JOLLIBEE FOODS CORPORATION **2005**

Annual Report

Ordinary People with Extraordinary Achievements

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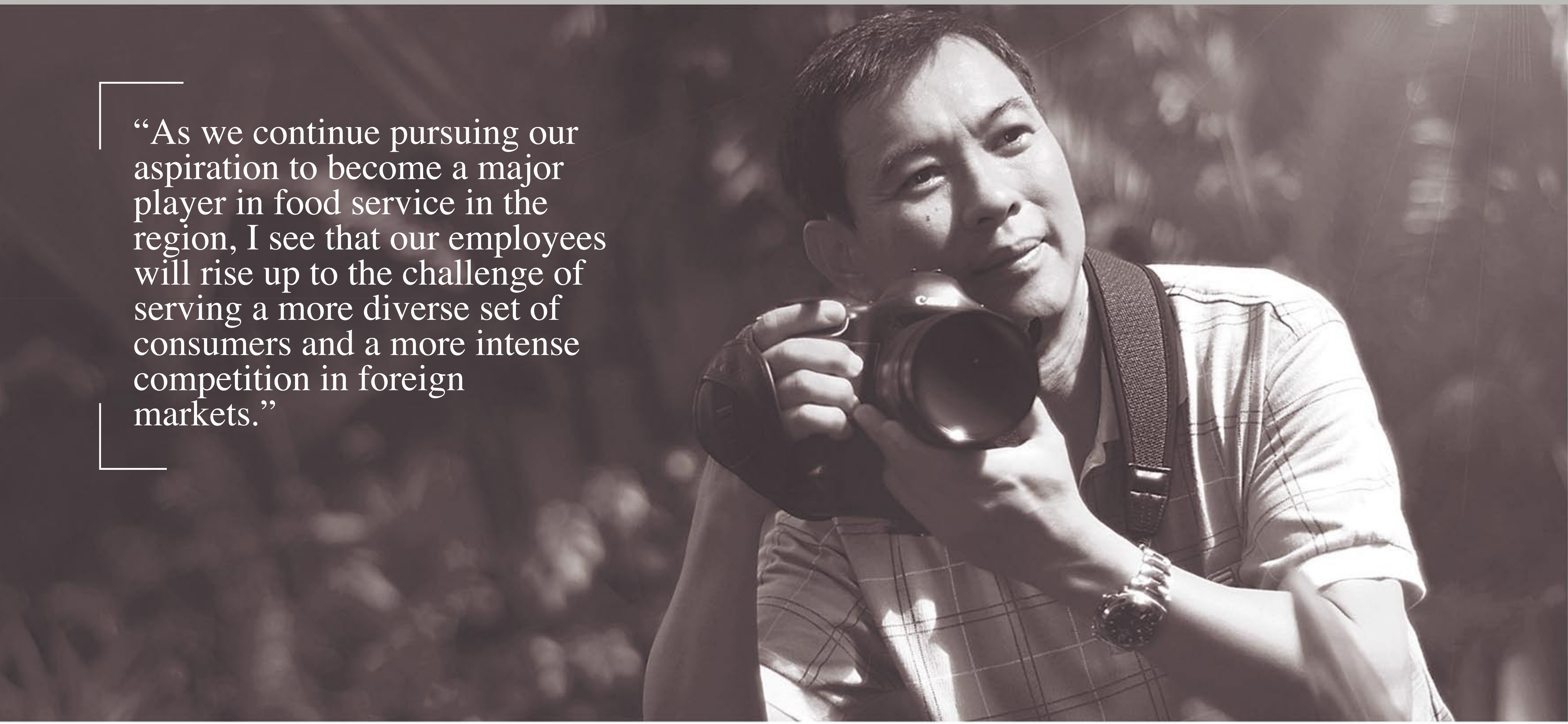
Ordinary People with Extraordinary Achievements

Passionate dancers, a violinist, a nature lover, a church lector, an aspiring artist, a cyclist, an extreme climber, a baseball player, an NGO volunteer, a rising star and a photography enthusiast. They are people in Jollibee Foods Corporation. They live their lives fully with their varied interests. But they are also ordinary people who enjoy the simplicities of life.

The people of the Jollibee Group are ordinary people. What make them stand out are their characters and the values they apply in daily life. These individuals exhibit passion for excellence, focus on detail, competitiveness and discipline, inventiveness and creativity, fortitude for self-improvement, humility to listen and genuine concern for their fellowmen.

In doing so, they touch lives and produce good fruits for their customers, stakeholders and the communities in which they do business.

Chairman's Message



"As we continue pursuing our aspiration to become a major player in food service in the region, I see that our employees will rise up to the challenge of serving a more diverse set of consumers and a more intense competition in foreign markets."

The Determination of Our People Made The Difference

2005 was a very challenging year for growing the business. The appreciable increase in the cost of living, driven mainly by higher prices of petroleum tightened the Filipino consumers' budget for eating out. It was also not a good year for the agriculture sector which hardly attained any growth and this had much bearing on our sales particularly in the provinces. Necessarily, competition became more intense. And considering that the previous year was an election year when our business benefited from political campaign spending, the odds were against sales and profit growth.

Yet, our System Wide Sales, a measure of all sales to consumers both from company-owned and franchised stores grew by 12.1% to ₱39.8 billion, while our revenues increased by 10.6% to ₱29 billion. Jollibee brand sales grew by 7.5%, Chowking by 14.6%, Greenwich by 5.9%, and Delifrance by 32.1%. Abroad in the People's Republic of China, Yonghe King increased sales by 43.2%.

We opened a total of 120 stores. In the Philippines we opened 94: Jollibee 38, Chowking 31, Greenwich 18 and Delifrance 7. Overseas, we opened 25 mainly Yonghe King in China with 21 stores.

We were able to grow our net income attributable to our equity holders by 7.05% to ₱1,675 million, certainly not comparable to the 34.3% increase experienced in 2004 but a healthy rate given the difficult business condition in 2005 particularly with the significant increase in the unit cost of utilities, which rose by as much as 47% thereby reducing our operating profit margins. Earnings per share improved by 6.3% from ₱1.584 in 2004 to ₱1.684 in 2005.

Aside from growing our brands, we also made a significant addition to our business with the acquisition of Red Ribbon in October, 2005, enabling the Jollibee Group to enter the cake food segment. Red Ribbon at the time of our purchase had annual sales of ₱2.5 billion from 147 stores: 131 in the Philippines and 16 in the United States. Red Ribbon is a strong brand that stands for high quality cake. Jollibee Foods Corporation acquired 100% of Red Ribbon for ₱1.8 billion payable in 3 years.

Our overall business performance rewarded our shareholders well. In addition to the ₱0.55 per share cash dividends in 2005 which represented a 22.2% increase over the cash dividends declared in 2004, JFC's stock price rose by 42.1% to ₱40.50 at year end making our stock one of the best performers in the Philippines in 2005 following an excellent performance in 2004 when JFC stock price rose by 56.2%. The Return on Equity reached 17.3%, a healthy level even though lower versus the 18.7% achieved in 2004.

The growth in our sales and profit in 2005 was modest in absolute terms but remarkable under the difficult economic condition and intense competition. Behind the modest growth numbers was the strong determination of our employees: to grow the business ahead of the industry, to preserve and improve profit margins against higher cost of raw materials and operating expenses, to keep improving our products and services at a time when costs were going up fast yet avoiding large price changes; at the same time building our organization and infrastructure for long term growth in accordance with our long term goals and strategies.

Following are illustrations of the determination of our people to keep the business growing profitably:

JOLLIBEE

Jollibee introduced several new products: Super Meal, Jolly Cheezy Fries, Creamy Macaroni Soup, Yumburger

Doubles, Jolly Zerts, Fish Fillet, Fresh Green Salad, Chicken Torpedo, Jolly Beef Rice, Burger Steak Bistek Pinoy Style and Jolly Chicken Tocino. Four Core Product TV commercials (TVCs) were launched—Yumburger "Beat" which featured young talents Sarah Geronimo and Mark Bautista; Chickenjoy "Ode series" and "Mr. & Mrs. Joy" accompanied by the "Araw-Gabi" jingle; Jolly Crispy Fries "Game," and; Jolly Spaghetti which featured Donna Cruz and her kids. Thematic advertisement "Dito sa Jollibee, Bida ang Saya!" which featured Aga Muhlach and his twins, Andres and Atasha, sent a strong message of love in the family.

Jollibee also ventured into new marketing media with the launch of Jollikids Apparel, Jollibee Educational VCD, Jollibee Nationwide Bee Dance Contest, and MaAga ang Pasko sa Jollibee Song and MTV. Jollibee stepped up the expansion of the Jollibee network with the opening of 38 new stores in the Philippines. At year-end, Jollibee's QSR network totaled 529, ensuring undisputed market coverage in the country.

CHOWKING

Chowking introduced the Chicken Supreme Wings, Hot Chocolate, 16 oz. Nai Cha and relaunched Pork Tofu and Improved Pancit with very encouraging sales results. It also introduced the Salo-Salo Affordables in January 2005, a very innovative pricing strategy against cost increases, targeting families or groups of four to six persons sharing meals together.

Chowking continued airing very appealing TV advertisements, as a result of which it won the prestigious "Marketing Company of the Year" award given by the Philippine Marketing Association.

It opened its first store in Indonesia at the Artha Gading Mall, one of the newest and biggest malls in Jakarta, in March 2005. It also opened two stores in Dubai during the year, increasing the number of its stores abroad to 16: 3 in Indonesia, 9 in the US and 4 in Dubai. In the Philippines, Chowking continued to make headway by opening 31 stores bringing its store network in the country to 328 at the end of 2005.

GREENWICH

Greenwich launched several new products: Grilled Beef Primo Pizza, Big Time Lunch, Rice Meals and promotional offerings such as Super Sisig Pizza. Greenwich also improved two of its most popular offerings, Lasagna Supreme and Greenwich Special to give customers even more delicious products and greater value. To further improve serving time, Greenwich designed and launched in its stores The Hot Meals Express, a new food merchandising and serving system. Tri-media advertising and trade area merchandising supported "Siguradong On Time," a campaign on Delivery Service.

Greenwich introduced a new endorser for its products—Christian Bautista. Other breakthroughs in 2005 included the introduction of internal communication programs—Kamusta, Ka-Partner, Kamustahan with franchisees and store managers and Fun Friday for a stronger and happier organization.

Greenwich added 18 new stores, expanding its chain to 239 stores at the end of 2005. With these efforts, Greenwich strengthened its position as the No. 1 pizza/ pasta brand in the Philippines.

YONGHE KING

In its first full year as part of the JFC Group, Yonghe King introduced changes which helped grow its system wide sales. Yonghe King improved the taste of its existing products and added several new products. These included the: Vegetarian Rice, Spicy Chicken Noodles, Spicy Noodles, Beef Flour Noodles, Chicken Flour Noodles, Meat Ball Soup, Seafood Soup, Red Date Plum Tea, Red Date Ginger Tea, Medlar Chrysanthemum Tea, Black Pepper Beef, Multi-flavoured Peanut, “The growth in our sales and profit in 2005 was modest in absolute terms but remarkable under the difficult economic condition and competition.”

Minced Pork Rice Roll, Sweet Osmanthus Rice Roll and Rice Roll King.

Yonghe King expanded its restaurant system with the addition of 21 stores, bringing its network to 101 at the end of 2005. The new stores present a more modern Chinese fast food look which features a new logo, a new lay-out for greater efficiency, and a new design and color scheme. Some old stores were also renovated to conform to the new concept to strengthen Yonghe King's brand image.

DELIFRANCE

Delifrance continued revitalizing itself with the continued improvement of its products and the introduction of new products: in the sandwich line—the Roast Beef, Premier, California Chicken and Seafood de Luxe Clubhouse; in the baguette line—Pizza Baguettes with four variants—BBQ Chicken, Vegetarian, Four Cheese and Hawaiian; in the pasta line—Garlic Pesto, Shrimp Pesto, and Seafood Pasta; and in the salad line—Fruits and Nuts and Salmon and Fruits.

Delifrance opened 7 stores in prime locations mostly in Makati City—at the Insular Life Bldg., Philippine First, SM Makati, Valero St. and the Asian Institute of Management. At year end, Delifrance had a total of 37 stores.

Corporate

At the Corporate level, we also made important progress in laying the ground work for supporting our long-term growth. Our Information Management completed the installation of our new Oracle-based enterprise platform which integrates our accounting systems and which will integrate other systems in the future. Our accounting people who had been located in various sites were combined in one building in preparation for the start of operations of our Shared Services. We also changed the legal structure of our international operations such that all foreign businesses with the exception of those in the United States are now under Jollibee Worldwide, Pte., a Singapore company owned 100% by Jollibee Foods Corporation. We also achieved a breakthrough in securing a license to operate a Regional Operating Headquarters (ROHQ) in the Philippines, the first to be given to a Filipino corporation. The license entitles Jollibee Worldwide Services, our Shared Services outfit to certain investment incentives that had been, until then, only given to foreign multinationals doing business in the Philippines. We were also able to fully comply with the International Accounting Standards and the International Financial Reporting Standards.

Our effort and achievements were appreciated by the financial investment community. Recently, Euromoney, a financial publication in London, UK selected Jollibee Foods Corporation as the Best Consumer Goods Company in Asia based on a survey of investment analysts and researchers in the region—on the strength of its management, growth potential and quality of earnings.

As we continue pursuing our aspiration to become a major player in food service in the region, I see that our employees will rise up to the challenge of serving a more diverse set of consumers and a more intense competition in foreign markets. I have that confidence based on the determination demonstrated by our people to make the business and the organization succeed even in, or especially in difficult situations such as what we experienced in 2005. That determination of our people who have unique strengths and traits, and who nurture the Jollibee values of integrity, frugality, and hard work, humility to listen and learn, and spirit of family and fun—will drive us to deliver sustainable good performance.

