements of income.

  The Group expects that the adoption of the new standard would have no material impact on the Group's financial position and results of operations.

3. Segment Information

The 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 operation of QSRs and the manufacture of food products to be sold to company-owned and franchised QSR outlets.
- The franchising segment is involved in the franchising of the Group's QSR store concepts.
- The real estate segment leases store sites mainly to the Group's independent franchisees.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Business Segments

The following tables present revenues and expenses information and certain assets and liabilities information regarding the different business segments as of and for the years ended December 31, 2004, 2003 and 2002:

	As of and for the Year Ended December 31, 2004				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Results of operations					
Revenues from external customers	P24,239,293	P1,814,263	P174,106	P-	P26,227,662
Inter-segment revenues	3,657,865	186,570	50,871	(3,895,306)	-
Segment revenues	27,897,158	2,000,833	224,977	(3,895,306)	26,227,662
Segment expenses	(28,090,377)	379	(175,895)	3,983,974	(24,281,919)
Impairment losses	(12,987)	-	-	-	(12,987)
Provision for restructuring costs	(62,801)	-	-	-	(62,801)
Other segment income	172,330	-	13,709	(89,192)	96,847
Segment result	(P96,677)	P2,001,212	P62,791	(P524)	1,966,802
Interest income					122,669
Amortization of goodwill					(37,277)
Interest expense					(51,114)
Equity in net loss of a joint venture	(P23,094)	-	-	-	(23,094)
Income before income tax and minority interests					1,977,986
Income tax expense					(363,310)
Minority interests					(34,004)
Net income					P1,580,673
Assets and liabilities					
Segment assets	**P21,053,664**	P22,808	P296,246	(P6,620,338)	P14,752,380
Deferred tax assets					686,211
Interest in and advances to a joint venture	**49,223**	-	-	-	49,223
Total assets					P15,487,814
Segment liabilities	**P10,381,451**	P31,089	P584,221	(P4,397,494)	P6,599,267
Long-term debt					283,333
Total liabilities					P6,882,600

	As of and for the Year Ended December 31, 2004				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Other segment information					
Capital expenditures	P1,273,351	P-	P141,066	P-	P1,414,417
Depreciation and amortization	1,220,058	-	9,376	-	1,229,434
Amortization of goodwill	37,277	-	-	-	37,277
Impairment losses	12,987	-	-	-	12,987
Other non-cash expenses -					
Provision for restructuring costs	62,801	-	-	-	62,801

	As of and for the Year Ended December 31, 2003 (As restated-see Note 2)				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Results of operations					
Revenues from external customers	P19,968,133	P1,601,173	P91,038	P-	P21,660,344
Inter-segment revenues	1,359,453	97,702	99,637	(1,556,792)	-
Segment revenues	21,327,586	1,698,875	190,675	(1,556,792)	21,660,344
Segment expenses	(21,612,752)	(77,241)	(180,752)	1,628,912	(20,241,833)
Impairment losses	(110,928)	-	(19,000)	-	(129,928)
Provision for legal claims and restructuring costs	(87,433)	-	-	-	(87,433)
Other segment income	155,026	-	1,417	(73,222)	83,221
Segment result	(P328,501)	P1,621,634	(P7,660)	(P1,102)	1,284,371
Interest income					129,510
Interest expense					(56,813)
Equity in net loss of a joint venture	(P24,094)	-	-	-	(24,094)
Income before income tax and minority interests					1,332,974
Income tax expense					(144,054)
Minority interests					(6,712)
Net income					P1,182,208
Assets and liabilities					
Segment assets	P16,610,387	P98,334	P1,005,307	(P5,463,582)	P12,250,446
Deferred tax assets					623,381
Interest in and advances to a joint venture	51,032	-	-	-	51,032
Total assets					P12,924,859
Segment liabilities	P7,567,524	P167,096	P682,318	(P3,383,402)	P5,033,536
Long-term debt					510,000
Total liabilities					P5,543,536
Other segment information					
Capital expenditures	P2,006,863	P-	P4,239	P-	P2,011,102
Depreciation and amortization	969,919	-	10,089	-	980,008
Impairment losses	110,928	-	19,000	-	129,928
Other non-cash expenses -					
Provision for legal claims and restructuring costs	87,433	-	-	-	87,433

	As of and for the Year Ended December 31, 2002 (As restated - see Note 2)				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Results of operations					
Revenues from external customers	P18,732,048	P1,417,043	P110,725	P-	P20,259,816
Inter-segment revenues	1,129,160	101,046	66,542	(1,296,748)	-
Segment revenues	19,861,208	1,518,089	177,267	(1,296,748)	20,259,816
Segment expenses	(19,972,658)	(60,439)	(187,528)	1,339,123	(18,881,502)
Impairment losses	(42,467)	-	(10,717)	-	(53,184)
Provision for legal claims	(5,000)	-	-	-	(5,000)
Other segment income	107,216	460	-	(42,375)	65,301
Segment result	(P51,701)	P1,458,110	(P20,978)	P-	1,385,431
Interest income					63,289
Interest expense					(87,649)
Equity in net loss of a joint venture	(P15,629)	P-	P-	P-	(15,927)
Income before income tax and minority interests					P1,345,144
Income tax expense					(382,160)
Minority interests					7,827
Net income					P970,811
Assets and liabilities					
Segment assets	P13,673,909	P13,873	P1,077,605	(P3,667,597)	P11,097,790
Deferred tax assets					418,940
Interest in and advances to a joint venture	34,466	-	-	-	34,466
Total assets					P11,551,196
Segment liabilities	P5,322,590	P30,418	P1,191,029	(P2,290,056)	P4,253,981
Long-term debt					736,667
Total liabilities					P4,990,648
Other segment information					
Capital expenditures:					
Tangible fixed assets	P1,612,554	P-	P-	P-	P1,612,554
Investment properties	-	-	18	-	18
Depreciation and amortization	890,572	-	9,898	-	900,470
Impairment losses	42,467	-	10,717	-	53,184
Other non-cash expenses -					
Provision for legal claims	5,000	-	-	-	5,000

Geographical Segments

The Group operates in the domestic and international markets. Revenues from operations within the Philippines account for 91%, 96%, and 96% of the Group's total revenues in 2004, 2003 and 2002, respectively.

