Building Leader Brands
the art of marketing

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Building Leader Brands: The Art of Marketing

When people look at our logos, what quickly comes to their minds? Most likely, images of Jollibee's Chickenjoy and Yumburger, Chowking's Chinese noodles, Greenwich's pizzas and pastas, Delifrance's freshly-baked breads, Red Ribbon's cakes and pastries, Yonghe King's soy milk and dough sticks, and Chun Shui Tang's tea drinks.

But logos aren't simply about products. Logos, and the brands they represent remind people of the brands' promises. Like a distinctive flavor, texture, juiciness and aroma of familiar food products; the liveliness, colorfulness, cleanliness and atmosphere of fun and customer delight in the dining place; the ready smile, warmth and courtesy of the store crew.

As a profound definition, a brand is a promise to a certain delightful experience.

For this 2006 Annual Report, we take a closer look into the leader brands that make up the Jollibee Group. We invite our readers to take this journey with us, how we communicate the brands' promise through effective marketing; and how we ensure that the brands' promise is delivered always, and even better—through constant innovation and improvement in products, service and store design.

This is our art of marketing. It helps explain why the Jollibee Group has become a group of leader brands. It gives more insight into why our brands keep on achieving superior performance in the market place.

To my fellow Shareholders,

We continued to face big challenges in 2006. Consumer spending particularly those in the lower income segment of our population remained weak even though it was showing signs of recovery. The inflation rate was declining, but the real disposable income of our people had not fully recovered from the increases in the cost of living brought by the sharp increase in the energy cost in 2005.

Our competitors continued exerting intense effort to get the attention of consumers, through higher advertising spending, improvement in store design and introduction of more products.

In the face of these challenges, our Company performed remarkably. Our top line grew by double digits with system wide sales rising by 13.5% while revenues increased by 16.8%. In terms of geographical segments, the sales of our Philippine business grew by 10.5% while our foreign businesses rose significantly by 42.7%. Practically, all our brands in every market where we do business did strongly well.

Even more remarkably, our net income increased by 27.8% to 2,160 million pesos with operating profit before tax rising by a third, or 37.7%. Our net income as a % of revenues rose impressively from 5.8% in 2005 to 6.4% in 2006.

As a result, our earnings per share increased by 28.1% from 1.687 pesos per share in 2005 to 2.161 pesos in 2006.

With our strong profit performance, we generated cash from operations of 4,698 million pesos, an increase of 73.4% over what we made in 2005.

We also significantly increased our cash dividends. The Company's total cash dividends for the entire year of 2006 amounted to 0.68 pesos per share, representing an increase of 23.6% over the total cash dividends of 0.55 pesos per share declared in 2005.

With the significant improvement in profit, our Return on Equity rose from 18.1% in 2005 to 20.7% in 2006.

Due to our strong financial position, we were able to continue acquiring and starting new businesses. In January 2006, JFC acquired Green Foods Franchising, Inc.'s 20% stake in Greenwich Pizza Corporation for 384 million pesos which were paid in cash. JFC also entered into a new business venture with Ice Tea International, Inc., an affiliate of Chun Sui Tang Tea House Ltd. in Taiwan, which gave the JFC Group the exclusive right to operate a restaurant chain in the People's Republic of China that carries the Chun Shui Tang Tea House brand. We opened the first Chun Shui Tang Tea House in Shanghai on May 20, 2006. On September 29, 2006, our Company also acquired the 50% stake of

"...our Philippine business grew by 10.5% while our foreign businesses rose significantly by 42.7%. Practically, all our brands in every market where we do business did strongly well."

Jollibee Foods Corporation was selected as the Most Admired Company in the Philippines for the 8th consecutive year.

Finally, we invested in building our organization capability for long-term growth. We started restructuring our organization to support a much larger business with a truly international scope such as creating our Shared Services. We hired new leaders and other employees both in the Philippines and abroad and conducted many training sessions to raise the skill levels of our people. We know that after all, it is our people who make things happen and who will continue to make things happen for our business. We must make our most important investments in our people and in building our organization capability.

With what we have achieved, the Jollibee Foods Corporation was selected through a survey conducted by the Asian Wall Street Journal as the Most Admired Company in the Philippines. This was the 8th consecutive year that our company was chosen for that prestigious recognition.

I mentioned that our business outside the Philippines grew by 42.7% in 2006. Of this amount, 23.0% was accounted for by the acquisition of Red Ribbon in late 2005, and the remaining 19.7% by the organic growth of the business we had outside of the Philippines prior to 2005. All our brands in all geographies abroad did strongly well. And here in the Philippine market, practically all our brands performed impressively as well. We hope that our performance in 2006 is a precursor of even more remarkable performance in the future.

Let us all look forward to an even brighter prospect for our business and for all of us.

Tony Tan Caktiong
Chairman and Chief Executive Officer



our joint venture partner, Delifrance Asia Ltd. (DAL), in Baker Fresh Foods Philippines, Inc. (BFFPI) making BFFPI a wholly-owned subsidiary of Jollibee Foods Corporation, and the Delifrance business in the Philippines managed solely by JFC.

Thus, as of the end of 2006, the Jollibee Group already consisted of seven brands: our flagship brand Jollibee, Greenwich, Delifrance, Chowking, Yonghe King, Red Ribbon, and Chun Shui Tang. We look forward to continue growing our business and increasing the number of our brands over the next several years.

How were we able to achieve a remarkable progress in business growth and in financial performance under such challenging economic and competitive environment?

The simple answer is—we have remained faithful to our strategies. First and foremost, we worked very hard to improve our products and to introduce good new products. Let me cite some of the most prominent ones: the Spicy Chickenjoy for Jollibee, the Chocolate Marjolaine from Red Ribbon, the Supreme Beef Rice and the King's Beef Noodle from Yonghe King, the improved Pizzas from Greenwich and the Breakfast Tray from Delifrance.

Second, we tried very hard to communicate with our consumers through effective advertising, some of which were truly innovative. For example, Jollibee brand integrated itself into the plot of the ABS-CBN soap opera *"Bituing Walang Ningning,"* which became a top rated show and sparked a text-raffle promotion. The TV show enhanced the brand and helped drive its sales. Red Ribbon made a breakthrough in resource allocation by investing more of its financial resources in advertising expenditures helping drive very impressive sales growth. In total, the Jollibee Group spent 1,106 million pesos in advertising expenditures in 2006 representing a 25.3% increase over the expenditures made in 2005.

The third is our willingness to make major capital investments for the future. The most obvious investments are our new stores. In 2006, we opened 162 stores among all brands, 89 company-owned and 73 franchised stores; of which 138 were in the Philippines and 24 in our foreign operations. We spent 1,920 million pesos in capital expenditures, mostly for new company-owned stores. This amount was 38.9% higher than what we spent in 2005.

Beyond our hard work and investments in growing our business, we exerted so much effort in improving our costs—in our stores, in our commissaries, in our distribution and in our support group in the head office, including the restructuring of our legal entities such as the merger of Delifrance, Greenwich and Chowking into one legal entity, Fresh N' Famous. With the help of the strengthening of the peso, which decreased our import costs and the decrease in inflation rate, we were able to remarkably improve our profitability. Our gross profit margin improved from 19.6% in 2005 to 20.6% in 2006; our operating profit before tax margin increased from 7.3% in 2005 to 8.6% in 2006. And all these were achieved without our brands making any price increase in the entire year of 2006 (except for the implementation of a 2% increase in the Value Added Tax).

Jollibee has become a Pinoy pop culture icon with our pervasive media presence reinforced by a stable of the brightest celebrity endorsers. Beyond popularity, the endorsers are chosen for their wholesome image and positive influence, traits consistent with the values and equity of the Jollibee brand.

The Consistent Langhap Sarap Brand

Jollibee scored dramatic breakthroughs in 2006 in the three pillars of Marketing—products, partnerships and power-packed endorsers.

With an eye on satisfying diverse customer preferences, Jollibee launched a rich array of exciting new products that made significant contributions to overall sales—Spicy Chickenjoy and Honey Spiced Chicken for chicken lovers, and Chickenjoy enhancers Mashed Potato and Mushroom Rice, Premium Yum's Amazing Aloha and Cheezy Bacon Extreme for burger fans, Jolly Hotdog Taco Style for a touch of spice, Macaroni Salad Supreme for pasta lovers, Super Breakfast Joys for filling meals to start the day with, Arroz Cubana for rice lovers, Crispy Bangus Belly for fish lovers, Chicken Sotanghon Soup with Chicken Meatballs for soothing comfort food, and, for the sweet-toothed, Rainbow Crunch, Ube Keso Ice Craze and Rocky Road Sundae.

The company reinforced its brand power and cemented its position of *leadership beyond challenge* with a number of 'firsts.' High-impact alliances with market leader brands, Sunsilk and Safeguard, elevated the brand on the top-of-mind register and generated ₱81 million in coupon-redemption sales—at no cost to the company. A thrilling road show in the US West Coast allowed it to touch base with the Filipino communities that make up the main customer base of the 11 Jollibee stores there. And in a move that went beyond the bounds of conventional advertising, Jollibee partnered with ABS-CBN to get its name and products woven into the plot of the top-rated TV soap, *Bituing Walang Ningning*, which built up to a spirited climax in a jampacked concert at the Araneta Coliseum. With Jollibee endorser Sarah Geronimo in the lead role, the soap spawned a text-raffle promo that further sparked sales and enhanced the brand.

Jollibee's choice of celebrity endorsers is a clear reflection of its corporate value system, and its endorsers mirror the values Jollibee does business by. Its power-packed lineup of endorsers is a veritable wellspring of influence, peopled by towering, larger-than-life stars who, by the lives they live on and off the screen, affirm the Jollibee ethics of honest toil, wholesome fun and an abiding sense of family. Role models all, they sell not only the products of Jollibee but its values as well—Aga and Charlene Muhlach, responsible parents who, despite their tight work schedules, make time for family; Sarah Geronimo and Sam Milby, yuppies who project sense and sensibility amid hard work; Kim Chiu and Gerald Anderson, teenagers who personify clean, wholesome fun; and the Muhlach twins Andres and Atasha, who at a very tender age understand the value of family and home. Singly or together, these endorsers have added appeal to our products and polish to the Jollibee brand.

facts & figures:
Every year, we launch at least 12 new great-tasting and value-for-money products; and everyday, throughout more than 500 stores nationwide, we serve over one million customers, grilling over half a million hamburgers, deep frying hundreds of thousands pieces of Chickenjoy and serving over 100,000 Zert Pies, etc....

Our top endorsers—Aga Muhlach, Sarah Geronimo and Sam Milby—help deliver persuasive, high impact messages to our target audience.

Our line of work is an art and a science. We blend taste, texture, aroma and style with food preparation technology to create innovative, great selling products.

The Power of Innovation

The year 2006, though rife with challenges, was punctuated by modest gains and honors won. Chowking registered 11.6% growth in sales and an increase of 92.8% in profit. It was also the year Chowking, with 355 domestic and 20 overseas stores, strengthened its No. 2 position in the Quick Service Restaurant (QSR) market, second to sister brand Jollibee.

Chowking has distinguished itself as the first in the QSR industry to launch a customer feedback system (CFS) via SMS or text messaging, thus setting the trend in this direction. The information gathered from customer responses serve as a valuable gauge of store performance and as a tool to point to mistakes that need correction and weaknesses that should be worked on. The CFS is complemented by the Circle of Product Champions, a feedback system among Chowking employees that generate priceless information for future improvement programs.

In keeping with its relentless bid to delight the customer and turn him into a certified *suki*, Chowking took measures to meet this objective. It expanded its menu with new and re-newed products that have each gained loyal followers. The Salo-Salo, appealing to families and groups, hit the ₱50 million target for product launch and continues to enjoy high patronage. In response to customer clamor, Chao Fan, Yang Chow, Nai Cha and Black Gulaman were made better and brought back on the menu board. With the twin objectives of pushing sales and bringing Chowking products closer to customers, the One Number Delivery System was launched with a sales rally and a TV commercial. Sales-driving marketing and merchandising efforts improved the numbers and enhanced the brand.

FSC remains a main point of focus in Chowking, with FSC standards always set a rung higher to keep the stores ever on their toes. Store team performance is closely monitored and rated, and every team is encouraged to do well enough to meet the stringent criteria for a Dream Team and a Model Store. To further encourage excellence in day-to-day operations, Chowking has put in place the Model Store Amazing Race, a recognition program for stores that meet the ever-rising standards in food, service and cleanliness.

Impressed with the company's strides in achieving high and consistent quality in its products, the highly-regarded Asian Corporate Social Responsibility Forum organized by the Asian Institute of Management recognized Chowking for its unique Gold Certification Program for Cooks. And, with its third-in-a-row win for Best Float in Baguio's Panagbenga Flower Festival, the company was elevated to the festival Hall of Fame, the first QSR brand to be so honored.

facts & figures:

The Salo-salo ad campaign generated sales of ₱500M for the category in the month of its launch, boosting group size especially during weekends.

The Chao Fan ad, which featured the art of Chinese food preparation helped grow sales by 19%.

We invest in market research to know intimately our customers' preferences which guide us in creating and improving our products.

Anticipating Customer Preference

Greenwich, the Philippines' no.1 pizza chain—focused on strengthening its fundamentals in the past year. The brand made significant improvements to its products, delivery service, and communication programs and further built overall brand equity.