Tony Tan Caktiong
Chairman and Chief Executive Officer

Our People

"Customer Focus enables Jollibee stores to achieve very high scores in meeting Standards of Food Quality, Service, Cleanliness and Condition."

– Marissa Datuin
Quality Assessor, Jollibee

Customer Focus

Wally Mateo is a devoted mother of three children. She is very "hands-on" in rearing her children, paying close attention to their needs and giving a lot of patience in dealing with them. She is also Jollibee's Quality Management Manager.

In dealing with customers, she also applies her patience, being "hands-on" and paying attention to details. So do other Jollibee employees.

In 2005, store managers and crew interacted with customers more conscientiously and frequently. They used systems to manage customer service more systematically such as the Quality System, Customer Survey and a new Management System Design to document customer service. The improvement also requires more customer service Quality Assessors. Wally Mateo trained people to give Jollibee more Quality Assessors.

Jollibee Ortigas Store Manager **Marissa Datuin**, who has been with Jollibee for 14 years, is one of those tapped as a Quality Assessor. She and her family are engaged in family-initiated life-changing projects where they help people in need to make them more productive. This genuine concern for others has been ingrained in her. It is quite natural then for Maris to look after customers and nurture a happy workplace in the store.

Maris also shows genuine care to the crew which translates to high productivity and good customer relations. The natural and sincere dealings of crew members with customers build customer loyalty to Jollibee. With total customer satisfaction in mind, in 2005, the stores achieved very high scores in meeting the standards: 91% in Food Quality, 81% in Service Quality, and 83% in Cleanliness and Condition Quality.

Perfection and Excellence

Michele Cruz is always looking for new things and fresh ideas. She pursued an MBA degree to further her education. Her determination to hone her intellect and aspire for excellence is evident in her work as Training Manager for Chowking.

“Creativity inspires Greenwich to introduce innovations in its pizza and pasta recipes.”

– Suzanne Cruz
Research and Development Head, Greenwich
Cooking Enthusiast

Michele’s team came up with the Gold Certification program for all of Chowking’s cooks to ensure they possess the right skills for high quality food standards. Chowking’s Kitchen Training team was able to certify 99.9% of all its cooks in 2005.

Innovation and Inventiveness

Suzanne Cruz finds satisfaction in cooking because it makes her explore and discover new flavors. “Cooking develops in me the traits of creativity, patience, confidence and the sense of being adventurous. I get to apply all these in Product Development. These characteristics bring out innovativeness in us, a very important strength in a very competitive market,” Suzanne says.

With patience and creativity, the team launched various innovations in Greenwich’s Pizza and Lasagna recipes in 2005. Greenwich is the first to come up with a Sisig Pizza. Other innovations included the Grilled Beef Primo Pizza, Chicken Barbeque and Crazy Hot Chicken.




Creativity

Corazon Magcasaquit, who has been in the company for 22 years, has mastered the art of lettering using colorful icings. She has helped Red Ribbon's cake designs evolve over the years.

A sports lover and a devoted wife and mom, Cora enjoys using creativity to meet challenges head on. This creativity is present in the Cake Design group where everyone is eager to come up with new creations. Encouraging creativity among the team, Cake Design Manager Baby Daroy asks each of its members to submit new creations in a healthy competition. For 2005, Red Ribbon has launched 40 new designs.

Competitiveness

Engineering Department Senior Manager **Cheng Gang** believes there is a need to continually sharpen one's mind. Thus, he reads books to further develop himself and takes inspiration in watching football games to build the competitive spirit in him.

“To lead my team successfully, I allow every member to show his abilities. Looking after their welfare improves their enthusiasm towards their work.”

– Cheng Gang
Senior Manager, Engineering Department

Cheng Gang’s competitiveness helped Yonghe King in changing its store design. The new store design improved the look, layout and customer service. Yonghe King’s vigor in competitiveness also drove it to open 24 new stores and renovate 10 previously established stores.

Hard Work and Persistence

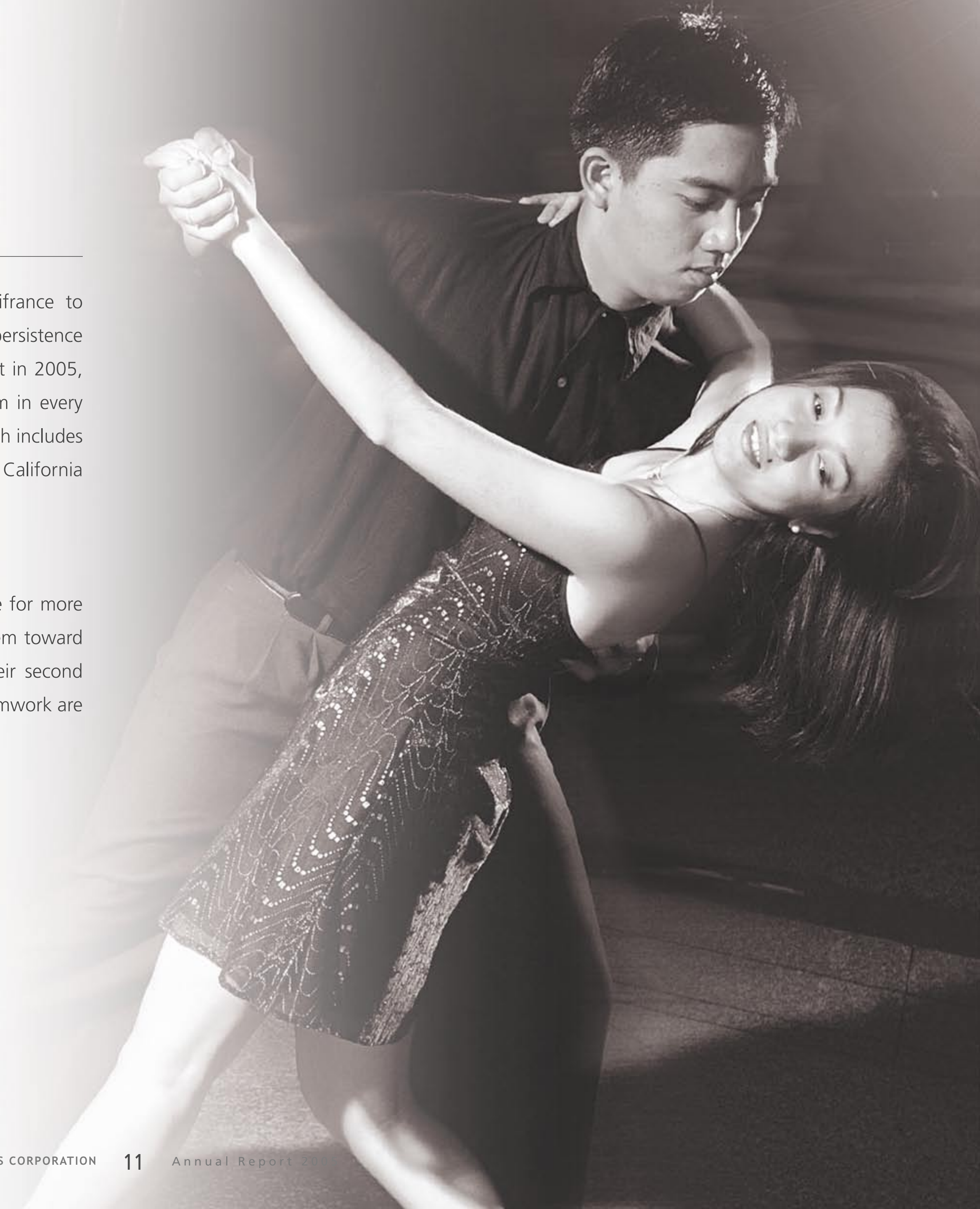
Lured by the distinct beauty, culture, language, and characteristics of each region, **Chef Andrew Tan Chua** loves to travel around the Philippines. He is fascinated by people—by their peculiarities and distinctiveness of character. When it comes to food, Andrew intimated that he “looks not only at what people order but takes particular attention to their reaction when eating the food. Do they show immediate and obvious delight? But to get that distinct immediate reaction, you really have to work very hard on your food taste and its other qualities.”




This commitment to bring delight to customers motivated Delifrance to develop a broader menu. It is a long process but the hard work and persistence of Delifrance's Product Development team brought a new core product in 2005, the Clubhouse Sandwich. The Clubhouse became the best selling item in every Delifrance store. Now, Delifrance has a line of Clubhouse Classique which includes the Premiere Clubhouse, Seafood Deluxe Clubhouse and the new California Chicken Clubhouse.

Spirit of Family and Fun

Many of these people have been in the Jollibee Group for years, some for more than a decade. They are ordinary people with characters that drive them toward extraordinary achievements. All of them consider their companies their second home. They enjoy working because the Spirit of Family and Fun and Teamwork are present in their work place.



JFC: Corporate Social Responsibility

"The Jollibee Foundation, a new member of the Jollibee Group aspires to help the Filipino succeed—the Jollibee way."

When you are a company like Jollibee Foods Corporation, how do you practice corporate social responsibility? The Jollibee way, of course!

Jollibee Foundation was established in December 2004 as the primary means for JFC to participate in community and nation building. But even before the Foundation was organized, JFC was already implementing many different projects. These included the MaAga ang Pasko Toy Drive; Values Education program, which, in partnership with the Department of Education, benefited over half a million Grades 1 & 2 students; and a partnership with Sa Aklat Sisikat Foundation which helped about 120,000 Grade 4 students improve their reading skills.

Soon after it was set up, the Foundation launched a scholarship program for 30 disadvantaged youths in partnership with Don Bosco Technical College. It also undertook the construction of a Jollibee-Gawad Kalinga Village in Las Piñas.

In all its efforts, the Jollibee Foundation tries to go beyond merely giving donations to the beneficiaries. JFC executives and employees share their talents and skills as well. In

the Jollibee-GK village, executives and employees worked side by side with beneficiaries to build the homes. Volunteer employees continue to participate in the development of a model community. In Don Bosco, the students, parents and teachers all participated in Unleash workshops—similar to the ones JFC employees go through for personal growth and money management training. After graduation, they are encouraged to “pay it forward” by helping others the same way.

Through these initial efforts, it has become clear that a unique opportunity exists for Jollibee Foundation. Jollibee is one of the most admired and loved brands in the country. If it were to share the skills, systems and values that make Jollibee successful— with the communities it serves, maybe it can help them unleash their fullest potentials as well.

With this in mind, Jollibee Foundation will focus on programs that will help transform our communities in the long term. Expect to see more good things to come out of doing CSR, the Jollibee way.

Board of Directors and Senior Management Team

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

President and General Manager
Red Ribbon Philippines
(Effective July 1, 2006)

ERWIN M. ELECHICON
President and General Manager
Greenwich Pizza Corporation
(Effective April 1, 2006)

DANIEL M. MORAN
Chief Executive Officer
Red Ribbon Holdings, Inc.

President and General Manager
Red Ribbon USA

JEFFREY CHAO
Chief Executive Officer
Yonghe King

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

LEONARDO M. BERBA
Corporate Strategy Director

JOHN VICTOR R. TENCE
VP - Corporate Human
Resource Development

PAUL A. ZALDARRIAGA
VP - Information Management

OFFICERS - STRATEGIC BUSINESS UNIT

BENIGNO M. DIZON
VP - Engineering

WILLIAM S. LORENZANA, JR.
VP - Commissary

ANASTACIA S. MASANCAY
VP - Controllership and Tax
Management

ROBERT T. POBLETE
VP - Human Resource Development

CAROLINA INEZ S. REYES
VP - Marketing

JOSEPH TAN BUNTIONG
VP - Restaurant Systems and Quality
Management

SUSANA K. TANMANTIONG
VP - Purchasing

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 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

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

FOR THE YEAR	**2005**	2004
Consolidated System wide Sales	**39,829,461**	35,543,006
Gross Revenues	**29,040,525**	26,259,303
Income from Operations	**2,035,806**	1,915,307
Net Income (Attributable to Equity Holders of the Parent)	**1,674,629**	1,564,348
Payroll and Benefits	**4,085,715**	3,433,452
	31,420	26,495
AT YEAR-END		
Personnel		
Number of Stores (Philippines and Foreign) Including International		
Jollibee	**552**	521
Chowking	**344**	313
Greenwich	**239**	232
Red Ribbon	**156**	
Yonghe King of China	**101**	88
Delifrance	**37**	31
	1,429	1,185
TOTAL		
Total Assets	**17,763,326**	15,451,122
Property & Equipment	**6,806,707**	6,193,365
Stockholders' Equity	**9,897,982**	8,607,546
Current Ratio	**1.07**	1.14
Debt-to-Equity Ratio	**0.79**	0.80
PER SHARE DATA		
Basic Earnings Per Share	**1,6867**	1.5856
Diluted Earnings Per Share	**1,6840**	1.584
Cash Dividend	**0.5500**	0.4500
Book Value	**9.9553**	8.7152
SHARE INFORMATION		
Outstanding Shares (net of Treasury Shares)	**994,246,185**	987,647,817

Statement of Management Responsibility for Financial Statements

The management of Jollibee Foods Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2005 and 2004. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

TONY TAN CAKTIONG
Chief Executive Officer and
Chairman of the Board

ANASTACIA S. MASANCAY
VP, Controllership & Tax Mgt.