4. Cash and Cash Equivalents

	2004	2003
Cash on hand and in banks	**P1,473,493,105**	P1,138,241,538
Short-term deposits	**1,528,497,748**	1,650,272,705
	P3,001,990,853	P2,788,514,243

Cash in banks earns interest at the respective bank deposit rates.

Short-term deposits are made for varying periods of up to 90 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

5. Receivables

	2004	2003 (As restated - see Note 2)
Trade receivables (see Note 2)	**P1,192,570,630**	P925,379,901
Advances to employees (see Note 27)	**105,403,581**	79,451,943
Others	**25,942,860**	4,546,737
	1,323,917,071	1,009,378,581
Less allowance for doubtful accounts	**47,016,376**	48,937,703
	P1,276,900,695	P960,440,878

6. Inventories

	2004	2003
Food supplies and processed inventories - at cost	**P798,190,851**	P606,883,694
Packaging, store and other supplies - at cost	**268,601,049**	223,456,200
Novelty items - at cost in 2004, at net realizable value in 2003	**29,471,013**	43,992,785
Inventories in transit - at cost	**13,198,977**	6,652,213
Total inventories at lower of costs and net realizable values	**P1,109,461,890**	P880,984,892

7. Prepaid Expenses and Other Current Assets

	2004	2003
Prepaid expenses (see Note 27)	**P262,311,692**	P125,320,777
Deposits	**127,956,673**	133,698,778
Input VAT	**14,692,451**	130,883,735
Claims receivable	**-**	121,153,756
Others	**188,772,371**	185,409,671
	593,733,187	696,466,717
Less allowance for doubtful accounts	**2,598,985**	3,385,360
	P591,134,202	P693,081,357

Claims receivable in 2003 represents the expected reimbursements from the insurers of the loss incurred by a subsidiary as a result of a fire in 2002 which destroyed a portion of the subsidiary's facilities then under construction. The amount of P121.2 million was received from the insurers in 2004 in full settlement of the subsidiary's claims.

Others include pledged bank deposit of a foreign subsidiary to secure its short-term loan.

8. Investments in Subsidiaries

The consolidated financial statements include the account of Jollibee Foods Corporation and the subsidiaries listed below:

	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2004	2003	2002
With operations in the Philippines					
Chowking Food Corporation (Chowking)	Philippines	Food service	**100**	100	100
Greenwich Pizza Corporation (Greenwich)	Philippines	Food service	**80**	80	80
Freemont Foods Corporation (Freemont)	Philippines	Food service	**100**	100	100
Vismin Foods Corporation (Vismin)	Philippines	Food service	**100**	100	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	**100**	100	100
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	**100**	100	100
Donut Magic Phils., Inc. (Donut Magic) [a]	Philippines	Dormant	**100**	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP) [a]	Philippines	Dormant	**100**	100	100
Mary's Foods Corporation (Mary's) [a]	Philippines	Dormant	**100**	100	100
With operations outside of the Philippines					
Jollibee International Company Limited (JICL)	Hong Kong	Holding company	**100**	100	100
Honeybee Foods Corporation (Honeybee)	USA	Food service	**100**	100	-
Tokyo Teriyaki Corporation (Tokyo Teriyaki) [b]	USA	Food service	**90**	90	90
FSC Foods Corporation (FSC) [d]	Philippines	Food service	**-**	-	100
Superior FSC Corporation (Superior FSC) [d]	Philippines	Holding company	**-**	-	100
Jollibee International (BVI) Ltd. (JIBL)	British Virgin Islands	Holding company	**100**	100	100
Hanover Holdings Limited (Hanover) [c]	Hong Kong	Food service	**85**	85	85
Jollibee (Hong Kong) Limited [c]	Hong Kong	Food service	**85**	85	85
PT Chowking Indonesia [c]	Indonesia	Food service	**100**	-	-
Belmont Enterprises Ventures Limited and Subsidiaries:					
Belmont Enterprises Ventures Limited (Belmont) [c]	British Virgin Islands	Holding company	**85**	-	-
Yonghe Holdings Co., Ltd. [c]	British Virgin Islands	Holding company	**85**	-	-
All Great Resources Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Shanghai Belmont Enterprises Management and Adviser Co., Ltd. [c]	The People's Republic of China	Business management service	**85**	-	-
Centenary Ventures Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Colossus Global Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Granite Management Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Cosmic Resources Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Gladstone Company Limited [c]	British Virgin Islands	Dormant	**85**	-	-
Eastpower Resources Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Eaglerock Development Limited [c]	British Virgin Islands	Holding company	**85**	-	-
Shanghai Yonghe King Co., Ltd. [c]	The People's Republic of China	Food service	**85**	-	-
Beijing Yonghe King Soy Bean Milk Food and Beverage Co., Ltd. [c]	The People's Republic of China	Food service	**85**	-	-
Hangzhou Yongtong Foods and Beverage Co., Ltd. [c]	The People's Republic of China	Food service	**83**	-	-
Shenzhen Yongnan Restaurant Co., Ltd. [c]	The People's Republic of China	Food service	**85**	-	-
Wuhan Yongchang Food and Beverage Co., Ltd. [c]	The People's Republic of China	Food service	**85**	-	-
Yonghe Soy-bean Milk Co., Ltd. [c]	Hong Kong	Dormant	**85**	-	-

(a) On June 18, 2004, the stockholders approved the Plan of Merger of the three dormant companies, namely: Donut Magic, ICCP and Mary's with and into the Parent Company. The application for merger, however, has been deferred until the release of the parent company 2004 audited financial statements since the SEC required that the audited 2004 financial statements of the Parent Company be submitted.
(b) Indirectly owned through Honeybee in 2004 and 2003; and Superior in 2002.
(c) Indirectly owned through JIBL.
(d) Merged with the Parent Company in 2003.