Extensive customer research, competitive bench-marking and expert assessments throughout 2006 led to major improvements in Greenwich's core product lines—pizzas and pastas. In August, the brand's "Pizza 2007" offerings were launched, with major upgrades on its crust taste and texture; better flavor ingredients, all prepared with state-of-the-art baking techniques. Both Greenwich's Primo (thick) and Crunchy (regular) crust products were optimized and made more delicious. Research indicates that Greenwich's new pizza lineup is significantly preferred over all competitive products, and is setting new taste standards in the market. In September, Greenwich's entire pasta line was made more delicious. Relaunched as Greenwich's Supreme Pasta line, the new Baked Macaroni, Spaghetti and Lasagna items have delighted customers with their great taste, and won kudos from food experts. Lasagna Supreme was recently cited as among the best Lasagna dishes available in the country.

Greenwich is the leader in creating surprisingly delightful and innovative product offerings. Over the past year, the brand introduced the Sisig and Red Egg Royale pizza flavors—both of which were unexpected in pizzas, yet have a pleasantly familiar and delicious taste.

Greenwich launched a new one-number system (Just dial 5-55-55) with the provocative service guarantee "Garantisadong on Time, or We Pay You Double." The preemptive guarantee underlines Greenwich's full commitment to delivering delicious food—hot, on-time and complete—that best meet the customers' needs wherever they may be. The brand's commitment is backed by a comprehensive training program and a responsive network that ensures total quality service across the entire system. Greenwich's revamped service has already doubled its share of deliveries in Metro Manila, and is now rolling-out nationwide.

Greenwich continues to build on its strength as the Philippines' favorite pizza and pasta chain that promises superior value.

Advertising strongly appeals particularly to young adults. The brand's "Discover Delicious" tagline captures the promise of every Greenwich visit. Innovative programs over the year included the unique "₱99 Pizza-All-You-Can" event and the "Pizza-Making Camp."

Greenwich will keep growing its margin of leadership by further enhancing the customer's total experience… with better products, better service, and better stores.

facts & figures:
Greenwich is the Philippines' no. 1 pizza chain in terms of store network, and sales. It has 239 outlets from as far north as Tuguegarao to General Santos City down south.

Greenwich significantly improved the taste and texture of the Primo Pizza, by applying new baking techniques resulting in a product performance that is superior to competing pizza brands.

Red Ribbon gives its customers another great-tasting cake with the new Chocolate Marjolaine. A truly delightful centerpiece in any celebration, Chocolate Marjolaine has a distinctively delicious taste and a wonderful mouth-feel and texture.

Cakes Made More Tempting

It has been an exciting and rewarding year for Red Ribbon. Changes have been implemented within the company to increase efficiency and profitability with an aim to make Red Ribbon the fastest-growing bakeshop in the Philippines. Store systems and procedures have been enhanced to offer our customers the best service possible. Product improvements and product launches have also been implemented to ensure that we provide our customers with the best-tasting cakes, breads and pastries, tied lovingly with our signature red ribbon.

In September, we launched Chocolate Marjolaine cake, made of exquisite layers of chocolate wafers filled with luscious praline cream, topped with rich chocolate, roasted cashews with a tower of premium chocolate. Supported by TV and print advertising, in-store merchandising and extensive sampling activities, Chocolate Marjolaine became an instant hit, growing the cake category by close to 40%. Three months after its launch, Chocolate Marjolaine has positively grown the total Red Ribbon business by close to 20%.

New pastry offerings were also introduced in October 2006—moist, chewy and flavorful Chocolate Delirium, Cream Cheese and Espresso bars as well as soft and fudgy Crinkles—perfect for gifts and *pasalubongs*. Supported by print advertising, hardworking in-store merchandising and sampling initiatives, the new products grew the total pastries category by a high 37% in the three months since its launch. The Red Meal Deals, the only complete meals that come with cake, was also relaunched with the introduction of Baked Lasagna and Creamy Carbonara as well as the launch of Merienda Treats. New menu boards with mouth-watering product shots were installed in all stores, inducing purchase for the meals and growing this business segment by 18% a month into its launch.

The Christmas season was most rewarding for us. Red Ribbon launched its Christmas campaign with the objective to truly own the holiday season and the idea of gifting. This campaign was supported by TV, print and radio advertising. Christmas-themed window displays and hanging mobiles were installed to increase the festive atmosphere in all Red Ribbon stores. Attractive Christmas boxes were developed, making our cakes perfect gifts for the season. These marketing initiatives, combined with the hard work of everyone from Manufacturing to Operations grew our December business by 28% versus last year, obtaining the highest records in the company's history.

We at Red Ribbon celebrate the year that was and look forward to another year of delighting our customers, creating milestones and breaking records.

facts & figures:
Our cake volume consistently doubles during the Christmas season.

Chocolate Marjolaine has grown Red Ribbon's cake category by close to 40%.

To give the customer
a delightful way
to start the day,
Delifrance created
the deliciously fresh
Delifrance Breakfast
Tray served in a
warm and relaxed
ambience of a café.

In Response to Demand

Délifrance®

Delifrance bid 2006 a good morning with the successful introduction of the New Breakfast line.

Breakfast has long been touted as being the most important meal of the day. Sparked by growing consumer demand for quality and delicious breakfast fare, Delifrance reengineered its breakfast line to come up with a menu featuring Corned beef Hash, Wholewheat Pancakes, Omelette Sets, and of course, the now-famous Delifrance Breakfast Tray.

Delifrance's Breakfast Tray was an idea inspired by the romantic "Breakfast-in-Bed" concept. The Breakfast Tray is a luxurious array of freshly baked bread with choice of ham, bacon, or sausage with eggs, served with freshly brewed coffee, orange juice and fresh fruit. As a delightful personal touch, the customer gets a fresh flower in a vase and the morning paper.

To communicate the new breakfast line, Delifrance embarked on an extensive campaign with the tagline "Love at First Sight," the expected reaction customers will get upon seeing the new Breakfast line up. As a result of this campaign, the breakfast icon featuring a sultry strawberry kissing an embarrassed orange became one of the best-known and well-loved icons of the brand.

Delifrance's New Breakfast line enjoyed a 21% daypart sales contribution in 2006, the highest percentage in the last two years. The entire Breakfast line has since grown by 19.53% versus 2005. More importantly, Delifrance has started to become known as the new breakfast destination.

In repositioning Delifrance as a premium café of choice to both the young achievers and the established executives, good quality coffee has become even more important as part of its product offer.

With the support of coffee experts and support from its partners, Delifrance successfully upgraded the supply chain and the coffee line. With special focus to ensure freshness of coffee beans, the coffee that is "freshly brewed every cup" is greatly enhanced. The redesign of the new coffee cups completed the new coffee image of the brand.

This year, expect a new kind of coffee at Delifrance… more premium and better than ever!

Delifrance… Delightfully Different.

facts & figures:
Delifrance offers Christmas Clubhouse for the season. The Clubhouse Sandwich accounts for 41% of the total sandwich sales and has been one of the 10 best-selling products for two years now.

The New Breakfast line enjoys 21% day-part sales contribution, the highest percentage in the last two years.

Every dining experience must be perceived as a feast. We offer delicious, hearty meals in a lively store setting at affordable prices.

Modernizing Chinese Fast Food

In 2006, Yonghe King reinforced its brand positioning as the "Contemporary Chinese Fast Food Chain." It launched a number of marketing efforts to announce its new products and store design.

Yonghe King made great efforts to improve its menu. It eventually introduced two great-tasting products in the second half of 2006—the new Supreme Beef Rice and the King's Beef Noodle. Several customer product taste tests, and competitive product bench marking were made during the product development process. These new products enhanced Yonghe King's menu and started to change the image of the brand as a whole day restaurant. In the past, Yonghe King was perceived by customers primarily as a snack or breakfast store because the only strong products in its menu were Soy Milk and Dough Sticks.

The new products were very well accepted by Yonghe King's customers. By the end of 2006, it's 4 core products (Soy Milk, Dough Sticks, Beef Rice and Beef Noodle) contributed more than 50% of the brand's sales. The successful launch of these new products also resulted in significant improvement in sales and may mark as a turning point in making Yonghe King a major brand in the China fast food market.

Yonghe King also introduced a new set of mascots in its marketing materials to communicate the "joy of eating." Three lively cows were created as the new products' mascots. They are now being used in in-store merchandising materials like posters, buntings, hanging mobiles, displays in cashier counters and table stickers. The lively cows with funny taglines helped project a more youthful, energetic and joyful image of Yonghe King.

To create a more contemporary Chinese image for Yonghe King, it tested another new store design in 2006, making use of distinctive modern Chinese lanterns. Its store in Shanghai Centre, one of Shanghai's major commercial centers (next to Nanjing West Road) now sports the new store design.

With the strengthening of its core products and the continued improvement of its store design, Yonghe King is setting itself for major expansion in China.

facts & figures:
Over 160,000 sets of the Yonghe New Beef Rice were sold in Shanghai in the month of its launch.

Being open to different cultures widens one's spectrum of tastes, style and ways of serving food. It catalyzes innovations that bring more delight to the customer.

A Refreshing Welcome

Chun Shui Tang (CST) is the newest member in the growing JFC family of companies. CST, originated from Taichung, Taiwan and was started by Liu Han Jie in the early 80s. He invented what is known as "泡沫红茶" to the Chinese (directly translated as "foam black tea") in 1983 and the Pearl Milk Tea in 1987. Its beginnings were so simple that its tea shop used only basic cocktail shakers and served only 4 drinks. As the business grew, it modernized its tea-making process and added food to the menu. Today, Chun Shui Tang offers over 30 different tea drinks and a variety of food items. It has grown to 30 stores in Taiwan and plans for further expansion. The exclusive franchise in China was awarded to JFC in 2004. On May 20, 2006 the first Chun Shui Tang store was opened in Shanghai, China.

CST is the place of choice for people who want to refresh, recharge and relax. Its customers, 20 to 40 years of age, belonging to middle and upper classes, appreciate new flavor experiences with Chinese inspiration in a trendy environment.

In its first year of operation, CST ran various marketing activities. It made a business lunch promotion in August 2006 offering 3 different combo meals: Rose Mushroom Chicken with Rice, Pork Stew with Rice and Squid/Beef Stew with Rice plus a drink at affordable prices. The promotion received strong market response with noon sales surpassing 100 servings and contributing 1000 RMB in additional daily sales.

In September 2006, Chun Shui Tang launched its beef bowl. The new product sold 50 servings per day and contributed 16% to total sales during its launch.

Product prices were also adjusted in December 2006, making CST's price points very competitive with other tea brands.

CST will continue to make improvements in its store design and layout and product line. It seeks that fine adjustment in its concept that can turn itself into a big business in China.

facts & figures:
Chun Shui Tang created the pearl milk tea in 1986 leading to the invention of many other tapioca-based drinks all over the world. The store in Shanghai, the first Chun Shui Tang in China offers 30 varieties of great-tasting tea drinks.

With every new program we embark on, we fortify our commitment to help people reach their highest potential—as leaders, as employees, and as citizens.

The Jollibee Foundation: Sure, Steady, Sustainable

The Jollibee Foundation was established as a corporate vehicle for nation-building—Jollibee's way of giving back to the country that has made it a true success.

Through the support of the SBUs and their respective stores, and especially the customers, in two short years, your Foundation has grown steadily, surely, and with sustainability as its battlecry.

In 2006, the Foundation, with the support of its board, embarked on creating programs that built on the strengths and values of the company. These programs were then followed-through with initiatives that involved the stores and the customers.

One such program is the Citizen Responsive Governance project with AIM-Mirant Center. This innovative program harnesses the potential of leadership, teamwork, and citizen participation in improving the lives of the people in Nueva Vizcaya. The aim is to nurture a core of leaders from various sectors with the willingness to work together to develop a common vision and strategy. Armed with this new paradigm, the leaders are now better equipped to deliver basic services with much more efficiency and effectiveness. As customer service is key to the company, our hope is "*service to citizens*" becomes the motto of our local government units.

The Foundation also saw its first batch of 30 scholars from the Don Bosco Technical Skills College graduate. The holistic approach of this program did not merely provide technical skills to the scholars, but it also equipped them with the tools for self-actualization and self-transformation. Today, half of them are employed with Jollibee as part of the store service crew. Just as Jollibee gave them the opportunity for a better future, the scholars are working to *pay it forward* by committing to send one person through school.

Finally, the Foundation's first-ever coin drive for the landslide victims of Southern Leyte elicited an overwhelming response from the customers and JFC's own employees. Over 1.5 million pesos were raised in just a little over four months. This amount supports one fourth of the total 100 new homes the Jollibee Foundation is building for families still living in Southern Leyte's landslide danger zones. In partnership with Gawad Kalinga, the families will be relocated to the second Jollibee-GK village in Bontoc, Southern Leyte in mid-2007.

These are the major programs your Foundation had implemented in 2006. We started with sure steps by building on what we knew best. We moved forward with steady strides with the help of our partner institutions, individuals, and communities.