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

Report of Independent Auditors

The Stockholders and the Board of Directors
Jollibee Foods Corporation
9th Floor, Jollibee Plaza Building
No. 10 Emerald Avenue, Ortigas Centre
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, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended 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. 4181266, January 2, 2006, Makati City

May 2, 2006

Consolidated Balance Sheets

	December 31	
	2005	2004 (As restated - see Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱2,614,948,781**	₱3,001,427,949
Short-term investments	**274,589,570**	281,596,838
Receivables (Notes 2 and 5)	**1,607,619,725**	1,274,374,446
Inventories (Note 6)	**1,380,060,188**	1,105,397,059
Prepaid expenses and other current assets (Notes 7 and 26)	**907,637,122**	785,034,376
Total Current Assets	**6,784,855,386**	6,447,830,668
Noncurrent Assets		
Interest in and advances to a joint venture (Notes 2, 9 and 24)	**47,169,602**	49,423,109
Investment properties (Notes 2 and 10)	**206,135,185**	231,264,115
Property, plant and equipment (Notes 11 and 26)	**6,806,706,611**	6,193,364,941
Goodwill (Note 8)	**2,179,739,638**	994,059,821
Operating lease receivable (Note 26)	**53,318,881**	70,802,818
Deferred tax assets (Note 20)	**760,970,542**	684,200,080
Other noncurrent assets (Notes 2, 7 and 12)	**924,430,217**	780,175,903
Total Noncurrent Assets	**10,978,470,676**	9,003,290,787
	₱17,763,326,062	₱15,451,121,455
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade payables	**₱2,083,801,066**	₱1,887,653,954
Accrued expenses (Notes 13 and 22)	**2,522,601,537**	2,318,199,189
Current portion of:		
Provisions (Notes 9 and 14)	**618,344,613**	656,195,285
Long-term debt (Note 16)	**78,484,848**	226,666,667
Liability for acquisition of a business (Note 8)	**155,514,481**	–
Other current liabilities (Note 15)	**879,372,907**	565,818,166
Total Current Liabilities	**6,338,119,452**	5,654,533,261
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**32,727,273**	56,666,666
Accrued benefit cost (Notes 2 and 22)	**233,818,547**	212,052,323
Liability for acquisition of a business - net of current portion (Note 8)	**271,279,544**	–
Provisions - net of current portion (Note 14)	**32,492,707**	63,594,910
Operating lease payable (Note 26)	**886,827,867**	832,009,282
Other noncurrent liabilities	**70,078,794**	24,719,315
Total Noncurrent Liabilities	**1,527,224,732**	1,189,042,496
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 17)	**1,022,700,056**	1,022,158,363
Subscriptions receivable	**(17,177,884)**	(18,155,444)
Additional paid-in capital (Notes 17 and 23)	**1,771,347,334**	1,746,011,015
Cumulative translation adjustments of subsidiaries	**218,682,039**	144,291,625
Unrealized loss on available-for-sale financial assets (Note 2)	**(316,825)**	–
Retained earnings (Notes 2 and 17)	**7,025,639,952**	5,915,092,409
	10,020,874,672	8,809,397,968
Less treasury shares (Notes 17 and 23)	**364,416,912**	440,653,282
	9,656,457,760	8,368,744,686
Minority Interests	**241,524,118**	238,801,012
Total Stockholders' Equity	**9,897,981,878**	8,607,545,698
	₱17,763,326,062	₱15,451,121,455

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
REVENUES		
Net sales	**₱26,867,289,677**	₱24,325,440,617
Royalty, franchise fees and others (Note 18)	**2,173,235,680**	1,933,862,514
	29,040,525,357	26,259,303,131
COST OF SALES (Notes 19 and 22)	**23,341,504,162**	21,204,222,034
GROSS PROFIT	**5,699,021,195**	5,055,081,097
OTHER OPERATING INCOME - Net	**121,293,597**	133,234,766
OPERATING EXPENSES		
General and administrative (Notes 19 and 22)	**(2,893,784,539)**	(2,468,760,952)
Advertising and promotion (Note 18)	**(847,926,477)**	(730,709,202)
Provisions for:		
Legal claims, lease contract pre-terminations and restructuring costs (Note 14)	**(16,851,057)**	(62,800,910)
Impairment in value of property, plant and equipment and investment properties (Notes 10 and 11)	**(25,946,421)**	(10,737,322)
FINANCE INCOME (CHARGES)		
Interest income	**157,688,525**	122,669,155
Interest expense	**(43,245,566)**	(51,113,678)
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 9)	**(20,625,664)**	(23,093,623)
INCOME BEFORE INCOME TAX	**2,129,623,593**	1,963,769,331
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 20 and 21)		
Current	**516,597,458**	465,331,180
Deferred	**(76,770,462)**	(99,913,425)
	439,826,996	365,417,755
NET INCOME	**₱1,689,796,597**	₱1,598,351,576
Attributable to*:		
Equity holders of the parent	**₱1,674,629,286**	₱1,564,347,682
Minority interests	**15,167,311**	34,003,894
	₱1,689,796,597	₱1,598,351,576
Earnings Per Share of Equity Holders of the Parent (Note 25)		
Basic	**₱1.687**	₱1.586
Diluted	**1.684**	1.584

**Includes adjustments of expenses of foreign subsidiaries amounting to ₱30.7 million in 2004.*

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31	
	2005	2004 (As restated - Notes 2)
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
CAPITAL STOCK (Note 17)		
Issued and subscribed:		
Balance at beginning of year	**₱1,022,158,363**	₱1,032,928,362
Subscriptions and issuances	**541,693**	1,881,053
Cancelled subscriptions under the Stock Purchase Plan	**–**	(12,651,052)
Balance at end of year	**1,022,700,056**	1,022,158,363
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	**(18,155,444)**	(72,351,160)
Collections	**977,560**	63,818,966
New subscriptions	–	(9,623,250)
Balance at end of year	**(17,177,884)**	(18,155,444)
ADDITIONAL PAID-IN CAPITAL (Notes 2, 17 and 23)		
Balance at beginning of year		
As previously reported	**1,710,781,686**	1,833,141,842
Effect of adoption of PFRS 2, *"Share-based Payments"*	**35,229,329**	8,458,554
As restated	**1,746,011,015**	1,841,600,396
Premium on new issuances, subscriptions and treasury shares	**7,311,518**	21,988,347
Discount on reissuances of treasury shares for stock purchase exercised	**(14,421,457)**	(24,806,615)
Cost of stock options granted	**32,446,258**	26,770,775
Premium on cancelled subscriptions under the Stock Purchase Plan	**–**	(119,541,888)
Balance at end of year	**1,771,347,334**	1,746,011,015
CUMULATIVE TRANSLATION ADJUSTMENTS OF SUBSIDIARIES		
Balance at beginning of year	**144,291,625**	207,736,533
Translation adjustments during the year	**74,390,414**	(63,444,908)
Balance at end of year	**218,682,039**	144,291,625
RETAINED EARNINGS (Notes 2, 8, 22 and 23)		
Appropriated for future expansion	**1,200,000,000**	1,200,000,000
Unappropriated:		
Balance at beginning of year:		
As previously reported	**4,747,990,508**	3,611,437,711
Prior period adjustment of a foreign subsidiary	**(30,716,894)**	–
Effect of change in accounting policies applied retrospectively	**(2,181,206)**	(16,572,625)
As restated before effect of adoption of PAS 39, *"Financial Instruments: Measurement and Recognition"*	**4,715,092,408**	3,594,865,086
Effect of adoption of PAS 39	**(17,746,163)**	–
As restated	**4,697,346,245**	3,594,865,086
Net income	**1,674,629,286**	1,564,347,682
Cash dividends - ₱0.55 a share in 2005 and ₱0.45 a share in 2004	**(546,335,579)**	(444,120,359)
Balance at end of year	**5,825,639,952**	4,715,092,409
	7,025,639,952	5,915,092,409
UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 2)	**(₱316,825)**	₱–
TREASURY SHARES (Notes 17 and 23)		
Balance at beginning of year	**(440,653,282)**	(610,980,269)
Reissuances	**–**	13,327,432
Reissuances for stock purchase exercised	**76,236,370**	156,999,555
Balance at end of year	**(364,416,912)**	(440,653,282)
	9,656,457,760	8,368,744,686
MINORITY INTERESTS	**241,524,118**	238,801,012
	₱9,897,981,878	₱8,607,545,698
Total Recognized Income and Expense For the Year		
Net income for the year	**₱1,674,629,286**	₱1,564,347,682
Translation adjustments during the year	**74,390,414**	(63,444,908)
Unrealized loss on available-for-sale financial assets for the year	**(316,825)**	–
	₱1,748,702,875	₱1,500,902,774

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax and minority interests	**₱2,129,623,593**	₱1,963,769,331
Adjustments for:		
Depreciation and amortization (Note 19)	**1,400,286,400**	1,207,416,467
Interest income	**(157,688,525)**	(122,669,155)
Interest expense	**43,245,566**	51,113,678
Income from Meralco	**(35,921,151)**	–
Share-based payments	**32,446,258**	25,561,434
Mark-to-market gain on derivative asset	**(26,547,078)**	–
Loss (gain) on disposals and retirement of property and equipment	**(18,509,476)**	(13,683,052)
Provisions for:		
Legal claims, lease contract preterminations and restructuring costs (Note 14)	**16,851,057**	62,800,910
Impairment in value of property, plant and equipment and investment properties (Notes 10 and 11)	**25,946,421**	10,737,322
Impairment in value of trademark	**–**	2,250,000
Equity in net loss of a joint venture (Note 9)	**20,625,664**	23,093,623
Foreign exchange loss (gain)	**17,951,836**	(2,865,755)
Dividend income	**(6,786,000)**	–
Operating income before working capital changes	**3,441,524,565**	3,207,524,803
Decrease (increase) in:		
Short-term investments	**7,007,268**	(281,596,838)
Receivables	**(265,960,324)**	(371,825,855)
Inventories	**(196,264,986)**	(214,868,644)
Prepaid expenses and other current assets	**(63,027,007)**	129,545,489
Increase (decrease) in:		
Trade payables	**103,668,532**	6,453,062
Accrued expenses	**4,967,954**	375,736,752
Operating lease payable	**54,818,585**	32,992,549
Provisions	**(85,803,933)**	(15,487,420)
Other current liabilities	**232,253,226**	21,946,598
Net cash generated from operations	**3,233,183,880**	2,890,420,496
Income taxes paid	**(524,063,291)**	(402,666,094)
Net cash provided by operating activities	**2,709,120,589**	2,487,754,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment (Note 11)	**(1,382,821,010)**	(1,414,417,478)
Acquisition of a subsidiary - net of cash acquired (Note 8)	**(1,198,130,924)**	(448,148,009)
Interest received	**157,688,525**	122,669,155
Increase in other noncurrent assets	**(64,837,232)**	(150,965,643)
Proceeds from disposal of property and equipment	**84,750,511**	118,851,345
Increase in advances to a joint venture (Note 9)	**(18,372,157)**	–
Dividend received	**4,000,000**	–
Net cash used in investing activities	**(2,417,722,287)**	(1,772,010,630)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Cash dividends	**(472,598,717)**	(407,225,435)
Long-term debt	**(272,477,687)**	(226,666,667)
Proceeds from:		
Issuances of treasury shares	**61,814,914**	145,822,545
Issuances of and subscriptions to capital stock	**8,830,770**	77,762,943
Interest paid	**(33,577,499)**	(45,128,088)
Increase (decrease) in other noncurrent liabilities	**45,359,479**	(33,194,094)
Increase (decrease) in minority interest	**2,723,106**	(17,067,025)
Net cash used in financing activities	**(659,925,634)**	(505,695,821)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(17,951,836)**	2,865,755
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(386,479,168)**	212,913,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,001,427,949**	2,788,514,243
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,614,948,781**	₱3,001,427,949

See accompanying Notes to Consolidated Financial Statements.

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 Jollibee Group") are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names "Jollibee," "Chowking," "Greenwich," "Yonghe King" and in 2005, also "Red Ribbon" (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 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 May 2, 2006.

2. Summary of Significant Accounting Policies

2.1. **Basis of Preparation**

The consolidated financial statements of the Jollibee Group have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards (PFRS). PFRS includes statements titled PFRS and Philippine Accounting Standards (PAS), including Interpretations, issued by the Philippine Accounting Standards Council. These are the Jollibee Group's first consolidated financial statements prepared in accordance with PFRS.

The Jollibee Group prepared its consolidated financial statements until December 31, 2004 in accordance with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Jollibee Group applied PFRS 1, *"First-time Adoption of Philippine Financial Reporting Standards,"* in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. The Jollibee Group applied the accounting policies set forth below to all the years presented, except those relating to financial instruments. An explanation of how the adoption of PFRS has affected the financial position, financial performance and cash flows of the Jollibee Group is provided in Note 2.3.

The consolidated financial statements have been prepared on the historical cost basis, except for derivative and available-for-sale financial assets in the 2005 consolidated balance sheet which are carried at fair value. The consolidated financial statements are presented in Philippine peso, the Jollibee Group's functional and reporting currency, and all values are rounded to the nearest peso, except when otherwise indicated.

The Parent Company also prepares and issues separate parent company financial statements for the same period as the consolidated financial statements presented in accordance with PFRS.

2.2. **Basis of Consolidation**

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of Red Ribbon and subsidiaries on October 27, 2005 and Belmont Enterprises Venture Limited (Belmont) and subsidiaries on March 25, 2004 have been included in the 2005 and 2004 consolidated financial statements, respectively, using the purchase method of accounting. Accordingly, the 2005 consolidated financial statements include the results of Red Ribbon and subsidiaries for the two-month period from its acquisition on October 27, 2005, and the 2004 consolidated financial statements include the results of Belmont and subsidiaries for the nine-month period from its acquisition date on March 25, 2004. The purchase consideration has been allocated to the fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition. The residual cost of acquisition after recognizing the acquirer's interest in the fair value of identifiable assets acquired and liabilities assumed at acquisition date is recognized as goodwill.