Acquisition of Belmont Enterprises Ventures Limited

On March 25, 2004, the Group through Jollibee International (BVI) Ltd. (JIBL), a wholly owned subsidiary of the Company, acquired 85% of the issued capital shares of Belmont, the holding company of the Yonghe King chain of fastfood restaurants operating in the People's Republic of China. The acquisition included an initial cash payment of US$11.5 million that was paid on March 25, 2004 and, based on certain financial performance level, a future contingent payment for the next three years not to exceed US$11.0 million. The maximum purchase price for the 85% interest is US$22.5 million. The excess of the acquisition cost (inclusive of the contingent payment of US$11.0 million) over the fair values of the identifiable net assets of Belmont of P994.1 million was recognized as goodwill by JIBL.

The fair values of the identifiable assets and liabilities of Belmont Enterprises Ventures Limited and Subsidiaries as of March 31, 2004 follow:

	In Renminbi (RMB)	In Philippine Peso (PHP)*
Cash and cash equivalents	30,923,645	210,566,311
Inventories	1,998,516	13,608,354
Receivables	8,281,374	56,389,807
Pledged bank deposits for secured bank loan	4,053,075	27,598,333
Property, plant and equipment	57,157,674	389,199,924
Total identifiable assets	102,414,284	697,362,729
Less:		
Trade payables	26,433,356	179,990,884
Short-term bank loans	10,800,000	73,539,719
Due to shareholders	18,723,400	127,491,996
Deferred tax liability	6,771,240	46,106,949
Total liabilities	62,727,996	427,129,548
Fair value of net assets		270,233,181
Percentage share of net assets purchased		85%
Purchased share of net assets		229,698,204
Goodwill arising from acquisition		994,059,821
Total consideration		1,223,758,025

** Translated at the exchange rate prevailing as of March 31, 2004 of RMB1.0000 to HKD0.9419 and HKD1.0000 to P7.2291.*

	In US Dollar (US$)	In Philippine Peso (PHP)**
Initial price	11,475,000	646,692,189
Provision for additional consideration - at net present value (see Note 14)	10,064,904	565,043,705
Incidental costs (Professional fees)	213,846	12,022,131
Total consideration	21,753,750	1,223,758,025

***Translated at the exchange rate prevailing as of March 31, 2004 of USD1.0000 to P56.3566*

The cash outflow on acquisition is as follows:

	Amount
Cash paid	P658,714,320
Less cash acquired from subsidiary	210,566,311
	P448,148,009

Summarized financial information pertaining to Belmont as of and for the periods ended December 31:

	2004	2003
Current assets	**P348,739,204**	P312,417,622
Noncurrent assets	**304,327,160**	280,728,372
Current liabilities	**(394,493,474)**	(993,408,707)
	P258,572,890	(P400,262,713)
Revenues	**P1,935,937,480**	P1,393,276,650
Cost of sales	**(657,289,808)**	(441,203,193)
Operating expenses	**(1,229,552,795)**	(928,999,795)
Finance costs	**(3,112,879)**	(16,021,014)
Other income	**13,860,946**	11,414,978
Income before income tax	**59,842,944**	18,467,626
Benefit from (provision for) income tax	**17,471,647**	(3,927,339)
Net income	**P77,314,591**	P14,540,287

Merger of FSC and Superior FSC to the Parent Company

On October 10, 2003, the Parent Company and wholly owned subsidiaries FSC and Superior FSC, signed the Articles of Merger with the Parent Company as the surviving entity. The merger was accounted for as pooling of interest. Under the terms of the Articles of Merger, the merger took effect on December 31, 2003.

Subsequently, on October 31, 2003, the Parent Company, as the successor-in-interest to FSC under the Articles of Merger, and Honeybee Foods Corporation (Honeybee), also a wholly-owned subsidiary incorporated in Delaware in the United States of America, entered into an Assignment Agreement and an Agreement for the Transfer of Assets in consideration of the issuance of 200 shares of common stock of Honeybee. The Agreement for the Transfer of Assets covers the assets, properties, goodwill and business of FSC while the Assignment Agreement covers the rights to contracts, licenses and sublicenses, among others, held by the Parent Company as successor-in-interest of FSC. Both agreements are effective as of December 31, 2003, the effective date of the merger, among the Parent Company, FSC and Superior FSC.

The Articles of Merger was approved by the SEC on December 11, 2003. Correspondingly, the merger of the Parent Company, FSC and Superior FSC was made effective December 31, 2003. The Assignment Agreement and Agreement for the Transfer of Assets with Honeybee in exchange for Honeybee shares of common stock were also made effective on December 31, 2003.

9. Interest in and Advances to a Joint Venture

The Parent Company has a 50% interest in Baker Fresh Foods Philippines, Inc. (Baker Fresh), a joint venture with Delifrance Asia Ltd. (DAL), a Singapore company. Baker Fresh operates "Delifrance" food outlets on its own and issues subfranchisees under a Royalty and Licensing Agreement with DAL.