Board of Directors and Senior Management Team*

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TONY TAN CAKTIONG
Chairman of the Board

WILLIAM TAN UNTIONG
Director / Corporate Secretary

ERNESTO TANMANTIONG
Director

ANG CHO SIT
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WILLIAM TAN UNTIONG
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Head, Shared Services

GRACE A. TAN
President – Jollibee Foundation

BELEN O. RILLO
VP – Jollibee Foundation

MARISSA C. REYES
Executive Director – Jollibee Foundation

*As of December 31, 2006

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

FOR THE YEAR	2004	2005	2006
Consolidated Systemwide Sales	35,543,006	39,829,461	45,206,332
Gross Revenues	26,259,303	29,040,525	33,911,218
Net Income	1,598,352	1,689,797	2,160,158
Net Income (Attributable to Equity Holders of the Parent)	1,564,348	1,674,629	2,156,618
Payroll and Benefits	3,433,452	4,085,715	5,381,946
Personnel	26,495	31,420	32,440
Number of Stores			
Jollibee (Domestic and International)	521	552	592
Chowking (Domestic and International)	313	344	375
Greenwich	232	239	239
Red Ribbon (Domestic and International)		156	178
Yonghe King of China	88	101	105
Delifrance	31	37	37
Chun Shui Tang			1
AT YEAR-END			
Total Assets	15,451,121	17,763,326	19,058,594
Property, Plant and Equipment	6,193,365	6,806,707	7,056,773
Total Equity	8,607,546	9,897,982	10,961,791
Current Ratio	1.14	1.07	1.29
Debt-to-Equity Ratio	0.80	0.79	0.74
PER SHARE DATA			
Basic Earnings Per Share	1.585	1.687	2.161
Diluted Earnings Per Share	1.583	1.684	2.152
Cash Dividend	0.450	0.550	0.680
Book Value	8.715	9.955	10.946
SHARE INFORMATION			
Outstanding Shares (net of Treasury Shares)	987,647,817	994,246,185	1,001,449,080

Management's Responsibility for the 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, 2006 and 2005. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external 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 Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

TONY TAN CAKTIONG
Chairman of the Board and
Chief Executive Officer

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

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

The Stockholders and the Board of Directors
Jollibee Foods Corporation

We have audited the accompanying financial statements of Jollibee Foods Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jollibee Foods Corporation and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Gemilo J. San Pedro
Partner
CPA Certificate No. 32614
SEC Accreditation No. 0094-AR-1
Tax Identification No. 102-096-610
PTR No. 0267383, January 2, 2007, Makati City

April 26, 2007

Consolidated Balance Sheets

	December 31	
	2006	2005 (As restated - Note 9)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱4,221,510,834	₱2,614,948,781
Short-term investments	230,932,964	274,589,570
Receivables - net (Notes 6, 12 and 20)	1,627,286,051	1,607,619,725
Inventories - net (Note 7)	1,266,342,778	1,380,060,188
Prepaid expenses and other current assets - net (Notes 8 and 14)	1,055,003,842	907,637,122
Total Current Assets	8,401,076,469	6,784,855,386
Noncurrent Assets		
Interest in and advances to a joint venture (Notes 9, 10 and 27)	–	47,169,602
Investment properties - net (Note 11)	183,315,118	206,135,185
Property, plant and equipment - net (Note 12)	7,056,773,390	6,806,706,611
Goodwill (Notes 9 and 13)	1,601,606,272	2,166,649,977
Operating lease receivable (Note 29)	137,371,278	53,318,881
Deferred tax assets - net (Notes 9 and 23)	640,626,744	774,060,203
Other noncurrent assets - net (Notes 8, 14 and 31)	1,037,824,783	924,430,217
Total Noncurrent Assets	10,657,517,585	10,978,470,676
	₱19,058,594,054	₱17,763,326,062
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables	₱2,361,845,117	₱2,083,801,066
Accrued expenses (Notes 15 and 29)	2,941,529,494	2,522,601,537
Current portion of:		
Provisions (Notes 9 and 16)	43,231,997	618,344,613
Long-term debt (Note 17)	59,930,544	78,484,848
Liability for acquisition of a business (Note 9)	160,689,955	155,514,481
Other current liabilities (Notes 9 and 18)	929,972,845	879,372,907
Total Current Liabilities	6,497,199,952	6,338,119,452
Noncurrent Liabilities		
Provisions - net of current portion (Notes 9 and 16)	₱32,112,104	₱32,492,707
Long-term debt - net of current portion (Note 17)	47,158,955	32,727,273
Liability for acquisition of a business - net of current portion (Note 9)	147,189,331	271,279,544
Accrued benefit cost (Note 25)	290,224,437	233,818,547
Operating lease payable (Note 29)	1,064,294,624	886,827,867
Other noncurrent liabilities	18,623,721	70,078,794
Total Noncurrent Liabilities	1,599,603,172	1,527,224,732
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 19)	1,024,183,108	1,022,700,055
Subscriptions receivable	(17,177,884)	(17,177,884)
Additional paid-in capital (Notes 19 and 26)	1,817,488,070	1,771,347,335
Cumulative translation adjustments of subsidiaries	72,950,363	218,682,039
Unrealized loss on available-for-sale financial assets	(198,091)	(316,825)
Excess of the acquisition cost over the carrying value of minority interest (Note 9)	(168,257,659)	–
Retained earnings (Note 19)	8,503,774,395	7,025,639,952
	11,232,762,302	10,020,874,672
Less cost of common stock held in treasury (Notes 19 and 26)	292,445,970	364,416,912
	10,940,316,332	9,656,457,760
Minority Interests (Note 9)	21,474,598	241,524,118
Total Equity	10,961,790,930	9,897,981,878
	₱19,058,594,054	₱17,763,326,062

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31		
	2006	2005	2004
REVENUES			
Net sales	₱31,939,209,596	₱26,867,289,677	₱24,325,440,617
Royalty, franchise fees and others (Notes 20 and 29)	1,972,008,085	2,173,235,680	1,933,862,514
	33,911,217,681	29,040,525,357	26,259,303,131
COST OF SALES (Notes 21, 25 and 29)	26,918,732,047	23,341,504,162	21,204,222,034
GROSS PROFIT	6,992,485,634	5,699,021,195	5,055,081,097
OTHER INCOME - Net (Notes 8 and 31)	389,615,681	121,293,597	133,234,766
OPERATING EXPENSES			
General and administrative (Notes 21, 25, 26 and 29)	(3,750,497,033)	(2,533,639,826)	(2,444,963,033)
Advertising and promotions (Note 20)	(829,241,413)	(1,208,071,190)	(754,507,121)
Provisions for:			
Impairment in value of property, plant and equipment and investment properties (Notes 11 and 12)	–	(25,946,421)	(10,737,322)
Legal claims, lease contract pre-terminations and restructuring costs (Note 16)	–	(16,851,057)	(62,800,910)
FINANCE INCOME (CHARGES)			
Interest income (Note 22)	135,490,812	157,688,525	122,669,155
Interest expense (Note 22)	(80,407,514)	(43,245,566)	(51,113,678)
EXCESS OF FAIR VALUE OF NET ASSETS OVER ACQUISITION COST OF A SUBSIDIARY (Note 9)	68,415,573	–	–
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 10)	(22,907,585)	(20,625,664)	(23,093,623)
INCOME BEFORE INCOME TAX	2,902,954,155	2,129,623,593	1,963,769,331
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 23 and 24)			
Current	609,362,773	516,597,458	465,331,180
Deferred	133,433,459	(76,770,462)	(99,913,425)
	742,796,232	439,826,996	365,417,755
NET INCOME	₱2,160,157,923	₱1,689,796,597	₱1,598,351,576
Attributable to:			
Equity holders of the Parent	₱2,156,618,463	₱1,674,629,286	₱1,564,347,682
Minority interests (Note 9)	3,539,460	15,167,311	34,003,894
	₱2,160,157,923	₱1,689,796,597	₱1,598,351,576
Earnings Per Share for Net Income Attributable to the Equity Holders of the Parent (Note 28)			
Basic	₱2.161	₱1.687	₱1.585
Diluted	2.152	1.684	1.583

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2006, 2005 and 2004

	Equity Attributable to Equity Holders of the Parent										Minority Interests (Note 9)	Total Equity
	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Notes 19 and 26)	Cumulative Translation Adjustments of Subsidiaries	Unrealized Loss on Available-for-Sale Financial Assets	Excess of the Acquisition Cost over the Carrying Value of Minority Interest (Note 9)	Retained Earnings (Note 19) Appropriated for Future Expansion	Retained Earnings (Note 19) Unappropriated	Cost of Common Stock Held in Treasury (Notes 19 and 26)	Total		
Balance at January 1, 2006	₱1,022,700,055	(₱17,177,884)	₱1,771,347,335	₱218,682,039	(₱316,825)	₱–	₱1,200,000,000	₱5,825,639,952	(₱364,416,912)	₱9,656,457,760	₱241,524,118	₱9,897,981,878
Net income for the year	–	–	–	–	–	–	–	2,156,618,463	–	2,156,618,463	3,539,460	2,160,157,923
Translation adjustments during the year	–	–	–	(145,731,676)	–	–	–	–	–	(145,731,676)	(7,846,639)	(153,578,315)
Unrealized gain on available-for-sale financial assets for the year	–	–	–	–	118,734	–	–	–	–	118,734	–	118,734
Total income and expenses for the year	–	–	–	(145,731,676)	118,734	–	–	2,156,618,463	–	2,011,005,521	(4,307,179)	2,006,698,342
Subscriptions and issuances of shares	1,483,053	–	19,556,415	–	–	–	–	–	–	21,039,468	–	21,039,468
Re-issuances of treasury shares for stock purchase exercised	–	–	(10,746,278)	–	–	–	–	–	57,872,662	47,126,384	–	47,126,384
Re-issuances of treasury shares for stock purchased by retirement fund	–	–	(2,711,887)	–	–	–	–	–	14,098,280	11,386,393	–	11,386,393
Cost of stock options granted	–	–	40,042,485	–	–	–	–	–	–	40,042,485	–	40,042,485
Cash dividends - ₱0.68 a share	–	–	–	–	–	–	–	(678,484,020)	–	(678,484,020)	–	(678,484,020)
Acquisition of minority interest (Note 9)	–	–	–	–	–	(168,257,659)	–	–	–	(168,257,659)	(215,742,341)	(384,000,000)
	1,483,053	–	46,140,735	–	–	(168,257,659)	–	(678,484,020)	71,970,942	(727,146,949)	(215,742,341)	(942,889,290)
Balance at December 31, 2006	₱1,024,183,108	(₱17,177,884)	₱1,817,488,070	₱72,950,363	(₱198,091)	(₱168,257,659)	₱1,200,000,000	₱7,303,774,395	(₱292,445,970)	₱10,940,316,332	₱21,474,598	₱10,961,790,930

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2006, 2005 and 2004

	Equity Attributable to Equity Holders of the Parent									Minority Interests	Total Equity
						Retained Earnings (Note 19)					
	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Notes 19 and 26)	Cumulative Translation Adjustments of Subsidiaries	Unrealized Loss on Available-for-Sale Financial Assets	Appropriated for Future Expansion	Unappropriated	Cost of Common Stock Held in Treasury (Notes 19 and 26)	Total		
Balance at January 1, 2005, as previously reported	₱1,022,158,363	(₱18,155,444)	₱1,746,011,015	₱144,291,625	₱–	₱1,200,000,000	₱4,715,092,408	(₱440,653,282)	₱8,368,744,685	₱238,801,012	₱8,607,545,697
Effect of adoption of PAS 39 (Note 2)	–	–	–	–	–	–	(17,746,163)	–	(17,746,163)	–	(17,746,163)
Balance at January 1, 2005, as restated	1,022,158,363	(18,155,444)	1,746,011,015	144,291,625	–	1,200,000,000	4,697,346,245	(440,653,282)	8,350,998,522	238,801,012	8,589,799,534
Net income for the year	–	–	–	–	–	–	1,674,629,286	–	1,674,629,286	15,167,311	1,689,796,597
Translation adjustments during the year	–	–	–	74,390,414	–	–	–	–	74,390,414	(12,444,205)	61,946,209
Unrealized loss on available-for-sale financial assets for the year (Note 2)	–	–	–	–	(316,825)	–	–	–	(316,825)	–	(316,825)
Total income and expenses for the year	–	–	–	74,390,414	(316,825)	–	1,674,629,286	–	1,748,702,875	2,723,106	1,751,425,981
Subscriptions and issuances of shares	541,692	–	7,311,519	–	–	–	–	–	7,853,211	–	7,853,211
Collections of subscriptions receivable	–	977,560	–	–	–	–	–	–	977,560	–	977,560
Re-issuances of treasury shares for stock purchase exercised	–	–	(14,421,457)	–	–	–	–	76,236,370	61,814,913	–	61,814,913
Cost of stock options granted	–	–	32,446,258	–	–	–	–	–	32,446,258	–	32,446,258
Cash dividends - ₱0.55 a share	–	–	–	–	–	–	(546,335,579)	–	(546,335,579)	–	(546,335,579)
	541,692	977,560	25,336,320	–	–	–	(546,335,579)	76,236,370	(443,243,637)	–	(443,243,637)
Balance at December 31, 2005	₱1,022,700,055	(₱17,177,884)	₱1,771,347,335	₱218,682,039	(₱316,825)	₱1,200,000,000	₱5,825,639,952	(₱364,416,912)	₱9,656,457,760	₱241,524,118	₱9,897,981,878
Balance at January 1, 2004	₱1,032,928,362	(₱72,351,160)	₱1,841,600,396	₱207,736,533	₱–	₱1,200,000,000	₱3,594,865,085	(₱610,980,269)	₱7,193,798,947	₱179,409,964	₱7,373,208,911
Net income for the year	–	–	–	–	–	–	1,564,347,682	–	1,564,347,682	34,003,894	1,598,351,576
Translation adjustments during the year	–	–	–	(63,444,908)	–	–	–	–	(63,444,908)	25,387,154	(38,057,754)
Total income and expenses for the year	–	–	–	(63,444,908)	–	–	1,564,347,682	–	1,500,902,774	59,391,048	1,560,293,822
Issuances of shares	1,881,053	–	21,988,347	–	–	–	–	–	23,869,400	–	23,869,400
Cancelled subscriptions under the stock purchase plan	(12,651,052)	–	(119,541,888)	–	–	–	–	–	(132,192,940)	–	(132,192,940)
Collections of subscriptions receivable	–	63,818,966	–	–	–	–	–	–	63,818,966	–	63,818,966
Subscriptions of shares	–	(9,623,250)	–	–	–	–	–	–	(9,623,250)	–	(9,623,250)
Re-issuances of treasury shares of stock purchase exercised	–	–	(24,806,615)	–	–	–	–	170,326,987	145,520,372	–	145,520,372
Cost of stock options granted	–	–	26,770,775	–	–	–	–	–	26,770,775	–	26,770,775
Cash dividends - ₱0.45 a share	–	–	–	–	–	–	(444,120,359)	–	(444,120,359)	–	(444,120,359)
	(10,769,999)	54,195,716	(95,589,381)	–	–	–	(444,120,359)	170,326,987	(325,957,036)	–	(325,957,036)
Balance at December 31, 2004	₱1,022,158,363	(₱18,155,444)	₱1,746,011,015	₱144,291,625	₱–	₱1,200,000,000	₱4,715,092,408	(₱440,653,282)	₱8,368,744,685	₱238,801,012	₱8,607,545,697