Minority interests represent the portion allocable to the minority of profit or loss and net assets in Belmont and its subsidiaries, Greenwich Pizza Corporation, Tokyo Teriyaki Corporation, Jollibee (Hongkong) Limited, Hanover Holdings Limited and Adgraphix, Inc. (see Note 8).

2.3. **Explanation of Transition to PFRS**

As stated in Note 2.1, these are the Jollibee Group's first consolidated financial statements prepared in accordance with PFRS. The Jollibee Group applied PFRS, *"First-time Adoption of Philippine Financial Reporting Standards,"* in preparing these financial statements, with January 1, 2004 as the date of transition.

The transition to PFRS resulted in certain changes to the Jollibee Group's previous accounting policies (referred to in the following tables and explanations as "previous Philippine GAAP"). The comparative figures for the 2004 financial statements were restated to reflect the changes in policies, except those relating to financial instruments. The Jollibee Group availed of the exemption under PFRS 1 and as allowed by the Securities and Exchange Commission, applied PAS 32 and 39, the standards on financial instruments, prospectively from January 1, 2005.

An explanation of the effects of the transition to PFRS is set forth in the following tables and notes.

2.3.1 **Reconciliation of equity**

		At January 1, 2004 (date of transition) Amounts in thousands			At December 31, 2004 (end of last period presented under previous GAAP) Amounts in thousands		
	Notes	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
ASSETS							
Current assets							
Cash and cash equivalents		₱2,788,514	₱–	₱2,788,514	₱3,001,428	₱–	₱3,001,428
Short-term investments		–	–	–	281,597	–	281,597
Receivables		961,650	(1,209)	960,441	1,275,583	(1,209)	1,274,374
Inventories		880,986	–	880,986	1,105,396	–	1,105,396
Prepaid expenses and other current assets		886,217	–	886,217	785,034	–	785,034
Total Current Assets		5,517,367	(1,209)	5,516,158	6,449,038	(1,209)	6,447,829
Noncurrent assets							
Interest in and advances to a joint venture		51,032	44	51,076	49,223	200	49,423
Investment properties	e	72,443	245,902	318,345	72,443	158,821	231,264
Property, plant and equipment	e	5,782,211	(200,549)	5,581,662	6,307,690	(114,324)	6,193,366
Goodwill	d	–	–	–	956,783	37,277	994,060
Operating lease receivables		63,812	–	63,812	70,803	–	70,803
Deferred tax assets	a	623,381	48	623,429	686,211	(2,011)	684,200
Other noncurrent assets	e	815,823	(46,085)	769,738	825,849	(45,673)	780,176
Total Noncurrent Assets		7,408,702	(640)	7,408,062	8,969,002	34,290	9,003,292
TOTAL ASSETS		₱12,926,069	(₱1,849)	₱12,924,220	₱15,418,040	₱33,081	₱15,451,121
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities							
Trade payables		₱1,701,210	₱–	₱1,701,210	₱1,887,654	₱–	₱1,887,654
Accrued expenses		1,987,130	–	1,987,130	2,318,199	–	2,318,199
Current portion of:							
Long-term debt		226,667	–	226,667	226,667	–	226,667
Provisions		17,000	–	17,000	656,195	–	656,195
Other current liabilities		433,437	–	433,437	565,818	–	565,818
Total Current Liabilities		4,365,444	–	4,365,444	5,654,533	–	5,654,533
Noncurrent liabilities							
Long-term debt - net of current portion		283,333	–	283,333	56,667	–	56,667
Operating lease payable		746,499	–	746,499	832,009	–	832,009
Provision - net of current portion		90,433	–	90,433	63,595	–	63,595
Accrued benefit cost	a	1,209	6,265	7,474	212,019	33	212,052
Other noncurrent liabilities		57,827	–	57,827	24,719	–	24,719
Total Noncurrent Liabilities		1,179,301	6,265	1,185,566	1,189,009	33	1,189,042
Stockholders Equity							
Capital stock		1,032,928	–	1,032,928	1,022,158	–	1,022,158
Subscription receivable		(72,351)	–	(72,351)	(18,155)	–	(18,155)
Additional paid-in capital	b	1,833,142	8,459	1,841,601	1,710,782	35,229	1,746,011
Cumulative translation adjustments							
of subsidiaries		207,737	–	207,737	144,292	–	144,292
Retained earnings	f	4,811,438	(16,573)	4,794,865	5,917,273	(2,181)	5,915,092
Treasury shares		(610,980)	–	(610,980)	(440,653)	–	(440,653)
Minority interests		179,410	–	179,410	238,801	–	238,801
Total Stockholders' Equity		7,381,324	(8,114)	7,373,210	8,574,498	33,048	8,607,546
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		₱12,926,069	(₱1,849)	₱12,924,220	₱15,418,040	₱33,081	₱15,451,121

Notes:

a. *Employee benefits.* The Jollibee Group's pension benefits are actuarially determined using the projected unit credit method. Under the previous Philippine GAAP, the amounts of the past service cost and experience adjustments components of the pension cost are based on the amortization of these costs over the expected average remaining working lives of the covered employees. Under PAS 19, *"Employee Benefits"*, the Jollibee Group elected to only amortize the actuarial gains and losses (experience adjustments) that exceed a 10% "corridor" over the expected average remaining working lives of the covered employees. Also, vested past service costs are recognized immediately. The change in the accounting for pension benefits under the Jollibee Group's defined benefit pension plan decreased retained earnings at January 1, 2004 and December 31, 2004 by ₱6.2 million and ₱2.0 million, respectively; and increased net income by ₱4.3 million (net of tax effect of ₱2.1 million) for the year ended December 31, 2004.

b. *Share-based payment.* Under the previous Philippine GAAP, the Jollibee Group did not recognize an expense for share-based payments but accounted for availments of the stock options as capital transactions. As permitted under PFRS 1, the Jollibee Group applied PFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested on January 1, 2005. The change in accounting policy resulted in the increase in additional paid-in capital by ₱8.5 million and ₱35.2 million on January 1, 2004 and December 31, 2004. Retained earnings decreased by P8.4 million on January 1, 2004 and ₱35.0 million on December 31, 2004. Net income for the year ended December 31, 2004 decreased by ₱26.6 million.

c. *Financial instruments.* As permitted under PFRS 1, and as allowed by the SEC, the Jollibee Group applied PAS 32, *"Financial Instruments: Disclosure and Presentation"* and PAS 39, *"Financial Instruments: Recognition and Measurement"*, prospectively from January 1, 2005.

   The transition to PFRS required the Jollibee Group to identify financial assets and liabilities and classify the same to the specific categories as provided for in PAS 39. Certain investments in shares of stocks were classified as available-for-sale financial assets and valued at fair value. Under the previous Philippine GAAP, these were measured at the lower of aggregate cost or market. Refundable deposits on leases and noninterest-bearing car loans to employees were remeasured at fair value at initial recognition and subsequently at amortized cost under the effective interest method. These were carried at cost, less impairment in value under the previous Philippine GAAP.

   The difference at initial recognition between the amount of consideration paid and fair value of refundable deposits on leases paid by and to the Company were recognized as deferred rent expense and unearned rent income, respectively. Deferred rent expense and unearned rent income are amortized on a straight-line basis over the terms of the lease in accordance with PAS 17, *"Leases"*.

   The difference at initial recognition between the notional amount of the noninterest-bearing car plan receivable from employees and its fair value was recognized as deferred compensation expense. Deferred compensation expense is amortized using the effective interest method over the terms of the car plan.

   The adoption of PAS 39 resulted in the decrease in retained earnings and the carrying amounts of the refundable deposits on leases and noninterest-bearing car loans to employees by ₱17.7 million as at January 1, 2005, representing the amortized discount from remeasurement at fair value at initial recognition of these financial assets. The unrealized loss on changes in fair value of available-for-sale financial assets of P0.3 million for the year ended December 31, 2005 was recognized directly in the equity section of the consolidated balance sheet.

d. *Business Combination, Impairment of Assets, Effects of Changes in Foreign Exchange Rates and Intangible Assets.* PFRS 3 has been applied for business combinations for which the agreement date is on or after

March 31, 2004. Upon acquisition, the Jollibee Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date; hence causing any minority interest in the acquiree to be stated at the minority's proportion of the net fair values of those items.

Additionally, the adoption of PFRS 3, and PAS 36 has resulted in the Jollibee Group ceasing annual goodwill amortization and commencing testing for impairment annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from January 1, 2004. Under previous Philippine GAAP, goodwill was amortized over twenty years. The Jollibee Group reversed the goodwill amortization previously recognized in 2004 which increased the 2004 net income and the retained earnings as of December 31, 2004 by P37.3 million.

Moreover, the useful lives of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Until December 31, 2004, intangible assets were considered to have a finite useful life with a rebuttable presumption that the life would not exceed twenty years from the date when the asset was available for use. Intangible assets are regarded to have an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Jollibee Group. Accordingly, goodwill is considered to have indefinite life. The revised accounting policy applied is described in Note 2.21.

As of January 1, 2005, the Jollibee Group adopted PAS 21. As a result, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with the transitional provision of PAS 21, this change is applied prospectively. In addition, goodwill acquired in a business combination prior to January 1, 2005 and fair value adjustments arising on that acquisition are deemed to be assets and liabilities of the parent company. This change in accounting policy has no significant impact as at January 1, 2005 and December 31, 2004.

e. *Investment Property.* In 2005, upon adoption of PAS 40, *"Investment Property"*, properties other than land in excess of the Jollibee Group's requirements became eligible to be classified in the investment properties account. Investment properties are initially measured at cost and subsequently measured either at fair value or at cost. The Jollibee Group elected to measure investment property at cost in accordance with PAS 40. Under the previous Philippine GAAP, properties other than land in excess of the Jollibee Group's requirements for operations are classified under property and equipment and are measured at cost. Assets that have been taken out of the service were carried as "Other noncurrent assets not used in operations" at their net realizable values and not subjected to depreciation.

   As a result of the Jollibee Group's adoption of PAS 40, the 2004 financial statements were reclassified to conform to the 2005 financial statement presentation. The carrying value of properties reclassified to investment properties amounted to ₱62.6 million as of December 31, 2004. Retained earnings at January 1 and December 31, 2004 were also reduced by ₱0.7 million and ₱1.2 million, respectively, representing adjustments to depreciation charges on the reclassified investment properties. Net income in 2004 decreased by ₱0.5 million.

f. The above adjustments increased (decreased) retained earnings at January 1, 2004 and December 31, 2004 as follow:

	January 1, 2004	December 31, 2004
	(In Thousands)	
Accrued Expenses - Employee benefits (see Note a)	(₱6,265)	(₱33)
Additional paid-in capital - Share-based payments (see Note b)	(8,415)	(35,029)
Goodwill (see Note d)	–	37,277
Investment properties (see Note e)	(732)	(1,176)
Other receivable	(1,209)	(1,209)
Decrease in deferred tax assets (see Note a)	48	(2,011)
Total	(₱16,573)	(₱2,181)

2.3.2 Reconciliation of Income and Expenses for 2004

	Notes	Previous GAAP*	Effect of transition to PFRS	PFRS
			(In Thousands)	
Revenue		₱26,259,303	₱–	₱26,259,303
Cost of sales	a, b	21,207,278	(3,056)	(21,204,222)
Gross profit		5,052,025	(3,056)	5,055,081
General and administrative expenses	a, b, d	(2,482,204)	(13,443)	(2,468,761)
Advertising and promotion		(730,709)	–	(730,709)
Provisions		(73,538)	–	(73,538)
Other operating income		133,235	–	133,235
Finance income		122,669	–	122,669
Finance charges		(51,114)	–	(51,114)
Equity in net loss of a joint venture		(23,094)	–	(23,094)
Income before tax		1,947,270	(16,499)	1,963,769
Provision for income tax	a	(367,526)	(2,109)	(365,417)
Net income		₱1,579,744	(₱14,390)	₱1,598,352

** Includes adjustments of expenses of foreign subsidiaries totaling P30.7 million in 2004.*

2.3.3 Effect on the Consolidated Cash Flow Statement in 2004

There are no material differences between the consolidated statement of cash flows prepared under PFRS and the consolidated statement of cash flows presented under the previous GAAP.

2.3.4 Other PFRSs adopted

The Jollibee Group also adopted the following other PFRSs. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on equity at January 1 and December 31, 2004.

- PAS 1, "Presentation of Financial Statements"
- PAS 2, "Inventories"
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"
- PAS 10, "Events after the Balance Sheet Date"
- PAS 14, "Segment Reporting"
- PAS 16, "Property, Plant and Equipment"
- PAS 17, "Leases"
- PAS 18, "Revenue"

- PAS 24, "Related Party Disclosures"
- PAS 33, "Earnings Per Share"
- PAS 37, "Provisions, Contingent Liabilities and Contingent Assets"

2.3.5 Standards Not Yet Effective

The Jollibee Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures - The revised disclosures from the amendments will be included in the Jollibee Group's consolidated financial statements when the amendments are adopted in 2006.

- PFRS 7, Financial Instruments - Disclosures - The revised disclosures on financial instruments provided by this standard will be included in the consolidated financial statements when the standard is adopted in 2007.