The Parent Company accounts for its interest in the joint venture under the equity method of accounting. The details of this account follow:

	2004	2003 (As restated - see Note 2)
Acquisition cost	**P89,846,774**	P89,846,774
Accumulated equity in net losses:		
Balance at beginning of year:		
As previously reported	**(76,327,433)**	(53,322,924)
Effect of change in accounting for operating leases (see Note 2)	**(3,147,405)**	(2,057,999)
As restated	**(79,474,838)**	(55,380,923)
Equity in net loss during the year	**(23,093,623)**	(24,093,915)
Balance at end of year	**(102,568,461)**	(79,474,838)
	(12,721,687)	10,371,936
Advances (see Note 24)	**61,944,392**	40,660,342
	P49,222,705	P51,032,278

The Parent Company's proportionate share in the assets, liabilities, revenues and expenses of the joint venture follows:

	2004	2003 (As restated - see Note 2)
Current assets	**P33,398,398**	P18,697,613
Noncurrent assets	**38,274,323**	44,575,878
Current liabilities	**(42,627,125)**	(29,996,026)
Noncurrent liabilities	**(41,767,283)**	(22,905,529)
	(P12,721,687)	P10,371,936
Revenues	**P127,604,126**	P118,190,772
Cost of sales	**(121,959,775)**	(113,206,964)
Operating expenses	**(26,761,041)**	(27,232,255)
Finance costs	**(1,557,131)**	(1,576,112)
Other income	**73,585**	110,090
Loss before income tax	**(22,600,236)**	(23,714,469)
Provision for income tax	**(493,387)**	(379,446)
Net loss	**(P23,093,623)**	(P24,093,915)

10. Investment Properties

	2004	2003
Investment properties - at cost	**P141,943,077**	P141,943,077
Less allowance for impairment in value of investment properties:		
Balance at beginning of year	**69,500,000**	50,500,000
Provision during the year	**-**	19,000,000
Balance at end of year	**69,500,000**	69,500,000
Investment properties - at recoverable value	**P72,443,077**	P72,443,077

Investment properties represent land owned in excess of the Group's requirements. The allowance for impairment in value of investment properties represents the excess of the carrying values of the investment properties over the estimated recoverable amounts. Recoverable amount is the estimated net selling price.

11. Property, Plant and Equipment

	2004								2003
	Land and Land Improvements	Plant and Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total	
	(In Thousands)								
Cost									
For Group's use:									
Beginning balance	P561,415	P1,888,389	P2,505,751	P3,886,971	P498,952	P161,353	P191,646	P9,694,477	P7,978,456
Additions	48	74,055	544,102	530,967	70,857	49,350	145,039	1,414,418	2,011,102
Consolidation of Belmont	-	362,572	-	313,275	-	14,218	-	690,065	-
Disposals	-	-	(79,076)	(93,981)	(8,632)	(15,717)	-	(197,406)	(352,927)
Retirements	(2,037)	(6,970)	(111,100)	(85,968)	(16,505)	(1,438)	-	(224,018)	(141,959)
Reversal of fully-depreciated assets	-	-	(81,859)	(329,525)	(45,270)	(2,327)	-	(458,981)	-
Transfers	-	-	-	-	-	-	-	-	9,317
Transfers from accounts receivable insurance	-	-	-	-	-	-	-	-	198,691
Reclassifications	-	23,849	(3,265)	157,924	-	1,082	(179,590)	-	-
Translations	-	-	-	-	-	-	-	-	21,291
Others	-	-	-	-	-	-	-	-	(29,494)
Ending balance	559,426	2,341,895	2,774,553	4,379,663	499,402	206,521	157,095	10,918,555	9,694,477
On lease to franchisees:									
Beginning and ending balance	1,431	17,113	12,743	21,053	-	-	-	52,340	52,340
Total	560,857	2,359,008	2,787,296	4,400,716	499,402	206,521	157,095	10,970,895	9,746,817
Accumulated Depreciation, Amortization and Impairment Loss									
For Group's use:									
Beginning balance	6,109	551,319	1,130,106	1,911,338	250,282	77,142	-	3,926,296	3,105,436
Depreciation and amortization	73	92,539	346,970	653,998	69,823	30,810	-	1,194,213	979,717
Consolidation of Belmont	-	71,805	-	224,755	-	4,305	-	300,865	-
Disposals	-	-	(26,251)	(94,608)	(5,873)	(11,524)	-	(138,256)	(118,218)
Retirements	-	(5,835)	(92,471)	(84,455)	(15,483)	(1,295)	-	(199,539)	(100,066)
Reversal of fully-depreciated assets	-	-	(81,859)	(329,518)	(45,269)	(2,328)	-	(458,974)	-
Impairment loss (see Note 14)	-	-	-	-	-	-	-	-	97,029
Reclassifications	-	3,219	(3,219)	-	(821)	821	-	-	(12,946)
Translations	-	-	-	-	-	-	-	-	4,838
Others	-	-	-	-	-	-	-	-	(29,494)
Ending balance	6,182	713,047	1,273,276	2,281,510	252,659	97,931	-	4,624,605	3,926,296
On lease to franchisees:									
Beginning balance	-	16,127	4,458	17,725	-	-	-	38,310	38,018
Depreciation and amortization	-	-	106	185	-	-	-	291	292
Ending balance	-	16,127	4,564	17,910	-	-	-	38,601	38,310
	6,182	729,174	1,277,840	2,299,420	252,659	97,931	-	4,663,206	3,964,606
Net book value	P554,675	P1,629,834	P1,509,456	P2,101,296	P246,743	P108,590	P157,095	P6,307,689	P5,782,211

Under the terms of agreement covering liabilities under trust receipts, equipment amounting to P10,344,439 as of December 31, 2003, have been released to Zenith in trust for the bank. Zenith is accountable to the bank for the trusteed inventories or its sales proceeds.

12. Other Noncurrent Assets

	2004	2003 (As restated - see Note 2)
Goodwill - net of amortization of P37.3 million (see Note 8)	**P956,782,578**	P-
Refundable container and lease deposits	**452,269,360**	572,038,989
Nonoperating assets	**350,497,634**	416,832,109
Notes receivable	**180,000,000**	180,000,000
Advances to employees (see Note 27)	**38,758,096**	18,602,482
Prepaid leases and others - net of allowance for doubtful accounts of P3.9 million (see Notes 2 and 26)	**250,716,067**	177,410,894
	2,229,023,735	1,364,884,474
Less allowance for impairment in value of nonoperating assets	**286,649,043**	355,925,920
	P1,942,374,692	P1,008,958,554

Nonoperating assets represent assets which are not being used in operations. The allowance for impairment in value of nonoperating assets represents the excess of the carrying values of the nonoperating assets over the estimated recoverable amounts. Recoverable amount is the estimated net selling price.