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱2,902,954,155	₱2,129,623,593	₱1,963,769,331
Adjustments for:			
Depreciation and amortization (Note 21)	1,573,844,757	1,400,286,400	1,207,416,467
Interest income (Note 22)	(135,490,812)	(157,688,525)	(122,669,155)
Interest expense (Note 22)	80,407,514	43,245,566	51,113,678
Excess of fair value of net assets over acquisition cost of a subsidiary (Note 9)	(68,415,573)	–	–
Mark-to-market gain on derivative asset (Note 31)	(59,789,200)	(26,547,078)	–
Stock options expense (Note 26)	40,042,485	32,446,258	26,770,775
Loss (gain) on disposals and retirements of property and equipment	33,456,907	(18,509,476)	(13,683,052)
Equity in net loss of a joint venture (Note 10)	22,907,585	20,625,664	23,093,623
Net unrealized foreign exchange loss (gain)	12,732,993	17,951,836	(2,865,755)
Provisions for:			
Legal claims, lease contract pre-terminations and restructuring costs (Note 16)	–	16,851,057	62,800,910
Impairment in value of property, plant and equipment and investment properties (Notes 11 and 12)	–	25,946,421	10,737,322
Impairment in value of trademark	–	–	2,250,000
Income from Manila Electric Company (Meralco) (Note 8)	–	(35,921,151)	–
Dividend income	–	(6,786,000)	–
Operating income before working capital changes	4,402,650,811	3,441,524,565	3,208,734,144
Decrease (increase) in:			
Short-term investments	43,656,606	7,007,268	(281,596,838)
Receivables	(19,666,326)	(265,960,324)	(371,825,855)
Inventories	113,717,410	(196,264,986)	(214,868,644)
Prepaid expenses and other current assets	(146,367,422)	(63,027,007)	128,336,148
Increase (decrease) in:			
Trade payables	278,044,051	103,668,532	6,453,062
Accrued expenses	434,887,844	4,967,954	375,736,752
Operating lease payable	177,466,757	54,818,585	32,992,549
Provisions	(13,878,455)	(85,803,933)	(15,487,420)
Other current liabilities	41,095,486	232,253,226	21,946,598
Net cash generated from operations	5,311,606,762	3,233,183,880	2,890,420,496
Income taxes paid	(614,031,740)	(524,063,291)	(402,666,094)
Net cash provided by operating activities	4,697,575,022	2,709,120,589	2,487,754,402

(Forward)

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 12)	(₱1,920,244,179)	(₱1,382,821,010)	(₱1,414,417,478)
Acquisition of minority interest (Note 9)	(384,000,000)	–	–
Increase in other noncurrent assets	(61,062,648)	(64,837,232)	(150,965,643)
Interest received	110,853,954	157,688,525	122,669,155
Proceeds from disposals of property and equipment	57,418,024	84,750,511	118,851,345
Advances to a joint venture (Note 10)	(37,002,202)	(18,372,157)	–
Acquisition of a subsidiary - net of cash acquired (Note 9)	25,617,679	(1,198,130,924)	(448,148,009)
Dividend received	–	4,000,000	–
Net cash used in investing activities	(2,208,419,372)	(2,417,722,287)	(1,772,010,630)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	(659,641,177)	(472,598,717)	(407,225,435)
Liability for acquisition of a business	(172,303,733)	–	–
Long-term debt	(78,484,848)	(272,477,687)	(226,666,667)
Increase (decrease) in:			
Other noncurrent liabilities	(21,071,021)	45,359,479	(33,194,094)
Minority interests	7,846,639	2,723,106	(17,067,025)
Proceeds from:			
Re-issuances of treasury shares	58,512,778	61,814,913	145,822,545
Issuances of and subscriptions to capital stock	21,039,468	8,830,771	77,762,943
Interest paid	(25,758,710)	(33,577,499)	(45,128,088)
Net cash used in financing activities	(869,860,604)	(659,925,634)	(505,695,821)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(12,732,993)	(17,951,836)	2,865,755
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,606,562,053	(386,479,168)	212,913,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,614,948,781	3,001,427,949	2,788,514,243
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱4,221,510,834	₱2,614,948,781	₱3,011,427,949

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as "the Jollibee Group") are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names "Jollibee," "Chowking," "Greenwich," "Yonghe King," "Red Ribbon" and "Delifrance." Other activities of the Jollibee Group include manufacturing and property leasing in support of the QSR systems and in other independent business activities (see Notes 4 and 9). The shares of stock of the Parent Company 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 April 26, 2007.

2. Summary of Significant Accounting Policies

2.1 Basis of Preparation

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

2.2 Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

2.3 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Jollibee Group as of December 31 of each year. The subsidiaries are presented in Note 9. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All significant 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 in the consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

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

Minority interests represent the portion of profit or loss and the net assets not held by the Jollibee Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet. Acquisition of minority interests is accounted for using the entity concept method, whereby the difference between the cost of acquisition and the carrying value of the share of the net assets acquired is recognized as an equity transaction.

2.4 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations, which are effective for annual periods beginning on or after January 1, 2006.

- Philippine Accounting Standard (PAS) 19, "Amendments - Employee Benefits,"
- PAS 21, "Amendments - The Effects of Changes in Foreign Exchange Rates,"
- PAS 39, "Amendments - Financial Instruments: Recognition and Measurement," and
- Philippine Interpretation IFRIC 4, "Determining whether an Arrangement contains a Lease."

The Jollibee Group also early adopted the following Philippine Interpretations.

- Philippine Interpretation IFRIC 8, "Scope of PFRS 2,"
- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives," and
- Philippine Interpretation IFRIC 10, "Interim Financial Reporting and Impairment."

The principal effects of these changes are as follows:

- PAS 19, "Employee Benefits." — Additional disclosures to the consolidated financial statements to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit plans. This change has no recognition or measurement impact, as the Jollibee Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statement of income.

- PAS 21, "The Effects of Changes in Foreign Exchange Rates." — All exchange differences arising from monetary item that forms part of the Jollibee Group's net investment in foreign operations are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which it is denominated. This change did not have an effect on the consolidated financial statements, except for additional accounting policy notes.

- PAS 39, "Financial Instruments: Recognition and Measurement"

  Amendment for Financial Guarantee Contracts — amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be measured at the higher of the amount determined in accordance with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets," and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, "Revenue." This amendment did not have an effect on the consolidated financial statements.

  Amendment for Hedges of Forecast Intragroup Transactions — amended the scope of PAS 39 to permit the foreign currency risk of a highly probable intragroup transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income. As the Jollibee Group currently has no such transactions, the amendment did not have an effect on the consolidated financial statements.

Amendment for the Fair Value Option — amended PAS 39 to restrict the use of the option to designate any financial asset or liability to be measured at fair value through profit or loss (FVPL). The Jollibee Group had not previously used this option, hence the amendment did not have an impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 4, "Determining whether an Arrangement contains a Lease." — This interpretation provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has no significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 8, "Scope of PFRS 2." — This requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives." — This interpretation provides that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 10, "Interim Financial Reporting and Impairment." — This interpretation provides that prohibitions on reversals of recognized impairment losses in PAS 36, "Impairment of Assets," and PAS 39 take precedence over the more general statement of PAS 34, "Interim Financial Reporting," regarding the frequency of an entity's reporting not affecting the measurement of its annual results. No reversal is allowed of impairment loss on goodwill and AFS equity shares recognized in an interim report even if impairment is no longer present at annual balance sheet date. This interpretation has no impact on the consolidated financial statements.

The following Philippine Interpretations are effective for annual periods beginning on or after January 1, 2006 but are not relevant to the Jollibee Group:

- Philippine Interpretation IFRIC 5, "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds," and
- Philippine Interpretation IFRIC 6, "Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment."

Impact of PAS 39 Adoption in 2005

In 2005, the Jollibee Group adopted PAS 32, "Financial Instruments: Disclosure and Presentation" and PAS 39, "Financial Instruments: Recognition and Measurement." The adoption 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 stock were classified as AFS financial assets and valued at fair value. Prior to 2005, 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 prior to 2005.

The difference at initial recognition between the amount of consideration paid and fair value of refundable deposits on leases paid by and to the Jollibee Group 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 receivables 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 Jollibee Group availed of the exemption under PFRS 1, "First-time adoption of Philippine Financial Reporting Standards," and accounted for PAS 32 and PAS 39 effective January 1, 2005. The cumulative effect of adopting these accounting standards was adjusted to January 1, 2005 equity.

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 of 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 AFS financial assets of ₱0.3 million for the year ended December 31, 2005 was recognized directly in the equity section of the consolidated balance sheet.

Future Changes in Accounting Policies

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

- PFRS 7, "Financial Instruments: Disclosures," and complementary amendment to PAS 1, "Presentation of Financial Statements," will be effective January 1, 2007. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions," and the disclosure requirements in PAS 32, "Financial Instruments: Disclosure and Presentation." It is applicable to all entities that report under PFRS.

  The amendments to PAS 1 introduce disclosures about the level of an entity's capital and how it manages capital.
- PFRS 8, "Operating Segments," will be effective January 1, 2009. The standard will replace PAS 14, "Segment Reporting," and adopts a management approach to reporting segment information. The information reported would be similar to which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and companies will need to provide explanations and reconciliations of the differences.
- Philippine Interpretation IFRIC 7, "Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies," becomes effective for financial years beginning on or after March 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax.
- Philippine Interpretation IFRIC 11, "PFRS 2 - Group and Treasury Share Transactions," will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent company.

- Philippine Interpretation IFRIC 12, "Service Concession Arrangements," will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

The Jollibee Group's management is currently assessing the effect of the new and amended accounting standards and interpretations on the consolidated financial statements. Any change in accounting treatments and additional disclosures provided by these new and amended accounting standards and interpretations will be included in the consolidated financial statements when the standards and interpretations are adopted on their effective dates.

2.5 <u>Functional Currency and Foreign Currency Translation</u>

The consolidated financial statements are presented in Philippine peso, which is the Jollibee Group's presentation currency. Each entity in the Jollibee Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are recorded at exchange rates approximating those ruling at transaction date. Foreign currency monetary assets and liabilities are measured using the exchange rates ruling at the balance sheet date. All differences are taken to the consolidated statement of income. 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 foreign subsidiaries is the currency where the subsidiaries are domiciled, which is the currency of the primary environment in which the foreign subsidiaries operate. As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Jollibee 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 under cumulative translation adjustments of subsidiaries. Upon disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation are recognized in the consolidated statement of income.

2.6 <u>Cash and Cash Equivalents</u>

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

2.7 <u>Financial Assets and Liabilities</u>

Effective January 1, 2005

Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables, and AFS investments, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at FVPL, directly attributable transaction costs. The Jollibee Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at FVPL when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Jollibee Group determines the classification of its financial assets after 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, which is 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.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Jollibee Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Jollibee Group determines the appropriate method of recognizing the "Day 1" profit amount.

<u>Financial Assets</u>

Financial assets at FVPL. Financial assets classified as held for trading are included in this category. 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.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

The Jollibee Group accounts for its embedded derivative transactions under this category with fair value changes being reported directly to the consolidated statement of income, except when the derivative is treated as an effective accounting hedge.

As of December 31, 2006 and 2005, derivative financial instruments are classified as financial assets at FVPL.

HTM investments. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM 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 HTM, 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.

The Jollibee Group has no financial assets classified under this category as of December 31, 2006 and 2005.

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.

The Jollibee Group's short-term investments, receivables, refundable deposits, advances to employees and receivable from Manila Electric Company (Meralco) are classified under this category (see Notes 6, 8 and 14).

AFS investments. AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS investments 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.

The Jollibee Group's investments in club shares and other shares of stock are classified under this category (see Note 14).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Jollibee Group elects to designate a financial liability under this category.

The Jollibee Group has no financial liability designated as at FVPL as of December 31, 2006 and 2005.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes bank loans, trade payables and other current liabilities, liability for acquisition of a business and long-term debt.

2.8 Impairment of Financial Assets

Effective January 1, 2005

The Jollibee Group assesses at each 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 is reduced through the use of an allowance account. The amount of the loss is 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 year, 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.

AFS investments. If an AFS 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 the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS investments are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

2.9 Embedded Derivatives

Effective January 1, 2005

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

The Jollibee Group has identified and bifurcated embedded currency forward or a foreign exchange adjustment provision in its acquisition of Red Ribbon Holdings, Inc. (Red Ribbon) on the balance of the purchase price (see Notes 9 and 31).

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Jollibee Group has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

2.10 Derecognition of Financial Assets and Liabilities

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 pay. 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 expires. 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 statement of income.

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 other supplies is the current 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 sheet as a deduction from the total equity. Upon re-issuance or resale of the treasury shares, treasury shares account is credited for the cost of the treasury shares 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 Borrowing Costs

Borrowing costs are expensed as incurred.

2.14 Provisions

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

2.15 Interest in a Joint Venture

In 2005, the Jollibee Group had an interest in a joint venture, which was 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 recognized its interest in the joint venture using the equity method of accounting. The interest in the joint venture was carried in the Jollibee Group's share of the net assets of the joint venture, less any impairment in value. The 2005 and 2004 consolidated statements of income reflected the share in the results of operations of the joint venture. The 2006 consolidated statement of income reflected the share in the results of operations of the joint venture until September 29, 2006.