2.4 **Significant Accounting Judgments and Estimates**

2.4.1 Judgments

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

a. Impairment review of interest in a joint venture

Impairment review of interest in a joint venture is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. Management has determined that there are no events or changes in circumstances in 2005 and 2004 that may indicate that the carrying value of interest in a joint venture may not be recoverable. The carrying amounts of the Jollibee Group's interest in a joint venture were ₱47.17 million and ₱49.42 million as of December 31, 2005 and 2004, respectively. More details are given in Note 9.

b. Asset retirement obligation

Management has determined that the Jollibee Group has no material obligation, constructive or legal, for the dismantling and removing items of property upon retirement and restoring the site on which these are located.

c. Operating leases

Jollibee Group as lessor. The Jollibee Group has entered into commercial property leases on its investment property portfolio. Management has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out. Accordingly, these leases are accounted for as operating leases.

Jollibee Group as lessee. The Jollibee Group has entered into commercial property leases for its quick service restaurants and offices as the lessee. Management has determined that all the significant risks and rewards of ownership of these properties which the Jollibee Group leases under operating lease arrangements remains with the lessor. Accordingly, these leases are accounted for as operating leases.

d. Functional currency

Management has determined that the functional and presentation currency of the Parent Company and its Philippine subsidiaries (except certain consolidated foreign subsidiaries), is the Philippine peso, being the currency of the primary environment in which the Parent Company and its major subsidiaries operate.

2.4.2 Estimation Uncertainty

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

a. Allowance for doubtful accounts

Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of the receivables, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. Allowance for doubtful accounts as of December 31, 2005 and December 31, 2004 amounted to ₱348.8 million and ₱258.5 million, respectively (see Notes 5, 7 and 12).

b. Asset impairment of long-lived and other assets

The Jollibee Group performs annual impairment review of assets when certain impairment indicators are present. Determining fair value of assets which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Jollibee Group to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial condition and results of operations.

As of December 31, 2005 and 2004, the carrying amounts of long-lived and other assets amounted to ₱7.0 billion pesos and ₱6.4 billion, respectively (see Notes 10 and 11). Management has determined that there are no events or circumstances in 2005 and 2004 that may indicate that the carrying value of the assets are not recoverable.

c. Depreciation of property, plant and equipment and investment properties

The cost of property, plant and equipment and investment properties is depreciated on a straight-line basis over the assets' estimated useful lives. Management estimates that the useful lives of these assets to be within 3 to 20 years. The carrying amounts of the Jollibee Group's property, plant and equipment were ₱6.8 billion and ₱6.2 billion as of December 31, 2005 and 2004, respectively. The carrying values of the investment properties amount to ₱206.0 million and ₱231.0 million as of December 31, 2005 and 2004, respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

d. Impairment of goodwill

The Jollibee Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management has determined that goodwill is not impaired. The carrying amount of goodwill at December 31, 2005 and 2004 were P2.2 billion and P994.1 million, respectively. More details are given in Note 8.

e. Pension cost

The determination of the pension benefit costs and benefit liability is dependent on the selection of certain assumptions including expected return on plan assets, discount rate for the calculation of the present value of benefit obligations and average salary increases. More details on these estimates are given in Note 22. Any significant difference in actual experiences against the assumptions made may materially affect the amounts of pension benefits cost and benefit liability recognized in the financial statements. The accrued benefit costs as of December 31, 2005 and 2004 amounted to ₱233.8 million and ₱212.0 million, respectively.

f. Deferred tax assets

The Jollibee Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Jollibee Group's past results and future expectations on revenues and expenses. Net deferred tax assets amounted to ₱761.0 million and ₱684.2 million as at December 31, 2005 and 2004, respectively. More details are given in Note 20.

g. Legal contingencies

The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Jollibee Group's defense in these matters and is based upon an analysis of potential results. More details are given in Notes 14 and 26.

2.5 **Functional Currency and Foreign Currency Translation**

The Jollibee Group's management has determined its functional currency to be the Philippine peso. Transactions in foreign currencies are measured in Philippine peso and recorded at exchange rates approximating those ruling at transaction date. Foreign currency monetary assets and liabilities are measured using the exchange rates ruling at balance sheet date. All differences are taken to the consolidated income statement. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of certain consolidated foreign subsidiaries is the currency where the subsidiaries are domiciled. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation are recognized in the consolidated statements of income.

2.6 **Financial Assets**

Effective January 1, 2005, financial assets within the scope of PAS 39 are classified as either financial assets through profit or loss, loans and receivables, held to maturity investments, and available-for-sale, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Jollibee Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Jollibee Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when there is positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and option pricing models.

2.7 **Cash and Cash Equivalents**

Cash and cash equivalents is comprised of cash in banks and on hand and short-term deposits with original maturity of three months or less.

2.8 **Receivables**

Trade and other receivables carried in the 2005 consolidated balance sheet, including amounts due from a joint venture and other related parties, are classified and accounted for as loans and receivables under PAS 39. The accounting policy for this category of financial assets is stated in Notes 2.6, 2.10 and 2.16.

Trade and other receivables carried in the 2004 balance sheet are recognized and carried at original invoice amounts less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

2.9 **Short-term Investments**

Short-term investments have original maturities of more than three months to one year and are carried in the 2004 balance sheet at cost, adjusted for any loss on price decline of the investment.

Short-term investments carried in the 2005 consolidated balance sheet are classified and accounted for as loans and receivables under PAS 39. The accounting policy for this category of financial asset is stated in Note 2.6, 2.10 and 2.16.

2.10 **Impairment of Financial Assets**

Effective January 1, 2005, under PAS 39, the Jollibee Group assesses at balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Jollibee Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.11 **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
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 processed inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

2.12 **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.

2.13 **Trade and Other Payables**

Liabilities for trade and other amounts payable, which are normally settled on 30-90 days terms, and payables to related parties carried in the 2005 consolidated balance sheet are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Trade and other payables are carried in the 2004 consolidated balance sheet at invoice amount or face value.

2.14 **Interest-bearing Loans and Borrowings**

All loans and borrowing are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized as well as through the amortization process.

2.15 **Borrowing Costs**

Borrowing costs are expensed as incurred.

2.16 **Derecognition of Financial assets and Liabilities**

Effective January 1, 2005, a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;

- the Jollibee Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Jollibee Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Jollibee Group has transferred its rights to receive cash flows from the asset and neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Jollibee Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Jollibee Group could be required to repay. Where the continuing involvement takes the form of a written and/or purchased option (including a cash-settled option) or similar provision on the transferred asset, the extent of the Jollibee Group's continuing involvement is the amount of the transferred asset that the Jollibee Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Jollibee Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

2.17 **Provisions**

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

2.18 **Interest in a Joint Venture**

The Jollibee Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Jollibee Group recognizes its interest in the joint venture using equity method of accounting. The interest in the joint venture is carried in the Jollibee 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.

2.19 **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 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 with no renewal options, which ever 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.

2.20 **Investment Properties**

Investment properties consist of land and building held by the Jollibee Group for capital appreciation and rental income purposes. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. These are carried at cost less accumulated depreciation and any impairment in value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Jollibee Group as an owner-occupied property becomes an investment property, the Jollibee Group accounts for such property in accordance with the policy stated under Property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss. When the Jollibee Group completes the construction or development of a self-constructed investment property, any difference between the cost of the property at that date and its previous carrying amount is recognized in profit or loss.

2.21 **Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Jollibee Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Jollibee Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Jollibee Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Jollibee Group at which the goodwill is monitored for internal management purposes and, is not larger than a segment based on either the Jollibee Group's primary or secondary reporting format determined in accordance with PAS 14, *"Segment Reporting"*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.22 **Impairment of Non-financial Assets**

The Jollibee Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required, the Jollibee Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of assets used for continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

2.23 **Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Jollibee Group and the amount of revenue can be 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 Jollibee 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.

2.24 **Employee Benefits**

2.24.1 Pension Benefits

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

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

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

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

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

2.24.2 Share-based Payments

The Jollibee Group has a stock option plan granting management and employees of the Jollibee Group and a joint venture, an option to purchase a fixed number of shares of stock at a stated price during a specified period.

The cost of the options granted to the Jollibee Group's personnel that become vested is recognized in the consolidated statements of income over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of the options granted to the personnel of the joint venture that become vested, are recognized as additional investment in the joint venture over the vesting period. A corresponding credit is made to additional paid-in capital in the stockholders' equity section of the consolidated balance sheet.

The cost of the options that was granted after November 7, 2002 but has not vested as of January 1, 2005 is measured by reference to the fair value at the date in which they are granted. The fair value is determined using the Black-Scholes Option Pricing Model (see Note 23). The cumulative expense recognized for share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Jollibee Group's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment agreement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

2.25 **Research Costs**

Research costs are expensed as incurred.

2.26 **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.

2.27 **Earnings Per Share**

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

Diluted EPS is computed by dividing the net income for the year attributable to the equity holders of the Parent 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.

2.28 **Income Tax**

2.28.1 Current Tax

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

2.28.2 Deferred Tax

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

The carrying amount of deferred 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. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

2.29 **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.

2.30 **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.

3. Segment Information

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

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

The Jollibee 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, 2005 and 2004:

	As of and for the Year Ended December 31, 2005				
	Food Service	**Franchising**	**Real Estate**	**Eliminations**	**Total**
			(In Thousands)		
Results of operations					
Revenues from external customers	**₱26,862,556**	**₱2,014,908**	**₱163,061**	**₱–**	**₱29,040,525**
Inter-segment revenues	**4,077,554**	**227,771**	**93,072**	**(4,398,397)**	**–**
Segment revenues	**30,940,110**	**2,242,679**	**256,133**	**(4,398,397)**	**29,040,525**
Segment expenses	**(31,403,256)**	**–**	**(221,498)**	**4,541,539**	**(27,083,215)**
Impairment losses	**(21,311)**	**–**	**(4,635)**	**–**	**(25,946)**
Provision for legal claims and restructuring costs	**(1,043)**	**–**	**(15,808)**	**–**	**(16,851)**
Other segment income	**247,481**	**–**	**16,955**	**(143,142)**	**121,294**
Segment result	**(238,019)**	**2,242,679**	**31,147**	**–**	**2,035,807**
Interest income					**157,689**
Interest expense					**(43,246)**
Equity in net loss of a joint venture					**(20,626)**
Income before income tax					**2,129,624**
Income tax (expense) benefit					**(439,827)**
Net income					**₱1,689,797**
Assets and liabilities					
Segment assets	**₱24,325,823**	**₱–**	**₱348,542**	**(₱7,719,180)**	**₱16,955,185**
Deferred tax assets					**760,971**
Interest in and advances to a joint venture					**47,170**
Total assets					**₱17,763,326**
Segment liabilities	**₱9,541,564**	**₱–**	**₱300,045**	**(₱2,100,997)**	**₱7,740,612**
Long-term debt - current portion	**–**	**–**	**–**	**–**	**78,485**
Long-term debt - net of current portion	**–**	**–**	**–**	**–**	**32,728**
Income tax payable					**13,519**
Total liabilities					**₱7,865,344**
Other segment information					
Capital expenditures	**₱1,382,821**	**₱–**	**₱–**	**₱–**	**₱1,382,821**
Depreciation and amortization	**1,365,049**		**35,237**	**–**	**1,400,286**
Impairment losses	**21,311**		**4,635**	**–**	**25,946**
Other non-cash expenses - Provision for legal claims and restructuring costs	**1,043**	**–**	**15,808**	**–**	**16,851**

	As of and for the Year Ended December 31, 2004 (As restated - Note 2)				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Results of operations					
Revenues from external customers	₱24,270,934	₱1,814,263	₱174,106	₱–	₱26,259,303
Inter-segment revenues	3,657,865	186,570	50,871	(3,895,306)	–
Segment revenues	27,928,799	2,000,833	224,977	(3,895,306)	26,259,303
Segment expenses	(28,212,149)	379	(175,895)	3,983,974	(24,403,691)
Impairment losses	(10,737)	–	–	–	(10,737)
Provision for restructuring costs	(62,801)	–	–	–	(62,801)
Other segment income	208,718	–	13,709	(89,192)	133,235
Segment result	(₱148,170)	₱2,001,212	₱62,791	(₱524)	1,915,309
Interest income					122,669
Interest expense					(51,114)
Equity in net loss of a joint venture					(23,094)
Income before income tax					1,963,770
Income tax expense					(365,418)
Net income					₱1,598,352
Assets and liabilities					
Segment assets	₱21,018,782	₱22,808	₱296,246	(₱6,620,338)	₱14,717,498
Deferred tax assets					684,200
Interest in and advances to a joint venture	49,423	–	–	–	49,423
Total assets					₱15,451,121

	As of and for the Year Ended December 31, 2004 (As restated - Note 2)				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Segment liabilities	₱10,342,427	₱31,089	₱584,221	(₱4,397,494)	₱6,560,243
Long-term debt					283,333
Total liabilities					₱6,843,576
Other segment information					
Capital expenditures	₱1,273,351	₱–	₱141,066	₱–	₱1,414,417
Depreciation and amortization	1,198,040	–	9,376	–	1,207,416
Impairment losses	10,737	–	–	–	10,737
Other non-cash expenses -					
Provision for restructuring costs	62,801	–	–	–	62,801

Geographical Segments

The Jollibee Group operates in the domestic and international markets. The substantial portion of the revenues from operations in 2005 and 2004 were from within the Philippines.

4. Cash and Cash Equivalents

	2005	2004
Cash on hand and in banks	**₱1,669,462,879**	₱1,470,145,507
Short-term deposits	**945,485,902**	1,531,282,442
	₱2,614,948,781	₱3,001,427,949

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 Jollibee Group, and earn interest at the respective short-term deposit rates.