Movements in the allowance for impairment in value of nonoperating assets follow:

	2004	2003
Balance at beginning of year	**P355,925,920**	P370,699,190
Additional provision during the year	**10,737,322**	13,899,020
Write-off of nonoperating assets	**(80,014,199)**	(28,672,290)
Balance at end of year	**P286,649,043**	P355,925,920

Notes receivable represents the amount receivable from the minority shareholders of Greenwich. The notes bear interest at prevailing market rates of 9.36% and 8.42% in 2004 and 2003, respectively, and payable upon declaration of dividends by Greenwich.

Included under refundable container and lease deposits are advance rental relating to operating leases entered into by the Group as lessee. The advance rental will be applied against the lease payment due for the last months of the lease term. Advance rentals amounting to P29.5 million relating to noncancellable operating leases are shown as deductions against "Operating lease payable" account resulting from the straight-line recognition of operating lease payments in accordance with SFAS 17/IAS 17.

13. Accrued Expenses

	2004	2003 (As restated - see Note 2)
Salaries, wages and allowances (see Note 22)	**P761,714,371**	P652,163,963
Local and other taxes	**384,156,711**	266,977,074
Advertising and promotion	**278,414,439**	176,153,126
Accrued purchases	**270,915,594**	326,200,650
Rent (see Notes 2 and 26)	**118,882,884**	100,867,543
Retention	**49,661,876**	40,318,828
Income tax payable	**11,426,759**	7,766,616
Others	**646,840,168**	416,681,844
	P2,522,012,802	P1,987,129,644

14. Provisions

	2004				2003
	Legal Claims	Restructuring	Acquisition (see Note 8)	Total	Total
Balance at beginning of year	**P31,450,000**	**P75,983,000**	**P-**	**P107,433,000**	P25,500,000
Provisions during the year	**-**	**62,800,910**	**565,043,705**	**627,844,615**	87,433,000
Payments during the year	**-**	**(15,487,420)**	**-**	**(15,487,420)**	(5,500,000)
Balance at end of year	**31,450,000**	**123,296,490**	**565,043,705**	**719,790,195**	107,433,000
Less current portion	**-**	**91,151,580**	**565,043,705**	**656,195,285**	17,000,000
	P31,450,000	**P32,144,910**	**P-**	**P63,594,910**	P90,433,000

In 2003, the Group started the implementation of a three-year Cost Improvement Program (CIP) to improve the quality of services and reduce the costs of backroom operations for its various QSR systems. The first phase of the CIP is the restructuring of international operations and the setting up of a shared services capability to improve certain common services required by the various QSR systems. The merger of Superior FSC and FSC to the Parent Company, with the Parent Company as the surviving entity (see Note 8), is an implementation of the CIP activities. Discussions have also been initiated with the affected personnel of the international operations.

On February 17, 2004, the Group made a public announcement of the planned restructuring activities and the recognition by the Group of restructuring charges against 2003 operations amounting to P173.0 million. Of this amount, the Group recognized a provision for restructuring of P76.0 million for planned payments relating to the implementation of the shared services capability and closure of certain US and Hong Kong stores. The additional provision of P97.0 million pertains to impairment losses on fixed assets of such stores (see Note 12) and is shown as part of "Provisions for impairment in value of property, plant and equipment, nonoperating assets and investments properties" account in the 2003 consolidated statements of income. As of December 31, 2004, actual payments relating to closure of US stores amount to P15.5 million.

In 2004, the Group recognized a provision for restructuring of P62.8 million in relation to the closure of the Parent Company's commissary in Pasig.

A summary of restructuring provisions and impairment losses in the consolidated statements of income follows:

	2004	2003
Provisions for restructuring	**P62,800,910**	P75,983,000
Impairment in value of property and equipment (see Note 11)	**-**	97,028,695
	P62,800,910	P173,011,695

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

15. Other Current Liabilities

	2004	2003
Dividends payable	**P159,177,133**	P122,282,209
Deposits	**98,115,026**	109,948,348
Output tax	**81,316,404**	101,577,769
Nontrade payables	**27,229,200**	48,422,325
Others	**199,980,403**	51,206,272
	P565,818,166	P433,436,923

16. Long-term Debt

This represents the unsecured loan availed by the Parent Company from Citibank N.A. in the original amount of P850.0 million to finance certain capital expenditures. The loan is payable in 15 consecutive equal quarterly installments starting in September 2002 until March 2006. The loan is subject to floating interest rate starting 2002 and is being repriced annually. Interest rate on the loan is 10.21% and 7.75% in 2004 and 2003, respectively.

The loan agreement provides certain restrictions and requirements with respect to granting of advances to or investing in any person or entity; selling, leasing, transferring all or substantially all of its properties and assets, or any significant portion thereof other than in the ordinary course of business; consolidating or merging with any other corporation; declaring dividends after default or in an amount greater than the Group's net income of the preceding year; and maintenance of certain financial ratios.

As of December 31, 2004, the Parent Company is in compliance with the terms of the loan agreement.

Repayment schedule of the outstanding long-term debt as of December 31, 2004 is as follows:

Year	Amount
2005	P226,666,667
2006	56,666,666
	P283,333,333

17. Stockholders' Equity

a. Capital stock

The details of this account are shown below:

	Number of Shares		
	2004	2003	2002
Authorized - P1 par value	**1,450,000,000**	1,450,000,000	1,450,000,000
Issued:			
Balance at beginning of year	**1,018,339,980**	1,017,259,670	1,017,238,784
Issuances	**1,809,086**	1,080,310	20,886
Balance at end of year	**1,020,149,066**	1,018,339,980	1,017,259,670
Subscribed (see Note 23):			
Balance at beginning of year	**14,588,382**	12,822,018	-
Subscriptions	**1,881,053**	2,846,674	12,842,904
Issuances	**(1,809,086)**	(1,080,310)	(20,886)
Cancelled subscriptions under the Stock Purchase Plan	**(12,651,052)**	-	-
Balance at end of year	**2,009,297**	14,588,382	12,822,018
	1,022,158,363	1,032,928,362	1,030,081,688
In treasury:			
Balance at beginning of year	**48,259,874**	47,962,590	59,487,997
Acquisitions	**-**	8,432,684	-
Reissuances	**(1,098,276)**	(8,135,400)	(11,525,407)
Reissuances for stock purchase exercised	**(12,651,052)**	-	-
Balance at end of year	**34,510,546**	48,259,874	47,962,590