On September 29, 2006, the Jollibee Group acquired the other 50% ownership interest in Baker Fresh Foods Philippines, Inc. (Baker Fresh) that it does not own. As a result of this acquisition, Baker Fresh becomes a wholly owned subsidiary (see Notes 9 and 10).

2.16 Investment Properties

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

Depreciation of buildings and building improvements is calculated on a straight-line basis over the estimated useful lives of the assets which is 10 to 15 years.

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 completion 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.

2.17 Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

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 property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

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

Asset Type	Number of Years
Land improvements	5
Plant and buildings, commercial condominium units and improvements	5-20
Leasehold rights and improvements	2-10 or term of the lease with no renewal options, whichever is shorter
Office, store and food processing equipment	2-15
Furniture and fixtures	3-5
Transportation equipment	3-5

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods 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.

2.18 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

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

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.

Negative goodwill, which is not in excess of the fair values of acquired identifiable non-monetary assets of subsidiaries, is charged directly to income.

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statement of income.

2.19 Impairment of Non-financial Assets

The Jollibee Group assesses at each reporting date whether a non-financial 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 assessment of the time value of money and the risks specific to the asset. The calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of assets used for continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment loss relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Jollibee Group performs its annual impairment test of goodwill as of December 31 of each year.

2.20 Revenue Recognition

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 terms. For income 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, taking into account the effective yield on the asset.

2.21 Employee Benefits

2.21.1 Retirement Benefits

The Jollibee Group has a number of funded, non-contributory retirement plans, administered by trustees, covering the permanent employees of the Parent Company and its Philippine-based subsidiaries. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plans at the end of the previous reporting year 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 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 retirement 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 plans or reductions in the future contributions to the plans.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial 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 plans or reductions in the future contributions to the plans. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial 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 governments defined contribution schemes for the Peoples' Republic of China (PRC)-based 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.

2.21.2 Share-based Payments

The Jollibee Group has stock option plans granting management and employees of the Jollibee Group and a joint venture (until 2005), an option to purchase a fixed number of shares of stock at a stated price during a specified period ("equity-settled transactions").

The cost of the options granted to the Jollibee Group's management and employees that become vested is recognized in the consolidated statement 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 became vested, were recognized as additional investments over the vesting period with a corresponding credit to additional paid-in capital in the equity section of the consolidated balance sheet.

The cost of the options that was granted after November 7, 2002, and not yet vested by 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 26). The cumulative expense recognized for the share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Jollibee Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the consolidated statement of income or the investment account for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

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

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

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

2.22 Research Costs

Research costs are expensed as incurred.

2.23 Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) there is a substantial change to the asset.

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

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation IFRIC 4.

Leases where the lessor retains all the significant risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease terms. For income tax reporting, operating lease payments continue to be recognized as expense on the basis of the terms of the lease agreements.

2.24 Dividends on Common Shares

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

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

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

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

2.26 Income Tax

2.26.1 Current Tax

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

2.26.2 Deferred Tax

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

The carrying amount of deferred tax assets is reviewed at each 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 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 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.

2.27 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.

2.28 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. Significant Accounting Judgments and Estimates

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. 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.

b. 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 benefits 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 QSRs and offices as the lessee. Management has determined that all the significant risks and benefits 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.

c. Functional currency

Management has determined that the functional and presentation currency of the Parent Company and its Philippine-based subsidiaries is the Philippine peso, being the currency of the primary environment in which the Parent Company and its major subsidiaries operate.

Estimates

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

The Jollibee Group reviews its receivables at each reporting date to assess whether an allowance for doubtful accounts should be recognized in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. An increase in allowance account would increase the Jollibee Group's general and administrative expenses and decrease current and noncurrent assets.

Allowance for doubtful accounts as of December 31, 2006 and 2005 amounted to ₱59.9 million and ₱59.2 million, respectively (see Notes 6 and 8). The carrying value of receivables amounted to ₱1.9 billion and ₱2.1 billion as of December 31, 2006 and 2005, respectively (see Notes 6, 8 and 14).

b. Impairment of non-financial assets

The Jollibee Group performs annual impairment review of non-financial assets (except goodwill) 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.

Accumulated impairment losses on investment properties and property, plant and equipment amounted to ₱129.4 million as of December 31, 2006 and 2005. As of December 31, 2006 and 2005, the carrying amounts of property, plant and equipment and investment properties assets amounted to ₱7.2 billion and ₱7.0 billion, respectively (see Notes 11 and 12).

c. Estimated useful lives of property, plant and equipment and investment properties

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

There is no change in estimated useful lives of property, plant and equipment and investment properties during the year. The carrying values of the Jollibee Group's property, plant and equipment were ₱7.1 billion and ₱6.8 billion as of December 31, 2006 and 2005, respectively (see Note 12). The carrying values of the investment properties were ₱183.3 million and ₱206.1 million as of December 31, 2006 and 2005, respectively (see Note 11).

d. Impairment of goodwill

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

The carrying amount of goodwill as of December 31, 2006 and 2005 were ₱1.6 billion and ₱2.2 billion (as adjusted), respectively (see Note 13).

e. Retirement cost

The determination of the retirement 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 (see Note 25). Any significant difference in actual experiences against the assumptions made may materially affect the amounts of retirement benefits cost and benefit liability recognized in the consolidated financial statements.

The accrued benefit cost as of December 31, 2006 and 2005 amounted to ₱290.2 million and ₱233.8 million, respectively. Unrecognized net actuarial losses amounted to ₱488.0 billion and ₱25.7 million as of December 31, 2006 and 2005, respectively (see Note 25).

f. Deferred tax assets

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

Net deferred tax assets amounted to ₱640.6 million and ₱774.1 million (as restated) as of December 31, 2006 and 2005, respectively (see Note 23).

g. Provisions

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

Provisions recognized for legal claims, restructuring costs and contingent payments on an acquisition, and others amount to ₱75.3 million and ₱650.8 million (including current portion) as of December 31, 2006 and 2005, respectively (see Notes 16 and 29).

4. 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 operations of QSRs and the manufacture of food products to be sold to the 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. Those transfers are eliminated at the consolidation.

The Jollibee Group's geographical segments are based on the location of the assets producing the revenues. Sales to external customers disclosed in the geographical segments are based on the geographical location of its customer.

Business Segments

The following tables present revenues and expenses information and certain assets and liabilities information regarding the different business segments as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006:

	As of and for the Year Ended December 31, 2006				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Revenues from external customers	₱32,015,218	₱1,807,557	₱94,388	₱–	P33,917,163
Inter-segment revenues	4,391,401	240,729	132,332	(4,770,407)	(5,945)
Segment revenues	36,406,619	2,048,286	226,720	(4,770,407)	33,911,218
Segment expenses	(36,239,852)	–	(191,157)	4,932,538	(31,498,471)
Other segment income	497,868	–	13,033	(121,285)	389,616
Segment result	₱664,635	₱2,048,286	₱48,596	₱40,846	2,802,363
Interest income					135,491
Interest expense					(80,408)
Excess of fair value of net assets over acquisition cost of a subsidiary					68,416
Equity in net loss of a joint venture					(22,908)
Income before income tax					2,902,954
Income tax expense					(742,796)
Net income					₱2,160,158
Assets and liabilities					
Segment assets	₱26,913,967	₱–	₱335,654	(₱8,831,654)	₱18,417,967
Deferred tax assets	676,610	–	42,555	(78,538)	640,627
Total assets	₱27,590,577	₱–	₱378,209	(₱8,910,192)	₱19,058,594

(Forward)

	As of and for the Year Ended December 31, 2006				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Segment liabilities	₱9,535,325	₱–	₱345,435	(₱1,899,896)	₱7,980,864
Long-term debt - including current portion	–	–	–	–	107,090
Income tax payable	–	–	–	–	8,850
Total liabilities	₱9,535,325	₱–	₱345,435	(₱1,899,896)	₱8,096,804
Other segment information					
Capital expenditures	₱1,920,244	₱–	₱–	₱–	₱1,920,244
Depreciation and amortization	1,568,320	–	5,525	–	1,573,845

	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, lease contract pre-termination 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					P157,689
Interest expense					(43,246)
Equity in net loss of a joint venture					(20,626)
Income before income tax					2,129,624
Income tax expense					(439,827)
Net income					₱1,689,797
Assets and liabilities					
Segment assets	₱24,312,734	₱–	₱348,542	(₱7,719,180)	₱16,942,096
Deferred tax assets	–	–	–	–	774,060
Interest in and advances to a joint venture	–	–	–	–	47,170
Total assets	₱24,312,734	₱–	₱348,542	(₱7,719,180)	₱17,763,326
Segment liabilities	₱9,541,565	₱–	₱300,045	(₱2,100,997)	₱7,740,613
Long-term debt - including current portion	–	–	–	–	111,212
Income tax payable	–	–	–	–	13,519
Total liabilities	₱9,541,565	₱–	₱300,045	(₱2,100,997)	₱7,865,344

(Forward)

	As of and for the Year Ended December 31, 2005				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Other segment information					
Capital expenditures	₱1,382,821	₱–	₱–	₱–	₱1,382,821
Depreciation and amortization	1,365,049	–	35,237	–	1,400,286

	As of and for the Year Ended December 31, 2004				
	Food Service	Franchising	Real Estate	Eliminations	Total
			(In Thousands)		
Results of operations					
Revenues from external customers	₱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 legal claims, lease contract pre-terminations, 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	49,223	–	–	–	49,423
Total assets	₱21,068,005	₱22,808	₱296,246	(₱6,620,338)	₱15,451,121
Segment liabilities	₱10,342,427	₱31,089	₱584,221	(₱4,397,494)	₱6,560,243
Long-term debt	–	–	–	–	283,333
Total liabilities	₱10,342,427	₱31,089	₱584,221	(₱4,397,494)	₱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
Other non-cash expenses					
Impairment losses	10,737	–	–	–	10,737
Provision for restructuring costs	62,801	–	–	–	62,801

Geographical Segments

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

	Philippines	International	Eliminations	Total
		(In Thousands)		
2006:				
Revenue	₱33,954,872	₱4,726,753	(₱4,770,407)	₱33,911,218
Segment assets	24,275,590	2,992,434	(8,850,057)	18,417,967
Capital expenditures	1,436,539	483,705	–	1,920,244
2005:				
Revenue	₱30,666,714	₱2,772,208	(₱4,398,397)	₱29,040,525
Segment assets	21,513,755	3,147,521	(7,719,180)	16,942,096
Capital expenditures	845,273	537,548	–	1,382,821
2004:				
Revenue	28,091,310	2,063,299	(3,895,306)	26,259,303
Segment assets	18,860,677	2,477,159	(6,620,338)	14,717,498
Capital expenditures	657,207	757,210	–	1,414,417

5. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks	₱1,919,923,820	₱1,669,462,879
Short-term deposits	2,301,587,014	945,485,902
	₱4,221,510,834	₱2,614,948,781

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

6. Receivables

This account consists of:

	2006	2005
Trade (see Note 20)	₱1,545,679,195	₱1,464,673,613
Advances to employees	117,391,675	119,296,368
Claims (see Note 12)	–	32,699,386
Others	21,467,419	47,547,081
	1,684,538,289	1,664,216,448
Less allowance for doubtful accounts	57,252,238	56,596,723
	₱1,627,286,051	₱1,607,619,725

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

7. Inventories

This account consists of:

	2006	2005
At cost:		
Food supplies and processed inventories	₱957,409,017	₱932,995,420
Packaging, store and other supplies	206,674,764	162,732,412
Novelty items	38,041,293	32,943,047
Inventories in transit	3,398,746	–
	1,205,523,820	1,128,670,879
At net realizable value:		
Food supplies and processed inventories	₱–	₱228,587,916
Packaging, store and other supplies	60,818,958	22,801,393
	60,818,958	251,389,309
Total inventories at lower of costs and net realizable values	₱1,266,342,778	₱1,380,060,188

The cost of inventories carried at net realizable value amounted to ₱79.2 million and ₱265.5 million as of December 31, 2006 and 2005, respectively.

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2006	2005
Deposits to suppliers	₱228,858,740	₱105,881,771
Prepaid expenses (see Note 14)	221,343,313	312,391,421
Current portion of receivable from Meralco (see Note 14)	11,097,483	11,554,083
Others - net of allowance for doubtful accounts of ₱2.6 million	593,704,306	477,809,847
	₱1,055,003,842	₱907,637,122

Receivable from Meralco arises out a refund scheme agreed upon by Meralco and the Energy Regulatory Commission. In 2005, the Jollibee Group recognized a receivable from Meralco and an income from the refund (included in "Other income" account) in the consolidated income statement amounting to ₱35.9 million. The receivable was discounted using an effective interest rate of 12.35%. The portion of the receivable expected to be recovered beyond one year is included under "Other Noncurrent Assets" account in the consolidated balance sheet (see Note 14).