5. Receivables

	2005	2004 (As restated - see Note 2)
Trade receivables (see Note 2)	**₱1,511,877,937**	₱1,190,690,055
Advances to employees	**72,092,044**	104,195,004
Claims receivable (see Note 11)	**32,699,386**	–
Others	**47,547,081**	26,505,763
	1,664,216,448	1,321,390,822
Less allowance for doubtful accounts	**56,596,723**	47,016,376
	₱1,607,619,725	₱1,274,374,446

6. Inventories

	2005	2004
Food supplies and processed inventories:		
At cost	**₱932,995,420**	₱798,190,850
At net realizable value	**228,587,916**	–
Packaging, store and other supplies:		
At cost	**162,732,412**	264,536,219
At net realizable value	**22,801,393**	–
Novelty items - at cost in 2005, at net realizable value in 2004	**32,943,047**	29,471,013
Inventories in transit - at cost	–	13,198,977
Total inventories at lower of costs and net realizable values	**₱1,380,060,188**	₱1,105,397,059

7. Prepaid Expenses and Other Current Assets

	2005	2004
Prepaid rental and other expenses (see Note 26)	**₱275,295,962**	₱268,326,968
Deposits	**105,881,771**	126,225,335
Input VAT	**–**	14,692,451
Current portion of receivable from Meralco (see Note 12)	**11,554,083**	–
Others	**517,504,291**	378,388,607
	910,236,107	787,633,361
Less allowance for doubtful accounts	**2,598,985**	2,598,985
	₱907,637,122	₱785,034,376

Receivable from Manila Electric Company (Meralco)

As a customer of Meralco, the Group expects to receive a refund for some of its previous billings. The refund scheme agreed upon by Meralco and the Energy Regulation Commission was carried out by Phases. Phases I to III covered the smaller, mostly residential customers. Phase IV covers commercial and industrial customers and is further sub-classified into Phase IV-A and IV-B. 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. The Group is covered by Refund IV-B. The Group recognized the receivable from Meralco refund with a corresponding charge to income in the 2005 parent company statement of income (included in "Other Operating Income"). The recognition of receivable from the Meralco refund will not be recognized as income for tax purposes in 2005 but would be recognized as taxable income when received. The receivable was discounted using an effective interest rate of 13%. The portion of the receivables expected to be recovered beyond one year is included under "Other Noncurrent Assets" in the 2005 consolidated balance sheet (see Note 12).

Others included 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 2005	2004
With operations in the Philippines				
Chowking Food Corporation (Chowking)	Philippines	Food service	**100**	100
Greenwich Pizza Corporation (Greenwich)	Philippines	Food service	**80**	80
Freemont Foods Corporation (Freemont)	Philippines	Food service	**100**	100
RRB Holdings, Inc. (Red Ribbon)	Philippines	Holding company	**100**	–
Red Ribbon Bake Shop, Inc. (RRBI)	Philippines	Food service	**100**	–
Vismin Foods Corporation (Vismin)	Philippines	Food service	**100**	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	**100**	100
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	**100**	100
Adgraphix Inc. [(f)]	Philippines	Digital printing	**60**	–
Donut Magic Phils., Inc. (Donut Magic) [(a)]	Philippines	Dormant	**100**	100
Ice Cream Copenhagen Phils., Inc. (ICCP) [(a)]	Philippines	Dormant	**100**	100
Mary's Foods Corporation (Mary's) [(a)]	Philippines	Dormant	**100**	100
With operations outside of the Philippines				
Jollibee International Company Limited (JICL) [(b)]	Hong Kong	Holding company	**–**	100
Red Ribbon Bakeshop (USA), Inc. (RRBI USA)	USA	Food service	**100**	–
Honeybee Foods Corporation (Honeybee)	USA	Food service	**100**	100
Tokyo Teriyaki Corporation (Tokyo Teriyaki) [(c)]	USA	Food service	**90**	90
Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide)	Singapore	Holding company	**100**	–
Jollibee International (BVI) Ltd. (JIBL) [(d)]	British Virgin Islands	Holding company	**100**	100
Jollibee (Hong Kong) Limited [(e)]	Hong Kong	Food service	**–**	85
Hanover Holdings Limited (Hanover) [(e)]	Hong Kong	Food service	**85**	85
PT Chowking Indonesia [(e)]	Indonesia	Food service	**100**	100
Jollibee Vietnam [(e)]	Vietnam	Food service	**100**	–
Belmont Enterprises Ventures Limited and Subsidiaries:				
Belmont Enterprises Ventures Limited (Belmont) [(e)]	British Virgin Islands	Holding company	**85**	85
Yonghe Holdings Co., Ltd. [(e)]	British Virgin Islands	Holding company	**85**	85
All Great Resources Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Shanghai Belmont Enterprises Management and Adviser Co., Ltd. [(e)]	The People's Republic of China (PRC)	Business management service	**85**	85
Centenary Ventures Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Colossus Global Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Granite Management Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Cosmic Resources Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Eastpower Resources Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Eaglerock Development Limited [(e)]	British Virgin Islands	Holding company	**85**	85
Gladstone Company Limited [(e)]	British Virgin Islands	Dormant	**85**	85
Shanghai Yonghe King Co., Ltd. [(e)]	PRC	Food service	**85**	85
Beijing Yonghe King Soy Bean Milk Food and Beverage Co., Ltd. [(e)]	PRC	Food service	**85**	85
Hangzhou Yongtong Foods and Beverage Co., Ltd. [(e)]	PRC	Food service	**85**	83
Shenzhen Yongnan Restaurant Co., Ltd. [(e)]	PRC	Food service	**85**	85
Wuhan Yongchang Food and Beverage Co., Ltd. [(e)]	PRC	Food service	**85**	85
Hangzhou Yonghong Foods & Beverage Co., Ltd	PRC	Food service	**85**	–
Shanghai Yongjue Foods & Beverage Co., Ltd	PRC	Food service	**85**	–
Yonghe Soy-bean Milk Co., Ltd. [(e)]	Hong Kong	Dormant	**85**	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 the Parent Company. The application for merger, however, remains outstanding as of December 31, 2005.
(b) Deregistered in 2005. The Company's assets and liabilities were assigned to JIBL.
(c) Indirectly owned through Honeybee.
(d) Indirectly owned through Jollibee Worldwide.
(e) Indirectly owned through JIBL.
(f) Indirectly owned through Grandworth.

Acquisition/Establishment of New Subsidiaries

RRB Holdings, Inc (Red Ribbon)

On October 27, 2005, the Jollibee Group acquired 100% of the issued and outstanding capital shares of Red Ribbon which operates the Red Ribbon Bakeshop system in the Philippines and the United States for a total acquisition cost of P1.8 billion. The Jollibee Group paid P1.3 billion in cash on October 27, 2005, with the balance to be paid in three equal annual installments following the date of acquisition.

The provisional fair values of the identifiable assets and liabilities of Red Ribbon as of October 31, 2005 follow:

	Amount
Cash and cash equivalents	₱110,425,040
Inventories	78,398,143
Receivables	47,015,018
Prepaid and other current liabilities	48,021,656
Property, plant and equipment	697,866,100
Noncurrent assets	46,866,668
	1,028,592,625
Less:	
Accounts payable and accrued expenses	305,540,749
Income tax payable	7,564,655
Loans payable to banks	100,356,475
Pension liability	15,604,282
Deferred tax liability - net	59,524,359
Total identifiable liabilities	488,590,520
Fair value of net assets	540,002,105
Percentage share of net assets purchased	100%

	Amount
Purchased share of net assets	540,002,105
Goodwill arising from acquisition	1,185,679,817
Total consideration	₱1,725,681,922
Initial price	₱1,300,000,000
Balance payable in installment - at net present value	417,125,958
Incidental costs (Professional fees)	8,555,964
Total consideration	₱1,725,681,922

The net present value of the installment payable for the acquisition was determined using the discount rate of 9.37%.

The cash outflow on acquisition is as follows:

	Amount
Cash paid	₱1,308,555,964
Less cash acquired from subsidiary	110,425,040
	₱1,198,130,924

Summarized financial information pertaining to Red Ribbon as of and for the six months period ended December 31, 2005 and the year ended June 30, 2005 follow. Red Ribbon and its subsidiaries' fiscal year end on June 30. The change in reporting period from fiscal year ending June 30 to calendar year ending December 31, as approved by the stockholders and Board of Directors, was made on October 27, 2005.

	December 31, 2005 (Six Months)	June 30, 2005 (One Year)
Current assets	**₱373,778,758**	₱234,360,441
Noncurrent assets	**491,501,656**	521,845,328
Current liabilities	**(403,343,289)**	(343,537,706)
Noncurrent liabilities	**(72,920,233)**	(76,736,220)
	₱389,016,892	₱335,931,843
Revenues	**₱1,472,870,374**	₱2,522,565,949
Cost of sales	**(932,705,249)**	(1,658,060,222)
Operating expenses	**(426,285,017)**	(740,764,778)
Finance costs	**(2,968,847)**	(11,898,272)
Other income (expenses)	**(8,615,893)**	41,172,244
Income before income tax	**₱102,295,368**	₱153,014,921
Provision for income tax	**(27,601,762)**	(52,773,661)
Net income	**₱74,693,606**	₱100,241,260

Belmont Enterprises Ventures Ltd (Belmont).
On March 25, 2004, the Jollibee Group through Jollibee International (BVI) Ltd. (JIBL) 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 identifiable 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 ₱7.2291.*

	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	₱658,714,320
Less cash acquired from subsidiary	210,566,311
	₱448,148,009

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

	2005	2004
Current assets	**₱311,427,957**	₱348,739,204
Noncurrent assets	**302,696,123**	304,327,160
Current liabilities	**(397,851,489)**	(394,493,474)
	₱216,272,591	₱258,572,890
Revenues	**₱1,869,365,302**	₱1,935,937,480
Cost of sales	**(576,132,692)**	(657,289,808)
Operating expenses	**(1,248,496,133)**	(1,229,552,795)
Finance costs and other income	**1,867,208**	10,748,067
Income before income tax	**46,603,685**	59,842,944
Benefit from (provision for) income tax	**(20,322,432)**	17,471,647
Net income	**₱26,281,253**	₱77,314,591

Deregistration of a Subsidiary
On September 13, 2004, JICL transferred its Jollibee license together with all the existing franchise agreements covering all Jollibee stores in the territories of Brunei and Saipan to JIBL. On October 12, 2004, the Board of Directors and the Stockholders approved the deregistration of JICL. On June 17, 2005, JICL has been deregistered and accordingly dissolved in the Hongkong Companies Registry.

Incorporation of a Subsidiary
On June 1, 2005, Jollibee Worldwide was incorporated as a private company limited by shares under the Companies Act of Singapore. On June 24, 2005, Jollibee Worldwide issued out 48,143,799 shares, with a par value of Singapore dollar (SG$) $1.00 per share, or a total value of SG$48,143,799 in favor of the Parent Company in exchange for the assignment by the Parent Company of its 28,828,622 shares in JIBL with a par value of US$1.00, or a total of US$28,828,622. The issuance of new shares was done at the exchange rate of SG$1.67 to US$1.00.

On November 29, 2005, Jollibee Worldwide was approved by the Philippine SEC to establish a regional operating headquarters in the Philippines, pursuant to the Omnibus Investment Code of 1987 and its implementing rules and regulations.

9. Interest in and Advances to a Joint Venture

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

	2005	2004 (As restated - see Note 2)
Acquisition cost	**₱89,846,774**	₱89,846,774
Accumulated equity in net losses:		
Balance at beginning of year:		
As previously reported	**(101,177,681)**	(78,084,058)
Effect of adoption of PAS 19, *"Employee Benefits"*	**(1,065,092)**	(835,200)
Effect of adoption of PAS 39, *"Financial Instruments: Recognition and Measurement"*	**(428,101)**	–
Effect of adoption of PFRS 2, *"Share-based Payments"*	**(100,202)**	(21,965)
As restated	**(102,771,076)**	(78,941,223)
Equity in net loss during the year	**(20,625,664)**	(23,093,623)
Balance at end of year	**(123,396,740)**	(102,034,846)
	(33,549,966)	(12,188,072)
Advances (see Note 24)	**80,719,568**	61,611,181
	₱47,169,602	₱49,423,109

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

	2005	2004 (As restated)
Current assets	**₱29,079,166**	₱33,398,398
Noncurrent assets	**44,655,412**	38,877,211
Current liabilities	**(52,395,288)**	(42,078,876)
Noncurrent liabilities	**(40,933,075)**	(31,483,512)
	(₱19,593,785)	(₱1,286,779)
Revenues	**₱172,815,512**	₱127,604,126
Cost of sales	**(159,504,915)**	(121,974,889)
Operating expenses	**(32,176,507)**	(26,763,910)
Finance costs	**(1,243,270)**	(1,628,985)
Other income	**136,657**	145,438
Loss before income tax	**(19,972,523)**	(22,618,220)
Provision for income tax	**(653,141)**	(475,403)
Net loss	**(₱20,625,664)**	(₱23,093,623)

10. Investment Properties

	Land and Land Improvements	2005 Buildings and Building Improvements	Total
		(In Thousands)	
Cost -			
Beginning balance, as restated	**₱141,943**	**₱362,319**	**₱504,262**
Accumulated depreciation and impairment loss:			
Beginning balance, as restated	**69,500**	**203,498**	**272,998**
Provision for impairment in value	**4,635**	**–**	**4,635**
Depreciation and amortization	**–**	**20,494**	**20,494**
Ending balance	**74,135**	**223,992**	**298,127**
Net book value	**₱67,808**	**₱138,327**	**₱206,135**