The Parent Company's BOD has approved on January 26, 2005, to reissue its treasury shares to cover the stock purchase exercised by the employee participants in the Group's Employee Tandem Stock Purchase and Option Plan II. Previously, the exercise of the stock purchase was recognized as subscription to the Parent Company's unissued share. The decision of the BOD to reissue the treasury shares for the exercise of the stock purchase effectively cancelled the subscription to the unissued shares as of December 31, 2004.

b. Retained earnings

Unappropriated retained earnings is net of the accumulated equity in net losses of subsidiaries of P506.2 million and P870.2 million as of December 31, 2004 and 2003, respectively, and accumulated equity in net losses of a joint venture of P102.6 million and P79.5 million as of December 31, 2004 and 2003, respectively (see Note 9).

The unappropriated retained earnings account is also restricted for the payment of dividends to the extent of P440.7 million in 2004 and P611.0 million in 2003, representing the cost of shares held in treasury.

18. Royalty and Franchise Fees

The Parent Company and two of its subsidiaries have existing Royalty and Franchise Agreements (Agreements) with independent franchisees for the latter to operate QSR outlets under the "Jollibee," "Chowking," and "Greenwich" concepts and trade names. In consideration thereof, the franchisees agree to pay franchise fee and monthly royalty fees equivalent to certain percentages of the franchisees' net sales.

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

19. Expenses

Depreciation and amortization and cost of inventories included in the consolidated statements of income follow:

	2004	2003	2002
Depreciation and amortization included in:			
Cost of sales	**P943,182,883**	P815,494,237	P757,743,166
General and administrative expenses	**286,250,704**	164,513,935	142,726,828
	P1,229,433,587	P980,008,172	P900,469,994
Cost of inventories recognized in cost of sales	**P13,727,561,340**	P11,362,564,461	P10,698,019,772

Staff costs included in the consolidated statements of income follow:

	2004	2003	2002
Included in cost of sales:			
Wages, salaries and benefits	**P2,503,848,341**	P2,148,515,297	P1,991,291,978
Retirement benefits (see Note 22)	**32,838,445**	36,226,214	32,324,157
	2,536,686,786	2,184,741,511	2,023,616,135
Included in general and administrative expenses:			
Wages, salaries and benefits	**876,334,739**	885,260,552	711,187,565
Retirement benefits (see Note 22)	**48,919,214**	38,491,684	17,002,647
	925,253,953	923,752,236	728,190,212
	P3,461,940,739	P3,108,493,747	P2,751,806,347

Entertainment, amusement and recreational expenses included in the consolidated statements of income follow:

	2004	2003	2002
Included in cost of sales	**P10,090,983**	P10,066,588	P9,010,448
Included in general and administrative expenses	**29,927,179**	24,137,864	26,383,483
	P40,018,162	P34,204,452	P35,393,931

20. Income Tax

The components of the Group's net deferred tax assets follow:

	2004	2003 (As restated - see Note 2)
Deferred tax assets:		
Accrued operating lease expenses	**P270,524,911**	P252,410,560
NOLCO	**147,461,396**	112,579,699
Provision for impairment in value of nonoperating assets and investment properties	**89,218,660**	99,441,405
MCIT	**86,969,123**	36,396,192
Accrued retirement and other benefits	**67,342,382**	63,904,991
Provisions for legal claims and restructuring costs	**49,518,877**	34,378,560
Unamortized preoperating expenses	**13,480,136**	35,309,623
Unamortized past service costs	**12,377,193**	7,837,762
Allowance for doubtful accounts	**3,542,988**	1,234,313
Allowance for inventory losses	**1,062,954**	768,753
Others	**1,157,426**	-
	742,656,046	644,261,858
Deferred tax liabilities:		
Excess of fair value over book value of property and equipment on acquisition of a business	**33,312,271**	-
Accrued operating lease income	**23,132,487**	20,881,231
	56,444,758	20,881,231
	P686,211,288	P623,380,627

As of December 31, 2004, NOLCO and MCIT of the Philippine entities that can be claimed as deductions from taxable income and income tax due, respectively, follow:

Year Incurred/Paid	Carry Forward Benefit Up to	NOLCO	MCIT
December 31, 2001	December 31, 2004	P71,560,338	P5,983,076
December 31, 2002	December 31, 2005	211,918,247	6,460,773
December 31, 2003	December 31, 2006	205,339,502	36,305,262
December 31, 2004	December 31, 2007	11,522,451	50,998,978
		500,340,538	99,748,089
Less:			
Applied against regular taxable income in 2004		40,063,282	12,352,919
Expired in 2004		42,365,734	426,047
		82,429,016	12,778,966
		P417,911,522	P86,969,123

As of December 31, 2004, tax losses in China represent Belmont's tax losses available for offset against future taxable income. Belmont operates in the People's Republic of China where the income tax rate is 33%.