9. Investments in Subsidiaries

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

	Country of Incorporation	Principal Activities	Percentage of Ownership 2006	2005	2004
Fresh N' Famous Foods, Inc. [Fresh N' Famous, formerly Chowking Food Corporation (Chowking)] [a]	Philippines	Food service	100	100	100
Freemont Foods Corporation (Freemont)	Philippines	Food service	100	100	100
Red Ribbon	Philippines	Holding company	100	100	–
Red Ribbon Bakeshop, Inc. (RRBI) [b]	Philippines	Food service	100	100	–
Red Ribbon Bakeshop (USA), Inc. (RRBI USA) [b]	United States of America (USA)	Food service	100	100	–
Vismin Foods Corporation (Vismin)	Philippines	Food service	100	100	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	100	100	100
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	100	100	100
Adgraphix, Inc. [d]	Philippines	Digital printing	60	60	–
Donut Magic Phils., Inc. (Donut Magic) [c]	Philippines	Dormant	100	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP) [c]	Philippines	Dormant	100	100	100
Mary's Foods Corporation (Mary's) [c]	Philippines	Dormant	100	100	100
Greenwich Pizza Corporation (Greenwich) [a]	Philippines	Food service	–	80	80
Chowking Food Corporation USA	USA	Holding company	100	100	100
Jollibee USA	USA	Holding company	100	100	–
Honeybee Foods Corporation (Honeybee)	USA	Food service	100	100	100
Tokyo Teriyaki Corporation (Tokyo Teriyaki) [e]	USA	Food service	90	90	90
Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide)	Singapore	Holding company	100	100	–
Jollibee International (BVI) Ltd. (JIBL) [f]	British Virgin Islands (BVI)	Holding company	100	100	100
PT Chowking Indonesia [h]	Indonesia	Food service	100	100	100
Jollibee Vietnam Corporation Ltd. [h]	Vietnam	Food service	100	100	–
Shanghai Chunlu Co. Ltd [h, i]	PRC	Food service	100	100	–
Jollibee (Hong Kong) Limited [h]	Hong Kong	Food service	85	85	85
Hanover Holdings Limited (Hanover) [h]	Hong Kong	Food service	–	–	85
Jollibee International Company Limited (JICL) [g]	Hong Kong	Holding company	–	–	100
Belmont Enterprises Ventures Limited (Belmont) [h]	BVI	Holding company	85	85	85
Yonghe Holdings Co., Ltd. [h]	BVI	Holding company	85	85	85
All Great Resources Limited [h]	BVI	Holding company	85	85	85
Shanghai Belmont Enterprises Management and Adviser Co., Ltd. [h]	PRC	Business management service	85	85	85
Centenary Ventures Limited [h]	BVI	Holding company	85	85	85
Colossus Global Limited [h]	BVI	Holding company	85	85	85
Granite Management Limited [h]	BVI	Holding company	85	85	85
Cosmic Resources Limited [h]	BVI	Holding company	85	85	85
Eastpower Resources Limited [h]	BVI	Holding company	85	85	85
Eaglerock Development Limited [h]	BVI	Holding company	85	85	85
Gladstone Company Limited [h]	BVI	Dormant	85	85	85
Shanghai Yonghe King Co., Ltd. [h]	PRC	Food service	85	85	85
Beijing Yonghe King Soy Bean Milk Food and Beverage Co., Ltd. [h]	PRC	Food service	85	85	85
Hangzhou Yongtong Foods and Beverage Co., Ltd. [h]	PRC	Food service	85	85	85
Shenzhen Yongnan Restaurant Co., Ltd. [h]	PRC	Food service	85	85	85
Wuhan Yongchang Food and Beverage Co., Ltd. [h]	PRC	Food service	85	85	85
Hangzhou Yonghong Foods & Beverage Co., Ltd [h]	PRC	Food service	85	85	–
Shanghai Yongjue Foods & Beverage Co., Ltd [h]	PRC	Food service	85	85	–
Yonghe Soy-bean Milk Co., Ltd. [h]	Hong Kong	Dormant	85	85	85

(Forward)

(a) On December 29, 2006, the Securities and Exchange Commission (SEC) approved the merger among Fresh N' Famous, Greenwich and Baker Fresh.
(b) Indirectly owned through Red Ribbon.
(c) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three dormant companies, namely: Donut Magic, ICCP and Mary's with the Parent Company. The application for merger with the SEC, however, remains outstanding as of December 31, 2006.
(d) Indirectly owned through Grandworth.
(e) Indirectly owned through Honeybee.
(f) Indirectly owned through Jollibee Worldwide.
(g) Deregistered in 2005. The Company's assets and liabilities were assigned to JIBL.
(h) Indirectly owned through JIBL.
(i) On May 14, 2005, the People's government of Jiading District of Shanghai City approved the establishment of Foreign Invested Shanghai Chunlu Co., Ltd.

Acquisition/Establishment of New Subsidiaries

Baker Fresh

On September 29, 2006, the Parent Company acquired the 68,947 common shares representing the 50% ownership interest of Delifrance Asia Ltd. (DAL) in Baker Fresh, a joint venture of the Jollibee Group in 2005 (see Note 10) for a consideration of Singapore dollar (SG$) 1 (₱32). As part of the Sale and Purchase Agreement, the Parent Company also converted its receivables from Baker Fresh totaling ₱141.1 million into additional paid-in capital of Baker Fresh. Of the total receivables converted to additional paid-in capital of Baker Fresh, ₱84.7 million forms part of the total consideration. As a result of the acquisition, Baker Fresh becomes a wholly owned subsidiary of the Jollibee Group.

Total consideration consists of the following:

Conversion of receivables	₱84,699,123
Cash paid	32
Total consideration	₱84,699,155

The fair value of the identifiable assets and liabilities of Baker Fresh as of the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair Market Value	Carrying Amount
Cash and cash equivalents	₱25,617,711	₱25,617,711
Receivables	19,809,893	19,809,893
Inventories	19,706,006	19,706,006
Prepaid expenses and other current assets	5,413,664	5,413,664
Property and equipment	82,434,400	71,019,627
Deferred tax assets	70,803,148	–
Other noncurrent assets	22,164,013	22,164,013
Total identifiable assets	245,948,835	163,730,914
Less:		
Accounts payable and other current liabilities	63,472,332	63,472,332
Due to related parties	6,789,896	6,789,896
Operating lease payable	14,679,538	14,679,538
Accrued benefit cost	4,467,909	4,467,909
Deferred tax liability	3,424,432	–
Total identifiable liabilities	92,834,107	89,409,675
Net assets	153,114,728	₱74,321,239
Negative goodwill arising from acquisition	68,415,573	
Total consideration	₱84,699,155	

The negative goodwill from the acquisition of Baker Fresh amounting to ₱68.4 million was recognized under "Excess of fair value of net assets over acquisition cost of a subsidiary" account in the consolidated statement of income.

The cash inflows on acquisition in 2006 is as follows:

Cash paid	(₱32)
Less cash acquired from subsidiary	25,617,711
	₱25,617,679

Red Ribbon

On October 27, 2005, the Parent Company acquired 100% of the issued and outstanding shares of Red Ribbon which operates the Red Ribbon Bakeshop system in the Philippines and the USA for a total acquisition cost of ₱1.7 billion which consists of the following:

	Amount
Initial price paid at acquisition date	₱1,300,000,000
Balance payable in installment - at net present value	417,125,958
Incidental costs	8,555,964
Total consideration	₱1,725,681,922

The net present value of the installment payable (presented as "Liability for acquisition of a business" in the consolidated balance sheet) for the acquisition was determined using the discount rate of 9.37%. The amount is to be paid in three equal annual installments following the date of acquisition until October 27, 2008.

The liability for acquisition of Red Ribbon as of December 31, 2006 and 2005 follows:

	2006	2005
Current portion	₱160,689,955	₱155,514,481
Noncurrent portion	147,189,331	271,279,544
	₱307,879,286	₱426,794,025

The fair values of the identifiable assets and liabilities of Red Ribbon as of the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair Market Value	Carrying Amount
Cash and cash equivalents	₱110,425,040	₱110,425,040
Inventories	78,398,143	78,398,143
Receivables	47,015,018	47,015,018
Prepaid and other current liabilities	48,021,656	48,021,656
Property, plant and equipment	697,866,100	436,072,900
Noncurrent assets	46,866,668	46,866,668
Deferred tax assets	32,103,265	32,103,265
Total identifiable assets	1,060,695,890	798,902,690
Less:		
Accounts payable and accrued expenses	305,540,749	305,540,749
Income tax payable	7,564,655	7,564,655
Loans payable to banks	100,356,475	100,356,475
Accrued benefit cost	15,604,282	15,604,282
Deferred tax liability	78,537,963	59,524,359
Total identifiable liabilities	507,604,124	488,590,520
Net assets	553,091,766	₱310,312,170
Goodwill arising from acquisition, as adjusted (see Note 13)	1,172,590,156	
Total consideration	₱1,725,681,922	

The goodwill was computed provisionally in 2005 as the fair values to be assigned to the identifiable net assets were yet to be established at that time. The completion of the initial accounting in 2006 resulted to an adjustment to the goodwill amounting to ₱13.1 million arising from adjustment on the deferred tax liability recognized (see Note 13). Accordingly, the goodwill and net deferred tax assets in 2005 were adjusted.

The goodwill includes brand and recipes which were not recognized separately as the fair value of the foregoing intangibles cannot be measured reliably.

The cash outflows on acquisition in 2005 are as follows:

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

Belmont

On March 25, 2004, the Jollibee Group through JIBL acquired 85% of the issued capital shares of Belmont, the holding company of the Yonghe King chain of fastfood restaurants operating in the PRC. 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 within the next three years not to exceed US$11.0 million. The maximum purchase price for the 85% equity 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 amounted to ₱994.1 million was recognized as goodwill by JIBL (see Note 13).

In 2006, Belmont was not able to meet the performance level to which the contingent payment is conditional. Thus, the contingent payment recognized as part of the acquisition cost amounting to ₱565.0 million (see Note 13) was reversed and adjusted against goodwill and income amounting to ₱6.0 million was recognized representing reversal of accretion on the previously recognized liability.

Merger of Chowking, Greenwich and Baker Fresh

On December 29, 2006, the Philippine SEC approved the merger among Chowking, Greenwich and Baker Fresh, with Chowking as the surviving entity. Chowking absorbed all the assets, liabilities, privileges and rights of Greenwich and Baker Fresh. No shares of Chowking was issued since all the entities involved in the merger are wholly owned by the Parent Company at the time of merger. The corporate name of Chowking was changed to Fresh N' Famous on the same date.

The merger was considered as a business reorganization of companies under common control. Accordingly, the merger is accounted for in a manner similar to the pooling of interest method.

Acquisition of Minority Interest

On January 13, 2006, the Parent Company acquired the 20% interest of Greenfoods Franchising, Inc. in Greenwich for ₱384.0 million. The acquisition resulted to Greenwich being a wholly owned subsidiary of the Parent Company.

The difference between the acquisition cost and the carrying value of the minority interest at the date of acquisition amounting to ₱168.3 million was recognized as "Excess of the acquisition cost over the carrying value of minority interest," a separate component of equity in the consolidated balance sheet.

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 48,143,799 shares, with a par value of SG$1.00 per share, or a total value of SG$48.1 million 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$28.8 million (peso equivalent is ₱1.6 billion). The issuance of new shares were 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.

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 BOD and the stockholders approved the deregistration of JICL. On June 17, 2005, JICL had been deregistered and accordingly dissolved in the Hong Kong Companies Registry.

10. Interest in and Advances to a Joint Venture

In 2005, the Jollibee Group had a 50% equity interest in Baker Fresh, a joint venture with DAL. Baker Fresh operates "Delifrance" food outlets on its own and through sub-franchisees under a Royalty and Licensing Agreement with DAL.

Baker Fresh became a wholly owned subsidiary of the Parent Company when the latter acquired the 50% ownership interest of DAL on September 29, 2006. Baker Fresh was subsequently merged with Chowking and Greenwich on December 29, 2006 (see Note 9).

The Jollibee Group accounted for its interest in the joint venture under the equity method of accounting. The details of this account as of December 31, 2005 follow:

Acquisition cost	₱89,846,774
Accumulated equity in net losses:	
Balance at beginning of year	(102,771,076)
Equity in net loss during the year	(20,625,664)
Balance at end of year	(123,396,740)
	(33,549,966)
Advances (see Note 27)	80,719,568
	₱47,169,602

The equity in net loss in 2006 (until September 29, 2006) amounted to ₱22.9 million.

The Jollibee Group's proportionate share in the assets, liabilities, revenues and expenses of the joint venture in 2005 follows:

Current assets	₱29,079,166
Noncurrent assets	44,655,412
Current liabilities	(52,395,288)
Noncurrent liabilities	(40,933,075)
	(₱19,593,785)

Revenues	₱172,815,512
Cost of sales	(159,504,915)
Operating expenses	(32,176,507)
Finance charges	(1,243,270)
Other income	136,657
Loss before income tax	(19,972,523)
Provision for income tax	(653,141)
Net loss	(₱20,625,664)

11. Investment Properties

	2006		
	Land and Land Improvements	Buildings and Building Improvements	Total
		(In Thousands)	
Cost:			
Beginning balance	₱141,943	₱362,319	₱504,262
Retirements	(12,702)	–	(12,702)
Reclassifications	123,260	(153,459)	(30,199)
Ending balance	252,501	208,860	461,361
Accumulated depreciation and impairment losses:			
Beginning balance	74,135	223,992	298,127
Depreciation	–	10,118	10,118
Reclassifications	5,552	(35,751)	(30,199)
Ending balance	79,687	198,359	278,046
Net book value	₱172,814	₱10,501	₱183,315

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

The fair market values of the investment properties are not available. The carrying amount of land and land improvements amounted to ₱172.8 million and ₱67.8 million as of December 31, 2006 and 2005, respectively while its zonal value amounted to ₱212.3 million and ₱85.8 million as of December 31, 2006 and 2005, respectively.