	Land and Land Improvements	2004 (As restated) Buildings and Building Improvements	Total
		(In Thousands)	
Cost:			
Beginning balance as previously reported	₱141,943	₱–	₱141,943
Transfers from property, plant and equipment (see Note 11)	–	312,793	312,793
Transfers from noncurrent assets	–	57,902	57,902
Retirements	–	(8,376)	(8,376)
Ending balance	141,943	362,319	504,262
Accumulated depreciation and impairment loss:			
Beginning balance as restated	69,500	–	69,500
Transfers from property, plant and equipment	–	111,984	111,984
Transfers from noncurrent assets	–	12,549	12,549
Depreciation and amortization	–	84,336	84,336
Retirements	–	(5,371)	(5,371)
Ending balance	69,500	203,498	272,998
Net book value	₱72,443	₱158,821	₱231,264

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

2005	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:								
Beginning balance, as adjusted	**₱473,902**	**₱735,457**	**₱4,383,156**	**₱4,471,063**	**₱405,912**	**₱179,565**	**₱149,799**	**₱10,798,854**
Additions	**13,492**	**2,244**	**417,762**	**750,019**	**60,415**	**40,648**	**98,241**	**1,382,821**
Consolidation of Red Ribbon	**250,800**	**–**	**341,098**	**64,423**	**16,427**	**21,180**	**3,938**	**697,866**
Retirements	**–**	**–**	**(234,219)**	**(22,099)**	**(14,385)**	**(17,251)**	**–**	**(287,954)**
Reclassifications	**–**	**–**	**106,636**	**–**	**–**	**–**	**(106,636)**	**–**
Ending balance	**738,194**	**737,701**	**5,014,433**	**5,263,406**	**468,369**	**224,142**	**145,342**	**12,591,587**
Accumulated depreciation, amortization and impairment loss:								
Beginning balance, as restated	**–**	**365,632**	**1,830,464**	**2,114,928**	**201,589**	**88,861**	**4,015**	**4,605,489**
Depreciation and amortization	**431**	**27,288**	**490,138**	**728,667**	**103,264**	**30,005**	**–**	**1,379,793**
Provisions for impairment	–	**–**	**21,311**	**–**	**–**	**–**	**–**	**21,311**
Retirements	**–**	**–**	**(59,828)**	**(143,712)**	**(6,017)**	**(12,156)**	**–**	**(221,713)**
Ending balance	**431**	**392,920**	**2,282,085**	**2,699,883**	**298,836**	**106,710**	**4,015**	**5,784,880**
Net book value	**₱737,763**	**₱344,781**	**₱2,732,348**	**₱2,563,523**	**₱169,533**	**₱117,432**	**₱141,327**	**₱6,806,707**

2004 (As restated)	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:								
Beginning balance as previously reported	₱538,204	₱823,512	₱3,721,006	₱3,930,180	₱405,957	₱136,541	₱191,417	₱9,746,817
Transfer to investment properties	–	(312,793)	–					(312,793)
Additions	–	224,738	312,570	741,001	69,202	44,525	137,972	1,530,008
Consolidation of Belmont	–	–	362,572	313,275	–	14,219	–	690,066
Retirements/disposals	(64,302)	–	(192,582)	(513,393)	(69,247)	(15,720)	–	(855,244)
Reclassifications	–	–	179,590	–	–	–	(179,590)	–
Ending balance	473,902	735,457	4,383,156	4,471,063	405,912	179,565	149,799	10,798,854
Accumulated depreciation, amortization and impairment loss:								
Beginning balance as previously reported	–	409,895	1,352,891	1,922,842	206,356	68,607	4,015	3,964,606
Transfers to investment properties	–	(111,984)	–	–	–	–	–	(111,984)
Beginning balance as restated	–	297,911	1,352,891	1,922,842	206,356	68,607	4,015	3,852,622
Depreciation and amortization	–	67,721	401,623	631,718	62,515	28,579	–	1,192,156
Consolidation of Belmont	–	–	224,755	71,805		4,306	–	300,866
Provisions for impairment	–	–	10,737	–	–	–	–	10,737
Retirements/disposals	–	–	(159,542)	(511,437)	(67,282)	(12,631)	–	(750,892)
Ending balance	–	365,632	1,830,464	2,114,928	201,589	88,861	4,015	4,605,489
Net book value	₱473,902	₱369,825	₱2,552,692	₱2,356,135	₱204,323	₱90,704	₱145,784	₱6,193,365

On July 9, 2005, a fire damaged a Chowking commissary. The carrying value of property and equipment lost and destroyed by the fire totaled ₱117.6 million. Recovery from insurance amounted to ₱83.6 million resulting to the recognition of loss from the fire of ₱34.0 million in the 2005 consolidated statement of income.

12. Other Noncurrent Assets

	2005	2004 (As restated - see Note 2)
Refundable container and lease deposits	**₱437,010,001**	₱484,485,954
Advances to employees	**24,949,613**	38,758,096
Deferred compensation	**12,935,279**	–
Deferred rent expense	**89,163,634**	–
Refundable deposits and other receivables	**309,609,990**	240,880,725
Receivable from Meralco (see Note 7)	**37,714,807**	–
Others - net of allowance for doubtful accounts of P289.6 million in 2005 and P208.9 million in 2004	**13,046,893**	16,051,128
	₱924,430,217	₱780,175,903

13. Accrued Expenses

	2005	2004
Salaries, wages and allowances	**₱587,719,967**	₱549,713,614
Local and other taxes	**439,120,505**	384,156,711
Advertising and promotion (see Note 18)	**235,411,163**	278,414,439
Accrued purchases	**201,436,326**	270,915,594
Rent (see Notes 2 and 26)	**113,969,032**	88,899,181
Retention	**29,631,846**	49,661,876
Income tax payable	**13,519,313**	11,426,759
Others	**901,793,385**	685,011,015
	₱2,522,601,537	₱2,318,199,189

14. Provisions

	2005					2004
	Legal Claims	Restructuring	Acquisition (see Note 8)	Others	Total	Total
Balance at beginning of year	**₱31,450,000**	**₱123,296,490**	**₱565,043,705**	**₱–**	**₱719,790,195**	₱107,433,000
Provisions during the year	**1,042,707**	**–**	**–**	**15,808,350**	**16,851,057**	627,844,615
Payments during the year	**–**	**(85,803,932)**	**–**	**–**	**(85,803,932)**	(15,487,420)
Balance at end of year	**32,492,707**	**37,492,558**	**565,043,705**	**15,808,350**	**650,837,320**	719,790,195
Less current portion	**–**	**37,492,558**	**565,043,705**	**15,808,350**	**618,344,613**	656,195,285
	₱32,492,707	**₱–**	**₱–**	**₱–**	**₱32,492,707**	₱63,594,910

In 2003, the Jollibee 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, 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 Jollibee Group made a public announcement of the planned restructuring activities and the recognition of restructuring charges against 2003 operations amounting to ₱173.0 million. Of this amount, the Jollibee Group recognized a provision for restructuring of ₱76.0 million in 2004 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 ₱97.0 million pertains to impairment losses on fixed assets of such stores and was recognized and used in 2003. Actual payments relating to closure of US stores amount to ₱15.5 million in 2004 and ₱85.8 million in 2005.

In 2004, the Group recognized a provision for restructuring of ₱62.8 million in relation to the closure of the Parent Company's commissary in Pasig.

The provisions for claims include estimates of legal services, settlement amounts and other costs on claims made against the Jollibee Group. Other information on the claims is not disclosed as this may prejudice the Jollibee Group's position as regards to these claims. The 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

	2005	2004
Dividends payable	**₱232,913,995**	₱159,177,133
Deposits	**123,707,870**	98,115,026
Output tax	**124,719,189**	81,316,404
Short-term loans	**68,488,787**	27,229,200
Others	**329,543,066**	199,980,403
	₱879,372,907	₱565,818,166

16. Long-term Debt

	2005	2004
Parent company	**₱56,666,666**	₱283,333,333
Red Ribbon:		
Loan 1	**40,909,091**	–
Loan 2	**13,636,364**	–
	54,545,455	–
	111,212,121	283,333,333
Less current portion	**78,484,848**	226,666,667
	₱32,727,273	₱56,666,666

Debt by Parent Company

This represents the unsecured loan availed from Citibank N.A. in the original amount of ₱850.0 million to finance certain capital expenditures. The loan is payable in 15 consecutive equal quarterly installments starting September 2002 until March 2006. The loan is subject to floating interest rate and is being repriced annually. Interest rate on the loan is 10.21% in 2005 and 2004.

The loan agreement provides certain restrictions and requirements with respect to granting 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 Company's net income of the preceding year; and maintaining certain financial ratios.

As of December 31, 2005, the Company is in compliance with the terms of the loan agreement.

Debt by Red Ribbon
Loan 1 consists of long-term loans acquired from a local bank in June 2005 with interest rates of 9% and 11.75%. The principals are payable in eleven quarterly installments commencing on December 16, 2005 up to May 2, 2008, the date of maturity.

Loan 2 consists of a long-term loan acquired from a local bank in May 2005 amounting to ₱15 million with an interest rate 9.75%. The principal is payable in eleven quarterly installments commencing on November 4, 2005 up to May 2, 2008, the date of maturity.

Repayment schedule of the outstanding long-term debt as of December 31, 2005 is as follows:

Year	Amount
2006	₱78,484,848
2007	21,818,182
2008	10,909,091
	₱111,212,121

17. Stockholders' Equity

a. Capital stock

The details of this account are shown below:

	Number of shares	
	2005	2004
Authorized - P1 par value	**1,450,000,000**	1,450,000,000
Issued:		
Balance at beginning of year	**1,020,149,066**	1,018,339,980
Issuances	**541,693**	1,809,086
Balance at end of year	**1,020,690,759**	1,020,149,066
Subscribed (see Note 23):		
Balance at beginning of year	**2,009,297**	14,588,382
Subscriptions	–	1,881,053
Issuances	–	(1,809,086)
Cancelled subscriptions under the Stock Purchase Plan	–	(12,651,052)
Balance at end of year	**2,009,297**	2,009,297
	1,022,700,056	1,022,158,363
In treasury:		
Balance at beginning of year	**34,510,546**	48,259,874
Reissuances	**(6,056,676)**	(1,098,276)
Reissuances for stock purchase exercised	–	(12,651,052)
Balance at end of year	**28,453,870**	34,510,546

The Parent Company's BOD has approved on January 26, 2005, to reissue its treasury shares to cover the stock purchase options 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 options effectively cancelled the subscription to the unissued shares as of December 31, 2004.

b. Retained earnings

The unappropriated retained earnings account is restricted for the payment of dividends to the extent of ₱699.3 million in 2005 and ₱512.8 million in 2004, representing the undistributed net earnings of the subsidiaries and the cost of shares held in treasury.

18. Royalty and Franchise Fees

The Parent Company and three of its subsidiaries have existing Royalty and Franchise Agreements (Agreements) with independent franchisees for the latter to operate QSR outlets under the "Jollibee," "Chowking," "Greenwich," "Yonghe King" and "Red Ribbon" 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 Jollibee 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:

	2005	2004 (As restated - see Note 2)
Depreciation and amortization included in:		
Property and equipment:		
Cost of sales	**₱1,075,978,253**	₱874,106,887
General and administrative expenses	**303,814,295**	248,973,461
Investment properties	**20,493,852**	84,336,119
	₱1,400,286,400	₱1,207,416,467
Cost of inventories recognized in cost of sales	**₱14,060,316,349**	₱13,596,742,887

Staff costs included in the consolidated statements of income follow:

	2005	2004 (As restated - see Note 2)
Included in:		
Cost of sales	**₱3,070,665,454**	₱2,533,631,170
General and administrative expense	**1,015,049,616**	899,820,432
	₱4,085,715,070	₱3,433,451,602

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

	2005	2004
Included in:		
Cost of sales	**₱13,401,373**	₱10,090,983
General and administrative expense	**30,526,954**	29,927,179
	₱43,928,327	₱40,018,162

20. Income Tax

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

	2005	2004
Deferred tax assets:		
Accrued operating lease expenses	**₱316,234,558**	₱270,524,911
NOLCO	**176,544,824**	147,461,396
Provision for impairment in value of property, plant and equipment and investment properties	**21,985,122**	13,209,272
MCIT	**106,862,279**	86,969,124
Accrued retirement and other benefits	**82,839,260**	65,331,174
Provisions for legal claims and restructuring costs	**24,129,895**	49,518,877
Unamortized preoperating expenses	**4,802,807**	11,480,136
Unamortized past service costs	**17,601,470**	12,377,193
Allowance for doubtful accounts	**122,069,812**	82,709,801
Allowance for inventory losses	**2,459,523**	1,062,954
Others	**9,402,120**	–
	884,931,670	740,644,838
Deferred tax liabilities:		
Net excess of fair value over book value of property and equipment on acquisition of a business	**68,824,538**	33,333,228
Accrued operating lease receivables	**17,406,622**	23,111,530
Income from Meralco refund	**12,107,877**	–
Unamortized discount on non-interest-bearing liability on installment purchase price	**25,622,091**	–
	123,961,128	56,444,758
	₱760,970,542	₱684,200,080

As of December 31, 2005, 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, 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
December 31, 2005	December 31, 2008	305,685,993	19,893,155
		734,466,193	113,658,168

	NOLCO	MCIT
Less:		
Applied against regular taxable income in 2005	129,831,767	428,762
Expired in 2005	100,220,644	6,367,127
	230,052,411	6,795,889
	₱504,413,782	₱106,862,279

As of December 31, 2005, 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, 2001	December 31, 2006	₱39,480,440
December 31, 2002	December 31, 2007	8,813,045
December 31, 2003	December 31, 2008	2,620,023
December 31, 2004	December 31, 2009	7,557,493
		₱58,471,001

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:

	2005	2004
Provision for income tax at statutory income tax rate of 32.5% in 2005 and 32.0% in 2004	**₱790,147,518**	₱632,955,732
Income tax effects of:		
Effect of different tax rate for royalty and interest	**(265,506,696)**	(175,233,923)
Effects of changes in tax rates	**(74,016,350)**	–
ITH availed	**(44,283,257)**	(47,199,119)
Expired NOLCO/NOLCO application	**11,032,259**	–
Nondeductible share-based compensation	**9,004,487**	–
Loss on capital investment	**6,469,875**	–
Change in unrecognized deferred tax asset	**(5,086,874)**	(45,104,935)
Dividend income	**(2,242,667)**	–
Nondeductible expenses	**998,476**	–
Franchise fee subject to final tax	**–**	–
Others	**13,310,225**	–
	₱439,826,996	₱365,417,755

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 ₱44.3 million and ₱47.2 million in 2005 and 2004, respectively.