Year Incurred/Paid	Carry Forward Benefit Up to	Tax losses
December 31, 2000	December 31, 2005	P46,732,004
December 31, 2001	December 31, 2006	41,778,192
December 31, 2002	December 31, 2007	9,325,962
December 31, 2003	December 31, 2008	2,772,508
December 31, 2004	December 31, 2009	7,810,640
		P108,419,306

As of December 31, 2004 and 2003, deferred income tax assets have not been recognized on the following temporary differences since it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

	2004	2003
Allowance for impairment of nonoperating assets	**P77,340,729**	P114,671,529
NOLCO	**68,902,070**	137,006,527
Allowance for doubtful accounts	**42,361,319**	48,465,835
Allowance for impairment of trademarks	**2,250,000**	-
Accrued retirement benefits	**351,775**	-
MCIT	**-**	12,352,919
	P191,205,893	P312,496,810

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

	2004	2003 (As restated - see Note 2)	2002 (As restated - see Note 2)
Provision for income tax at statutory income tax rate (32%)	**P632,955,732**	P426,551,515	P430,446,199
Income tax effects of reconciling items substantially consisting of royalty and interest income subjected to final withholding tax at a lower rate and others	**(175,233,923)**	(73,123,792)	(70,211,348)
ITH availed (see Note 21)	**(47,199,119)**	-	-
Change in unrecognized deferred tax assets	**(47,213,078)**	(209,373,924)	21,925,577
	P363,309,612	P144,053,799	P382,160,428

21. Registration with the Board of Investments (BOI)

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

ITH incentives availed of by a subsidiary amounted to P47.2 million in 2004. No ITH incentives was availed of in 2003 since the subsidiary incurred a loss from its BOI-registered activities.

22. Retirement Benefits

The Parent Company and certain subsidiaries have funded, independently administered, noncontributory defined benefit retirement plans covering all of its qualified employees. Retirement costs are determined using the projected unit credit method.

Actuarial valuations are made at least every three years. As of April 1, 2003, the date of the latest actuarial valuation of the Parent Company, the actuarial present value of retirement benefits and unfunded actuarial liability amounted to P354.6 million and P272.3 million, respectively, while the fair value of the plan assets amounted to P82.3 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary rate increase of 8% per year.

As of January 1, 2004, the date of the latest actuarial valuation of Chowking, the actuarial present value of retirement benefits amounted to P89.3 million and the fair value of plan assets amounted to P46.0 million. The actuarially determined unfunded actuarial liability amounted to P43.3 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 8% and annual salary increase of 8% per year.

As of January 1, 2003, the date of the latest actuarial valuation of Vismin, the actuarial present value of retirement benefits amounted to P1.3 million, the fair value of the plan assets amounted to P0.1 million and the unfunded actuarial liability amounted to P1.2 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary increase of 8% per year.

As of March 1, 2001, the date of the latest actuarial valuation of Greenwich, the actuarial present value of the retirement benefits amounted to P17.9 million and the unfunded actuarial liability amounted to P4.8 million. The unfunded present value of pension benefits amounted to P13.1 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary increase of 8%.

The other subsidiaries provide for the estimated retirement benefits required under RA No. 7641 to qualified employees. The retirement benefits are computed as a certain percentage of basic monthly salary for every year of service. Management believes that the effect on the financial statements of the difference between the retirement costs determined under the current method used by certain subsidiaries and an acceptable actuarial valuation is not significant.

Total retirement cost charged to operations amounted to P81.8 million in 2004, P74.7 million in 2003 and P49.3 million in 2002.

23. Tandem Stock Purchase and Option Plan I and Plan II

On July 29, 1997, the SEC approved the Parent Company's adoption of Stock Option Plan I (Plan I) for all qualified employees, officers and executives of the Parent Company and its subsidiaries to the extent of five percent of the Parent Company's issued and outstanding shares. Under Plan I, the number of shares an eligible participant can purchase shall be based on the particular tranche to which such eligible participant belongs, to be determined in accordance with the formula provided for in Plan I. The exercise price per share shall not be less than 50% to 75% of the fair market value at the time of the commencement of the tranche, as computed by the Compensation Committee. The options vest and become exercisable after three years of continuous employment provided the employee is still employed by the Group at the exercise date. In addition, an eligible participant has the option to purchase a maximum of two shares for every fully paid share under an accepted purchase offer. The additional shares will be taken from the Company's treasury shares.

On October 5, 1998, the SEC approved the amendments to certain provisions of Plan I, primarily relating to eligible participants and dividends.

Movements in the number of stock options outstanding for Plan I follow:

	2004	2003
Number of option shares available:		
Balance at beginning of year	**4,084,665**	10,466,047
Options exercised during the year	**(2,367,844)**	(6,047,378)
Options absorbed by retirement fund and options of resigned employees	**-**	(334,004)
	1,716,821	4,084,665
Less expired option shares	**1,716,821**	-
Balance at end of year	**-**	4,084,665

The options that were exercised in 2004 had an exercise price of P12.00 per share on 2,196,679 options, P11.75 per share on 92,724 options, and P10.65 per share on 78,441 options. The total options exercised during the year amounted to P28.3 million. The total fair value of the shares as at the exercise date amounted to P48.7 million at P20.57 per share. The option to exercise Plan I shares ended in May 2004 and the remaining 1,716,821 option shares subsequently expired.

The aggregate number of share options exercised by the directors and officers of the Group was 1,258,028 in 2004 and 1,016,704 in 2003. The share options were granted on the same terms and conditions as those offered to other employees of the Group.

On January 1, 2002, the Parent Company adopted Stock Option Plan II (Plan II) which has the same terms and conditions set forth in Plan I. A total of 12,651,052 shares have been subscribed by the employee participants under the Purchase portion of Plan II and fully paid by December 31, 2004. As discussed in Note 17, the Parent Company's BOD has approved the use of the treasury shares to cover the stock purchase exercised. The excess of the cost of the treasury shares issued over the purchase exercise price amounting to P24.8 million was deducted from additional paid-in capital resulting from treasury share transactions.

In accordance with Plan II, a total of 25,302,104 shares became available for the Option portion equivalent to two (2) shares for every fully paid share under the purchase portion. The Option portion will vest over a three-year period starting January 2005 and will expire in January 2008. The shares for the Option portion will be taken from treasury shares.

24. Related Party Transactions

The Group has transactions within and among the consolidated entities and with the joint venture. SFAS 24, "Related Party Disclosures," defines a related party as an entity that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions between members of the Group and the related balances are eliminated in the consolidation and are no longer included in the disclosures. Transactions with the joint venture consist mainly of intercompany advances. Outstanding balance of the advances amounted to P61.9 million and P40.7 million as of December 31, 2004 and 2003, respectively (see Note 9).