12. Property, Plant and Equipment

	2006							
	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	₱738,194	₱737,701	₱5,243,778	₱5,488,760	₱510,092	₱244,454	₱145,342	₱13,108,321
Additions	–	81,058	507,094	745,519	50,269	75,083	461,221	1,920,244
Consolidation of Baker Fresh (see Note 9)	–	–	26,704	41,028	21	7,168	7,513	82,434
Retirements	–	(23,162)	(325,608)	(436,475)	(70,890)	(67,509)	(114,341)	(1,037,985)
Reclassifications	(13,491)	–	298,749	(83,945)	12,307	–	(215,994)	(2,374)
Ending balance	724,703	795,597	5,750,717	5,754,887	501,799	259,196	283,741	14,070,640
Accumulated depreciation, amortization and impairment loss:								
Beginning balance	431	392,920	2,511,430	2,925,237	340,559	127,022	4,015	6,301,614
Depreciation and amortization	–	43,230	592,609	822,486	44,792	60,609	–	1,563,726
Retirements	–	(26,701)	(306,821)	(411,134)	(55,577)	(37,400)	(16,128)	(853,761)
Reclassifications	(431)	(646)	55,604	(37,595)	(459)	(14,185)	–	2,288
Ending balance	–	408,803	2,852,822	3,298,994	329,315	136,046	(12,113)	7,013,867
Net book value	₱724,703	₱386,794	₱2,897,895	₱2,455,893	₱172,484	₱123,150	₱295,854	₱7,056,773

	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	₱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 (see Note 9)	250,800	–	570,443	289,777	58,150	41,492	3,938	1,214,600
Retirements	–	–	(234,219)	(22,099)	(14,385)	(17,251)	–	(287,954)
Reclassifications	–	–	106,636	–	–	–	(106,636)	–
Ending balance	738,194	737,701	5,243,778	5,488,760	510,092	244,454	145,342	13,108,321
Accumulated depreciation, amortization and impairment loss:								
Beginning balance	–	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
Consolidation of Red Ribbon (see Note 9)	–	–	229,345	225,354	41,723	20,312	–	516,734
Impairment loss	–	–	21,311	–	–	–	–	21,311
Retirements	–	–	(59,828)	(143,712)	(6,017)	(12,156)	–	(221,713)
Ending balance	431	392,920	2,511,430	2,925,237	340,559	127,022	4,015	6,301,614
Net book value	₱737,763	₱344,781	₱2,732,348	₱2,563,523	₱169,533	₱117,432	₱141,327	₱6,806,707

On July 9, 2005, a fire damaged one of the Jollibee Group's commissaries. Property and equipment amounting to ₱34.0 million were lost and destroyed during the fire.

13. Goodwill

Goodwill acquired through business combinations are allocated as follows:

	Red Ribbon	Belmont	Total
Balance at December 31, 2004	₱–	₱994,059,821	₱994,059,821
Addition (see Note 9)	1,185,679,817	–	1,185,679,817
Balance at December 31, 2005, as previously reported	1,185,679,817	994,059,821	2,179,739,638
Adjustment to provisional goodwill (see Note 9)	(13,089,661)	–	(13,089,661)
Balance at December 31, 2005, as restated	1,172,590,156	994,059,821	2,166,649,977
Reversal of liability for contingent payment (see Note 9)	–	(565,043,705)	(565,043,705)
Balance at December 31, 2006	₱1,172,590,156	₱429,016,116	₱1,601,606,272

Impairment testing of goodwill

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

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

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

14. Other Noncurrent Assets

This account consists of:

	2006	2005
Refundable deposits	₱407,244,554	₱486,246,446
Refundable deposits on containers and other receivables	104,614,635	104,139,369
Deferred rent expense	69,862,947	89,163,634
Derivative asset (see Note 31)	65,170,320	26,547,078
Advances to employees - net of current portion	52,167,754	24,949,613
Receivable from Meralco - net of current portion (see Note 8)	28,678,990	37,714,807
Deferred compensation expense	9,896,154	12,935,279
Others - net of allowance for impairment loss of ₱144.7 million in 2006 and ₱289.6 million in 2005 (see Note 8)	300,189,429	142,733,991
	₱1,037,824,783	₱924,430,217

Refundable deposits represent the Jollibee Group's deposits for operating leases entered into by the Jollibee Group as lessee. The refundable deposits are recoverable from the lessors at the end of the lease term. The refundable deposits are presented at amortized cost in accordance with PAS 39. The difference between the fair value at initial recognition and the notional amount of the refundable deposits is charged to "Deferred rent expense" account and amortized on straight-line basis over the lease terms under PAS 17, "Leases."

Advances to employees are in relation to the Jollibee Group's car plan benefits and are presented at amortized cost in accordance with PAS 39. The difference between the fair value at initial recognition and the notional amount of the advances is charged to "Deferred compensation expense" account and amortized using the effective interest method over the credit period.

Other noncurrent assets include AFS financial assets representing investments in club shares and other shares of stock amounting to ₱42.5 million and ₱17.9 million, respectively.

15. Accrued Expenses

	2006	2005
Salaries, wages and allowances	₱788,968,558	₱587,719,967
Accrued purchases	451,809,296	387,836,141
Local and other taxes	443,069,268	439,120,505
Advertising and promotions	279,896,883	235,411,163
Rent (see Note 29)	153,821,107	113,969,032
Retention payable	19,946,762	29,631,846
Income tax payable	8,850,346	13,519,313
Others	795,167,274	715,393,570
	₱2,941,529,494	₱2,522,601,537

Other accrued expenses include accruals for economic value added compensation, building improvements, taxes and licenses and staled checks.

16. Provisions

	2006					2005
	Legal Claims	Restructuring Costs	Acquisition (see Note 9)	Others	Total	
Balance at beginning of year	₱32,492,707	₱37,492,558	₱565,043,705	₱15,808,350	₱650,837,320	₱719,790,195
Payments/reversal during the year	(380,603)	(13,497,852)	(565,043,705)	3,428,941	(575,493,219)	(85,803,932)
Provisions during the year	–	–	–	–	–	16,851,057
Balance at end of year	32,112,104	23,994,706	–	19,237,291	75,344,101	650,837,320
Less current portion	–	23,994,706	–	19,237,291	43,231,997	618,344,613
	₱32,112,104	₱–	₱–	₱–	₱32,112,104	₱32,492,707

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

The provision for restructuring relates to the Parent Company's Cost Improvement Program (CIP) to improve the quality of services and reduce the costs of backroom operations for its various QSR systems as publicly announced on February 17, 2004.

17. Long-term Debt

	2006	2005
Red Ribbon:		
Loan 1	₱24,545,455	₱40,909,091
Loan 2	8,181,818	13,636,364
Loan 3	74,362,226	–
	107,089,499	54,545,455
Parent Company	–	56,666,666
	107,089,499	111,212,121
Less current portion	59,930,544	78,484,848
	₱47,158,955	₱32,727,273

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 11 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 of 9.75%. The principal is payable in 11 quarterly installments commencing on November 4, 2005 up to May 2, 2008, the date of maturity.

Loan 3 consists of a long-term loan acquired from a foreign bank in July 2006 amounting to US$1.5 million with an interest rate of 7.87%. The principal is payable in 12 monthly installments starting July 2007.

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

As of December 31, 2006, the Parent Company has paid the loan in full.

Repayment schedule of the outstanding long-term debt as of December 31, 2006 is as follows:

Year	Amount
2007	₱59,930,544
2008	47,158,955
	₱107,089,499

18. Other Current Liabilities

	2006	2005
Dividends payable	₱251,756,838	₱232,913,995
Short-term loans	121,007,013	68,488,787
Deposits	119,696,184	123,707,870
Output value added tax	96,499,077	124,719,189
Others	341,013,733	329,543,066
	₱929,972,845	₱879,372,907

Short-term loans consist of secured and unsecured bank loans of Belmont (see Note 9). The secured bank loan is secured by a pledge of Belmont's bank deposits of US$500,000 equivalent to ₱24.5 million as of December 31, 2006 and US$801,875 equivalent to ₱26.6 million as of December 31, 2005. The secured bank loans will mature on January 13, 2007. The pledged bank deposits earn interest at the bank deposit rates at an average of 2.88% in 2006 and 0.6% in 2005. Interest on the secured bank loans was charged on the outstanding balance at a rate of 4.90% per annum in 2006 and 4.70% per annum in 2005.

Unsecured bank loan are short-term loans availed from banks in 2006 with maturity of one year or less. Interest rate on unsecured bank loans is at 5.0% in 2006.

Other current liabilities include gift certificates issued to customers of the Jollibee Group and other liabilities relating to the store operation.

19. Equity

a. Capital stock

The details of this account are shown below:

	Number of Shares		
	2006	2005	2004
Authorized - ₱1 par value	1,450,000,000	1,450,000,000	1,450,000,000
Issued:			
Balance at beginning of year	1,020,690,758	1,020,149,066	1,018,339,980
Issuances	1,483,053	541,692	1,809,086
Balance at end of year	1,022,173,811	1,020,690,758	1,020,149,066
Subscribed:			
Balance at beginning of year	2,009,297	2,009,297	14,588,382
Subscriptions	1,483,053	541,692	1,881,053
Issuances	(1,483,053)	(541,692)	(1,809,086)
Cancelled subscriptions under the stock purchase plan	–	–	(12,651,052)
Balance at end of year	2,009,297	2,009,297	2,009,297
	1,024,183,108	1,022,700,055	1,022,158,363

b. Treasury shares

	Number of Shares		
	2006	2005	2004
Common shares held in treasury (see Note 26):			
Balance at beginning of year	28,453,870	34,510,546	48,259,874
Re-issuances for stock purchase exercised	(4,599,152)	(6,056,676)	(13,749,328)
Re-issuances for stock purchased by retirement fund	(1,120,690)	–	–
Balance at end of year	22,734,028	28,453,870	34,510,546

Treasury shares were re-issued to cover the stock purchase rights exercised by the employee participants in the Jollibee Group's Tandem Stock Purchase and Option Plan II (see Note 26).

c. Retained earnings

The unappropriated retained earnings is restricted for the payment of dividends to the extent of: (a) the undistributed net earnings of the subsidiaries amounting to ₱1.2 billion and ₱641.4 million as of December 31, 2006 and 2005, respectively; and (b) acquisition cost of shares held in treasury amounting to ₱292.4 million and ₱364.4 million as of December 31, 2006 and 2005, respectively.

On November 13, 2006 and April 10, 2006, the BOD approved the declaration of cash dividends of ₱0.39 per share and ₱0.29 per share of common stock, respectively. Likewise, the BOD approved the declaration of cash dividends of ₱0.28 and ₱0.27 per share of common stock on November 28, 2005 and June 9, 2005, respectively.

20. Royalty and Franchise Fees

The Parent Company and four 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," "Delifrance," "Yonghe King" and "Red Ribbon" concepts and trade names. In consideration thereof, the franchisees agree to pay franchise fees and monthly royalty fees equivalent to certain percentages of the franchisees' net sales.

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

21. Expenses

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

	2006	2005	2004
Depreciation and amortization included in:			
Property, plant and equipment (see Note 12):			
Cost of sales	₱1,354,527,606	₱1,075,978,253	₱874,106,887
General and administrative expenses	209,198,762	303,814,295	248,973,461
Investment properties - cost of sales (see Note 11)	10,118,389	20,493,852	84,336,119
	₱1,573,844,757	₱1,400,286,400	₱1,207,416,467
Cost of inventories recognized in cost of sales	₱15,305,206,661	₱14,060,316,349	₱13,596,742,887

Details of staff costs are as follows:

	2006	2005	2004
Salaries, wages and benefits	₱5,244,780,761	₱3,990,546,332	₱3,341,185,427
Retirement benefits (see Note 25)	97,122,344	62,722,480	65,495,400
Stock options expense (see Note 26)	40,042,485	32,446,258	26,770,775
	₱5,381,945,590	₱4,085,715,070	₱3,433,451,602

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

	2006	2005	2004
Included in:			
Cost of sales	₱12,293,301	₱13,401,373	₱10,090,983
General and administrative expenses	28,835,754	30,526,954	29,927,179
	₱41,129,055	₱43,928,327	₱40,018,162

22. Finance Income and Charges

These accounts consist of:

	2006	2005	2004
Interest income:			
Money market placements	₱71,860,068	₱88,485,493	₱89,464,814
Accretion of interest on financial assets (see Notes 8 and 14)	27,794,598	27,489,949	–
Cash in banks	22,303,143	20,670,163	8,319,860
Loan and advances	13,533,003	21,042,920	24,884,481
	₱135,490,812	₱157,688,525	₱122,669,155
Interest expense:			
Accretion of interest on financial liabilities (see Notes 9 and 18)	₱54,648,804	₱11,112,951	₱–
Short-term loans	20,781,701	12,042,460	10,035,848
Long-term loans	4,977,009	20,090,155	41,077,830
	₱80,407,514	₱43,245,566	₱51,113,678

23. Income Tax

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

	2006	2005 (As restated - see Note 9)
Deferred tax assets:		
Operating lease payable	₱330,764,600	₱316,234,558
Accrued retirement and other benefits	148,570,029	82,839,260
MCIT	103,749,561	106,862,279
Provision for impairment in value of property, plant and equipment, investment properties, and other non-financial assets	82,086,300	138,086,908
NOLCO	79,558,209	176,544,824
Provisions for legal claims and restructuring costs	19,405,647	24,129,895
Unamortized past service costs	14,554,530	17,601,470
Allowance for doubtful accounts	9,899,918	5,968,026
Allowance for inventory losses	6,448,341	2,459,523
Unamortized preoperating expenses	–	4,802,807
Others	55,350,051	57,679,295
(Total Carried Forward)	850,387,186	933,208,845

(Forward)

	2006	2005 (As restated - see Note 9)
(Total Brought Forward)	₱850,387,186	₱933,208,845
Deferred tax liabilities:		
Excess of fair value over book value of property, plant and equipment of acquired businesses	99,598,303	104,012,052
Operating lease receivable	43,806,549	17,406,622
Income from Meralco refund	10,152,283	12,107,877
Unamortized discount on noninterest-bearing liability for acquisition of a business	8,908,917	25,622,091
Others	47,294,390	–
	209,760,442	159,148,642
	₱640,626,744	₱774,060,203

As of December 31, 2006, NOLCO and MCIT of the Philippine-based 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, 2003	December 31, 2006	₱239,169,108	₱36,155,404
December 31, 2004	December 31, 2007	55,969,198	51,244,445
December 31, 2005	December 31, 2008	295,039,763	20,465,713
December 31, 2006	December 31, 2009	187,662,971	32,039,403
		777,841,040	139,904,965
Less:			
Applied against regular taxable income in 2006		521,633,158	35,970,146
Expired in 2006		9,557,165	185,258
		531,190,323	36,155,404
Balance at year end		₱246,650,717	₱103,749,561

As of December 31, 2006, the following tax losses in the PRC represent Belmont's tax losses available for offset against future taxable income. Belmont operates in the PRC where the income tax rate is 33%.