22. Retirement Benefits

Defined Benefit Plan
The Parent Company and certain Philippine subsidiaries have funded, independently administered, noncontributory defined benefit retirement plans covering all permanent and regular employees with benefits based on years of service and latest compensation. Retirement benefits costs and contributions are determined in accordance with an actuarial study, which is normally obtained every three years.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan.

Net benefit expense:

	2005	2004
Current service cost	**₱39,160,839**	₱40,680,000
Interest cost on benefit obligation	**46,549,078**	40,621,100
Expected return on plan assets	**(20,867,637)**	(15,805,700)
Net actuarial gain recognized during the year	**(2,119,800)**	–
Net benefit expense	**₱62,722,480**	₱65,495,400
Actual return on plan assets	**23,142,550**	37,677,059

Pension liability:

	2005	2004
Present value of defined benefit obligation	**₱551,321,126**	₱357,929,438
Fair Value of plan assets	**291,831,385**	221,480,800
Present value of unfunded obligation	**259,489,741**	136,448,638
Unrecognized net actuarial gains/(losses)	**(25,671,194)**	75,603,685
Pension liability	**₱233,818,547**	₱212,052,323

Movements in the present value of benefit obligation are as follows:

	2005	2004
At January 1	**₱357,929,438**	₱347,479,923
Benefit obligation of acquired subsidiary in 2005	**36,942,670**	–
Current service cost	**39,160,839**	40,680,000
Interest cost on benefit obligation	**46,549,078**	40,621,100
Actual benefits paid	**(30,690,890)**	(17,119,259)
Actuarial (gain) loss on benefit obligation	**101,429,991**	(53,732,326)
At December 31	**₱551,321,126**	₱357,929,438

Movements in the fair value at plan assets are as follows:

	2005	2004
At January 1	**₱221,480,800**	₱132,155,400
Plan assets of acquired subsidiary in 2005	**43,808,532**	–
Contributions	**34,090,394**	68,767,600
Expected return on plan assets	**20,867,637**	15,805,700
Actual benefits paid	**(30,690,890)**	(17,119,259)
Actuarial gain on plan assets	**2,274,912**	21,871,359
At December 31	**₱291,831,385**	₱221,480,800

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

	2005	2004
Treasury notes	**. –%**	43.08%
Other government securities	**25.73**	27.07
Investments in shares of stocks	**30.62**	20.19
Special savings deposits	**36.18**	1.46
Cash and cash equivalents	**6.54**	7.01
Loans/notes receivable	**0.66**	.–
Other receivables	**0.27**	1.19
Total	**100.00%**	100.00%

The latest actuarial valuation is as of December 31, 2005. The principal actuarial assumptions used to determine retirement benefits obligations follow:

Salary increase rate	7.00%
Rate of return on assets	10.50%
Discount rate	11.75%

The retirement plans call for annual contributions covering the current service cost for the year plus payment toward funding the actuarial past service liability which has been fully accrued.

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

23. Share-based Payments

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 Jollibee Group and a joint venture 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. There are three tranches available for the option exercise. The options vest and become exercisable after three years of continuous employment provided the employee is still employed by the Jollibee Group and a joint venture at the exercise date. In addition, an eligible participant has the option to purchase a maximum of two shares for every fully paid share under an accepted purchase offer. The additional shares will be taken from the Parent Company's treasury shares.

On October l5, 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
Number of option shares available:	
Balance at beginning of year	4,084,665
Options exercised during the year	(2,367,844)
Options of resigned employees	–
	1,716,821
Less expired option shares	1,716,821
Balance at end of year	–

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 of 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 Jollibee Group and a joint venture was 693,333 in 2005 and 1,258,028 in 2004.

On January 1, 2002, the Parent Company adopted Stock Purchase and Option Plan II (Plan II) which has the same terms and condition 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 25,426,904 shares became available for the Option portion equivalent to two (2) shares for every fully paid share under the purchase portion. The options vest and become exercisable after three years of continuous employment provided the employee is still employed by the Jollibee Group and a joint venture at the exercise date. One-third of the shares available for the option portion will end its vesting period on each year starting January 1, 2005 until January 1, 2007. Thus, maximum option shares exercisable each year from January 1, 2005 until January 1, 2007 is one-third of the shares available for the option portion. The unexercised option shares though would not expire until January 1, 2008.

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

	2005
Number of option shares available:	
Balance at beginning of year	25,302,104
Catch up adjustment on shares granted to an employee	124,800
Options exercised during the year	(6,171,474)
Options of resigned employees	(125,619)
	19,129,811
Less expired option shares	–
Balance at end of year	19,129,811

The number of option shares exercisable at December 31, 2005 is 8,475,634. The option shares available are divided into three tranches. Tranche 1 has an exercise price of P10.00 per share, ₱12.00 per share for tranche 2 and P15.75 per share for tranche 3. The options that were exercised in 2005 are as follows: (a) 4,941,022 options for Tranche 1, (b) 1,046,495 options for Tranche 2 and (c) 183,957 options for Tranche 3.

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

	Tranche 2	Tranche 3
Dividend yield	1.3%	1.3%
Expected volatility	40.2%	40.2%
Risk-free interest rate	5.5%	5.9%
Expected life of the option	2-4 years	1-3 years
Stock price on grant date	P17.00	P20.00

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

Management Stock Option and Incentive Plan

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

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

The MSOP consists of three option cycles. The option cycle refers to the period commencing on the MSOP grant date and ending on the last day of the MSOP exercise period. On July 1, 2004, the Compensation Committee of the Parent Company granted 2,385,000 options under the 1st MSOP cycle to eligible participants. The options will vest at the rate of one-third of the total options granted on each anniversary of the MSOP grant date. Vested MSOP may be exercised starting July 1, 2005 and will expire on June 30, 2012. On July 1, 2005, 2,577,000 options under the 2nd cycle were granted to eligible participant. The options vest similar to the 1st MSOP cycle. The 3rd cycle starts on July 1, 2006.

Movements during 2005 in the number of stock options outstanding for the 1st and 2nd MSOP cycle follow:

	1st MSOP cycle	2nd MSOP cycle
Number of option shares available:		
Balance at beginning of year	2,385,000	2,577,000
Options exercised during the year	(210,014)	–
	2,174,986	2,577,000
Less expired option shares	–	–
Balance at end of year	2,174,986	2,577,000

The fair value of share options as at the date of grant, is estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date. The inputs to the model used for the option granted on July 1, 2005 for cycle 1 and July 1, 2004 for cycle 2 are shown below:

	Cycle 1	Cycle 2
Dividend yield	1.7%	1.7%
Expected volatility	36.91%	36.91%
Risk-free interest rate	6.2%	7.0%
Expected life of the option	5-7 years	5-7 years
Stock price on grant date	₱24.00	₱29.00
Exercise price	₱20.00	₱27.50

The cost of the share-based expense were charged to operations under "Operating expenses" account and amounted to ₱32.4 million and ₱26.8 million in 2005 and 2004, respectively.

24. Related Party Transactions

The Jollibee 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 Jollibee 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 P80.7 million and P61.6 million as of December 31, 2005 and 2004, respectively (see Note 9).

25. Earnings Per Share Computation

		2005	2004 (As restated - see Note 2)
(a)	Net income attributable to equity holders of the Parent	**₱1,674,629,286**	₱1,564,347,682
(b)	Weighted average number of shares - basic	**992,870,323**	986,601,172
	Weighted average number of shares exercisable under the stock option plan	**2,763,818**	2,106,063
	Weighted average number of shares that would have been purchased at fair market value	**(1,064,476)**	(1,004,435)
(c)	Adjusted weighted average shares - diluted	**994,569,665**	987,702,800
	Earnings per share:		
	Basic (a/b)	**₱1.687**	₱1.586
	Diluted (a/c)	**1.684**	1.584

26. Commitments and Contingencies

a. Operating lease commitments - the Jollibee Group as lessee

The Jollibee 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 ₱1,782 million and ₱1,475 million in 2005 and 2004, respectively.

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

	2005	2004
Within one year	**₱439,060,210**	₱514,285,369
After one year but not more than five years	**1,971,927,215**	1,970,673,759
After more than five years	**2,390,908,657**	2,744,271,359
	₱4,801,896,082	₱5,229,230,487

b. Operating lease commitments - the Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units. 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 ₱17.6 million and ₱2.7 million in 2005 and 2004, respectively.

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

	2005	2004
Within one year	**₱41,325,590**	₱43,659,480
After one year but not more than five years	**129,081,902**	190,153,134
After more than five years	**85,456,170**	173,186,308
	₱255,863,662	₱406,998,922

c. Contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. Management believes that the ultimate liability, if any, with respect to these litigations, claims and disputes will not materially affect the financial position and result of operations of the Jollibee Group.

27. Financial Risk Management Objectives and Policies

The Jollibee Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Jollibee Group's risk management policies focuses on actively securing the Jollibee Group's short-term to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Jollibee Group does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Jollibee Group is exposed to are described below.

a. Foreign currency risk

The Jollibee Group does not currently hedge its investments outside of the Philippines, which are mainly in the PRC and in the United States of America.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from the US Dollar denominated liability from the acquisition of the interests in Red Ribbon, as well as from importations of goods invoiced and payable in foreign currencies. The Jollibee Group has entered into a forward currency contract to hedge its risks associated with foreign currency fluctuations with regards to the balance of its liability for the acquisition of Red Ribbon.

b. Credit risk

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

The Jollibee Group has a very strict credit policy. Its credit transactions are only with franchisees that have gone through rigorous screening before even actually granting them the franchise. The credit terms are very short, deposits and advance payment are also required before rendering the service or delivering goods, thus, mitigating the possibility of non-collection. In cases of non-collection, defaults of debtors are never tolerated; the exposure is contained the moment a default occurs and transactions that will increase the exposure of the Jollibee Group are not permitted. Significant credit transactions are only with related parties.

c. Fair value interest rate risk

The Jollibee Group's exposure for changes in market interest rates relates primarily to the long-term debt obligations of Red Ribbon, a subsidiary acquired in 2005, with fixed interest rates. The long-term debt will mature in 2008.

d. Liquidity risk

Liquidity risk is the possibility of not meeting funding requirements at a reasonable cost. To ensure sufficient liquidity levels, the Jollibee Group has a set of internal limits which allocates a portion of liabilities into cash, short-term placements and other liquid assets.

The Cash Management of Jollibee Group is directly responsible for market and liquidity risk exposures. It regularly monitors the collections, expenditures, and any excess/deficiency in the working capital requirements. Cash outflows resulting from major expenditures are planned so that money market placements are available in time with the planned major expenditure and short-term loan is availed whenever necessary.

Jollibee Group maintains sufficient cash and short-term placements to fund its daily operations. Timing of cash flows from various sources is sufficient to cover its operating requirements. Committed loan facilities are also available to the Jollibee Group, in case there is a sudden cash deficiency.

28. Fair Value of Financial Assets and Liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

The Jollibee Group has carried its available-for-sale investments at their fair value as required by PAS 39.

Management has determined that the carrying amounts of cash and cash equivalents, receivables, trade payables, accrued expenses, and current portion of long-term debt and provisions, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature.

The fair value of noninterest-bearing car plan advances to employees and refundable deposits have been determined using discounted estimated cash flows. The discount rates used are the current market lending rates of similar types of lending arrangements.

Set below is a comparison by category of carrying amounts and fair values of the Jollibee Group's financial instruments that are carried other than at fair value in the consolidated financial statements as of December 31, 2005.

	Carrying Value	Fair Value
Financial assets:		
Refundable lease deposits - receivable	₱214,716,344	₱314,336,364
Advances to employees - car plan	41,935,710	49,347,205
Financial liabilities:		
Outstanding purchase price payable for acquisition of a business - noncurrent portion	271,279,644	264,832,619
Long-term debt - noncurrent portion	32,727,273	27,358,109
Refundable lease deposits - payable	11,264,818	11,390,094

Bifurcated Embedded Currency Forward

The Jollibee Group has entered into a derivative transaction as economic hedges of certain underlying exposures. The derivative relates to the embedded currency forward or a foreign exchange adjustment provision in its acquisition of Red Ribbon (see Note 8) on the balance purchase price of ₱0.5 billion. The fair value and the marked-to-market gain on the embedded derivative amount to ₱26.5 million as of December 31, 2005.

29. Subsequent Events

On January 17, 2006, the Parent Company acquired Green Foods Franchising, Inc.'s 20% stake in Greenwich for ₱384 million. The acquisition consequently increased the Parent Company's stake in Greenwich from 80% to 100% or full ownership.

Investor Information

Company Headquarters

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Facsimile: (632) 634-1186; (632) 633-9504
Website: www.jollibee.com.ph

Common Stock

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

Annual Stockholder's Meeting

The 2006 Stockholder's Meeting will be held on July 05, 2006 at 2:00 P.M., (registration starts at 1:00 P.M.) Wednesday 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.

Produced by **Jollibee Foods Corporation**
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