25. Earnings Per Share Computation

	2004	2003 (As restated - see Note 2)	2002 (As restated - see Note 2)
(a) Net income	**P1,580,673,156**	P1,182,207,754	P970,811,235
(b) Weighted average number of shares - basic	**986,601,172**	983,914,279	974,099,894
Weighted average number of shares exercisable under the stock option plan	**2,106,063**	4,473,907	25,824,808
Weighted average number of shares that would have been purchased at fair market value	**(1,004,435)**	(3,044,407)	(21,998,377)
(c) Adjusted weighted average shares - diluted	**987,702,800**	985,343,779	977,926,325
Earnings per share:			
Basic (a/b)	**P1.6021**	P1.2015	P0.9966
Diluted (a/c)	**1.6004**	1.1998	0.9927

26. Commitments and Contingencies

a. Operating lease commitments - the Group as lessee

The Group has various operating lease commitments for QSR outlets and offices. Noncancellable periods of the leases range from three 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. Rental payments in accordance with the terms of the lease agreements amounted to P1,475.0 million and P1,211.3 million in 2004 and 2003, respectively.

Future minimum rentals payable for the noncancellable periods of the operating leases follow:

	2004	2003
Within one year	**P812,418,388**	P458,687,197
After one year but not more than five years	**2,851,794,645**	2,139,199,990
After more than five years	**2,855,869,551**	3,193,517,715
	P6,520,082,584	P5,791,404,902

b. Operating lease commitments - the Group as lessor

The Group entered into commercial property leases for its franchised outlets. Noncancellable periods of the lease range from three to 20 years, mostly containing renewal options. All leases include a clause to enable upward revision of the rental charges on an annual basis based on prevailing market conditions. Rental revenue in accordance with the terms of the lease agreements amounted to P2.7 million and P4.8 million in 2004 and 2003, respectively.

Future minimum rentals receivable for the noncancellable portions of the operating leases follow:

	2004	2003
Within one year	**P67,848,146**	P61,976,538
After one year but not more than five years	**281,740,989**	311,964,027
After more than five years	**245,465,288**	286,090,396
	P595,054,423	P660,030,961

c. Contingencies

The Group is involved in litigations, claims and disputes which are normal to its business. Except for those legal claims provided under Note 14, 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 result of operations of the Group and accordingly, no provision for losses were taken up in the accounts.

d. Refund from Manila Electric Company (Meralco)

As a customer of Meralco, the Group could expect to receive a refund for some of its previous billings. On April 30, 2003, the Third Division of the Supreme Court (SC) denied the Urgent Motion for Consideration filed by Meralco, rendering the SC decision dated November 15, 2002 final and executory. The decision mandates that Meralco refund its customers P0.167 per kilowatt-hour starting with the billing cycles beginning February 1994 until May 2003, or credit the refund in favor of the customers against future power consumption.

Meralco had reached an agreement with the Energy Regulatory Commission (ERC) on the manner and timing of the refund. The refund to the smaller, mostly residential customers (Refund Phases I to III) will first be satisfied and is presently ongoing, except for refunds covered by Phase III, which has been implemented starting January 2004 over a period of twelve months. Proposal to the ERC submitted last September 3, 2004 on the refunds to commercial and industrial customers (Refund Phase IV) and all other customers not covered by Phases I to III sought to be covered by two sub-phases. Phase IV-A will cover small commercial and industrial customers, flat streetlights and government hospitals and metered streetlights with contracted demand of less than 400 kwh. Phase IV-B will cover medium, large, very large and extra large commercial and industrial customers and government hospitals and metered streetlights with contracted demand greater than or equal to 400 kwh. On January 5, 2005, the ERC issued an order to implement Phase IV-A starting January 2005 until June 2006 and ordered Meralco to submit specific details on the implementation of Phase IV-B. The Bureau of Internal Revenue (BIR), however, has informed Meralco that it will impose a withholding income tax on the refund to customers under Phase IV and will appoint Meralco as its withholding agent. Meralco, thus, filed a Manifestation and Motion with the ERC on January 28, 2005, requesting for an indefinite deferment of the implementation of Phase IV-A until the BIR releases the revenue regulation to allow Meralco to prepare compliance with the BIR guidelines. Meralco is still evaluating its implementation proposal for Phase IV-B that will be submitted to ERC.

The Group is covered by Refund IV-B. It will recognize the Meralco refund when it is virtually certain of collection, both as to amount and timing of receipt.

27. Reclassification of Accounts

The following accounts in the 2003 consolidated balance sheet were reclassified to conform to the 2004 consolidated financial statements presentation:

Reclassified From	Reclassified To	Amount
Prepaid expenses and other current assets (advances to employees)	Receivables (advances to employees)	P79,451,943
Prepaid expenses and other current assets (advances to employees)	Other noncurrent assets (advances to employees)	18,602,484
Prepaid expenses and other current assets (prepaid expenses)	Other noncurrent assets (prepaid expenses)	30,398,143

28. Notes to Statement of Cash Flows

In 2004, the Group recognized other receivables from sale of a property amounting to P21.0 million.

Investor Information

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Common Stock

Jollibee's common stock is listed and traded on the Philippine Stock Exchange under the symbol "JFC." It is one of the companies, which comprise the PSE Composite Index.

Annual Stockholder's Meeting

The 2004 Stockholder's Meeting will be held on June 24, 2005 at 2:00 P.M., (registration starts at 1:00 P.M.) Friday at the Philippine Stock Exchange Center Auditorium, Ground Floor, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

Stockholder Inquiries

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

Rizal Commercial Banking Corporation
Stock Transfer Office
RCBC Plaza Tower 1,
Senator Gil Puyat Avenue
Corner Ayala Avenue, Makati City

SEC Form 17-A

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

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