Year Incurred/Paid	Carry Forward Benefit Up to	Tax losses
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
		₱18,990,561

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

	2006	2005	2004
Provision for income tax at statutory income tax rates of 35% in 2006, 32.5% in 2005 and 32% in 2004	₱1,016,033,954	₱692,127,668	₱628,406,186
Income tax effects of:			
Effect of different tax rate for royalty fees and interest	(298,888,559)	(265,506,696)	(175,233,923)
Income tax holiday (ITH) availed (see Note 24)	(83,704,389)	(44,283,257)	(47,199,119)
Effects of changes in tax rates	22,502,898	(74,016,350)	–
Nondeductible expenses	18,596,686	10,002,963	–
Expired/applied NOLCO	2,193,039	11,032,259	–
Dividend income	–	(2,242,667)	–
Others	66,062,603	112,713,076	(40,555,389)
	₱742,796,232	₱439,826,996	₱365,417,755

24. Registration with the Board of Investments (BOI)

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

ITH incentives availed of by the subsidiary amounted to ₱83.7 million, ₱44.3 million and ₱47.2 million in 2006, 2005 and 2004, respectively (see Note 23).

25. Retirement Benefits

Defined Benefit Plan

The Parent Company and certain Philippine-based subsidiaries have funded, independently administered, non-contributory 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 consolidated statement of income and the funded status and amounts recognized in the consolidated balance sheet for the plans.

Net benefit expense:

	2006	2005	2004
Current service cost	₱64,264,487	₱39,160,839	₱40,680,000
Interest cost on benefit obligation	63,029,401	46,549,078	40,621,100
Expected return on plan assets	(29,272,369)	(20,867,637)	(15,805,700)
Net actuarial loss (gain)	269,400	(2,119,800)	–
Effect of consolidation of Baker Fresh (see Note 9)	(1,168,575)	–	–
	₱97,122,344	₱62,722,480	₱65,495,400
Actual return on plan assets	₱132,461,913	₱23,142,549	₱37,677,059

Accrued benefit cost:

	2006	2005
Present value of defined benefit obligation	₱1,208,554,155	₱551,321,126
Fair value of plan assets	430,319,438	291,831,385
Present value of unfunded obligation	778,234,717	259,489,741
Unrecognized net actuarial losses	(488,010,280)	(25,671,194)
	₱290,224,437	₱233,818,547

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

	2006	2005
At January 1	₱551,321,126	₱357,929,438
Current service cost	64,264,487	39,160,839
Interest cost on benefit obligation	63,029,401	46,549,078
Actual benefits paid	(42,944,350)	(30,690,890)
Benefit obligation of acquired subsidiaries	4,655,600	36,942,670
Actuarial loss on benefit obligation	568,227,891	101,429,991
At December 31	₱1,208,554,155	₱551,321,126

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

	2006	2005
At January 1	₱291,831,385	₱221,480,800
Contributions	36,548,004	34,090,394
Expected return on plan assets	29,272,369	20,867,637
Actual benefits paid	(30,822,295)	(30,690,890)
Plan assets of acquired subsidiary	300,431	43,808,532
Actuarial gain on plan assets	103,189,544	2,274,912
At December 31	₱430,319,438	₱291,831,385

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

	2006	2005
Government securities	52.99%	25.73%
Investments in shares of stock	33.67	30.62
Cash and cash equivalents	11.57	6.54
Loans/notes receivable	1.77	0.66
Special savings deposits	–	36.18
Other receivables	–	0.27
	100.00%	100.00%

The retirement plans call for annual contribution covering the current service cost for the year plus payment toward funding the actuarial past service liability which has been fully accrued. The Jollibee Group expects to contribute ₱164.6 million to its defined benefit retirement plans in 2007.

The overall expected rate of return on plan assets is determined based on the market prices, prevailing on that date, applicable to the period within which the obligation is to be settled. The latest actuarial valuation of the defined benefit retirement plan is as of December 31, 2006.

As of January 1, 2006 and 2005, the principal actuarial assumptions used to determine retirement benefits obligations follow:

	2006	2005
Discount rate	11.75%	13.50%
Salary increase rate	7.00%	7.00%
Rate of return on plan assets	10.50%	10.50%

The discount rate and expected return on plan assets prevailing as of December 31, 2006 is 7.75% and 10.5%, respectively.

Amounts for the current and previous periods are as follows:

	2006	2005	2004
Defined benefit obligation	₱1,208,554,155	₱551,321,126	₱357,929,438
Plan assets	430,319,438	291,831,385	221,480,800
Deficit	₱778,234,717	₱259,489,741	₱136,448,638

	2006	2005
Experience adjustments on:		
Plan obligation	₱28,704,737	₱14,169,100
Plan assets	103,583,944	29,559,900

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.

26. Stock Option Plans

Tandem Stock Purchase and Option Plans

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 (until 2005) 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 I5, 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 in 2004 follow:

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 ₱12.00 per share on 2,196,679 options, ₱11.75 per share on 92,724 options, and ₱10.65 per share on 78,441 options. The total options exercised in 2004 amounted to ₱28.3 million. The total fair value of the shares as of the exercise date amounted to ₱48.7 million at ₱20.57 per share. The option to exercise Plan I shares ended in May 2004 and the remaining 1,716,821 option shares subsequently expired. The Jollibee Group has availed of the allowed exemption on the application of PRFS 2, "Share-based Payments," for Plan I.

The aggregate number of share options exercised by the directors and officers of the Jollibee Group and a joint venture was 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 19, 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 ₱24.8 million was deducted against additional paid-in capital resulting from treasury share transactions.

In accordance with Plan II, a total of 25,426,904 shares became available for the Option portion equivalent to two shares for every fully paid share under the Purchase portion. The options become exercisable as these become vested 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 would not expire until January 1, 2008.

Movements in the number of stock option for Plan II in 2006 and 2005 follow:

	2006	2005
	Number of Shares	Number of Shares
Balance at beginning of year	19,129,811	–
Options granted under Plan II	–	25,426,904
Options exercised during the year	(5,642,222)	(6,171,474)
Options of resigned employees	(17,698)	(125,619)
	13,469,891	19,129,811

The number of option shares exercisable as of December 31, 2006 and 2005 is 10,261,256 and 8,475,634, respectively. The option shares available are divided into three tranches. Tranche 1 has an exercise price of ₱10.00 per share, ₱12.00 per share for Tranche 2 and ₱15.75 per share for Tranche 3. The options that were exercised in 2006 and 2005 are as follows:

	Tranche 1	Tranche 2	Tranche 3	Total
2006	4,612,107	881,999	148,116	5,642,222
2005	4,941,022	1,046,495	183,957	6,171,474

The weighted average share price of options exercised was ₱12.58.

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 for Tranche 1.

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

The expected life of the option 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.

Senior 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 Plan). The Plan covers selected key members of management of the Parent Company, 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 the Jollibee Group 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, 2006 and will expire on June 30, 2013. On July 1, 2005 and 2006, 2,577,000 and 2,556,000 options under the 2nd MSOP cycle and 3rd MSOP cycle were granted to eligible participant. The options vest similar to the 1st MSOP cycle.

Movements during 2006 and 2005 in the number of stock options outstanding for the 1st and 2nd MSOP cycles follow:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle	Total
Balance at December 31, 2004	2,385,000	–	–	2,385,000
Options granted during the year	–	2,577,000	–	2,577,000
Options exercised during the year	(210,014)	–	–	(210,014)
Balance at December 31, 2005	2,174,986	2,577,000	–	4,751,986
Option granted during the year	–	–	2,556,000	2,556,000
Option exercised during the year	(213,348)	(208,937)	–	(422,285)
Balance at December 31, 2006	1,961,638	2,368,063	2,556,000	6,885,701

The fair value as at the date of grant of the share options under MSOP 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, 2004 for 1st MSOP cycle, July 1, 2005 for 2nd MSOP cycle and July 1, 2006 for 3rd MSOP cycle are shown below:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle
Dividend yield	1.7%	1.7%	1.71%
Expected volatility	36.91%	36.91%	36.91%
Risk-free interest rate	6.2%	6.0%	6.2%
Expected life of the option	5-7 years	5-7 years	5-7 years
Stock price on grant date	₱24.00	₱29.00	₱35.00
Exercise price	₱20.00	₱27.50	₱32.32

The weighted average share price of options exercised was ₱20.38.

The cost of the stock-options were charged to operations under "General and administrative expenses" account and amounted to ₱40.0 million, ₱32.4 million and ₱26.8 million in 2006, 2005 and 2004, respectively.

27. Related Party Transactions

The Jollibee Group has transactions within and among the consolidated entities and with the joint venture (until 2005). PAS 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 in 2005 consisted mainly of intercompany advances. Outstanding balance of the advances amounted to ₱80.7 million as of December 31, 2005 (see Note 10). The foregoing advances were part of the amounts converted to additional paid-in capital of Baker Fresh when it was acquired by the Parent Company (see Note 9).

Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group in 2006 amounted to ₱189.7 million.

28. Earnings Per Share Computation

	2006	2005	2004
(a) Net income attributable to the equity holders of the Parent	₱2,156,618,463	₱1,674,629,286	₱1,564,347,682
(b) Weighted average number of shares - basic	997,857,977	992,870,323	986,601,172
Weighted average number of shares exercisable under the stock option plan	6,763,355	2,763,818	2,106,063
Weighted average number of shares that would have been purchased at fair market value	(2,593,210)	(1,064,476)	(1,004,435)
(c) Adjusted weighted average shares - diluted	1,002,028,122	994,569,665	987,702,800
Earnings per share:			
Basic (a/b)	₱2.161	₱1.687	₱1.585
Diluted (a/c)	2.152	1.684	1.583

29. 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 ₱2.1 billion, ₱1.8 billion and ₱1.5 billion in 2006, 2005 and 2004, respectively.

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

	2006	2005
Within one year	₱639,917,261	₱439,060,210
After one year but not more than five years	2,789,507,430	1,971,927,215
After more than five years	2,471,980,933	2,390,908,657
	₱5,901,405,624	₱4,801,896,082

PAS 17 requires the recognition of rental expense for the noncancellable portion of the operating leases on a straight-line basis. The amounts by which rental expense recognized under the straight-line method exceeded the rental amounts due in accordance with the terms of the lease agreements are charged to "Operating lease payable" account. Rental expense recognized on a straight-line basis amounted to ₱672.8 million, ₱601.0 million and ₱330.6 million in 2006, 2005 and 2004, respectively.

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 ₱38.7 million, ₱17.6 million and ₱2.7 million in 2006, 2005 and 2004, respectively.

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

	2006	2005
Within one year	₱36,987,263	₱41,325,590
After one year but not more than five years	181,635,023	129,081,902
After more than five years	74,039,023	85,456,170
	₱292,661,309	₱255,863,662

PAS 17 requires the recognition of rental income for the noncancellable portion of the operating leases on a straight-line basis. The amounts by which rental income recognized under the straight-line method exceeded the rental amounts receivable in accordance with the terms of the lease agreements are charged to "Operating lease receivable" account. Rental income recognized on a straight-line basis amounted to ₱83.3 million, ₱72.0 million and ₱36.9 million in 2006, 2005 and 2004, respectively.

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 results of operations of the Jollibee Group.

30. Financial Risk Management Objectives and Policies

The Jollibee Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Jollibee Group's risk management policies 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 USA.

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 and payables in foreign currencies.

b. Credit risk

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

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

The Jollibee Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments, net of the value of collaterals, if any.

The Jollibee Group has no significant concentration of credit risk with counterparty.

c. 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 the 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.

The 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.

31. Fair Value of Financial Assets and Liabilities

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, 2006 and 2005.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(In Thousands)		
Financial assets:				
Refundable lease deposits - receivable	₱276,204	₱306,111	₱214,716	₱314,336
Advances to employees - car plan (including current portion)	68,759	78,113	41,936	49,347
Receivable from Meralco- (including current portion)	39,776	42,154	49,269	55,443
Financial liabilities:				
Liability for acquisition of a business (including current portion)	₱307,879	₱322,958	₱426,794	₱420,347
Long-term debt (including current portion)	107,089	104,617	111,212	105,842
Refundable lease deposits - payable	12,078	15,402	11,265	11,390

The Jollibee Group has carried its AFS financial assets at their fair value as required by PAS 39.

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

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

Bifurcated Embedded Currency Forward

The Jollibee Group has outstanding derivative which relates to the embedded currency forward or a foreign exchange adjustment provision in its acquisition of Red Ribbon (see Note 9) on the balance purchase price amounting to ₱0.5 billion. As of December 31, 2006 and 2005, the embedded currency forwards have an aggregate notional amount of US$9.1 million and US$6.1 million, respectively. These currency forwards have various maturity dates up to October 27, 2008. The fair value of the embedded derivative amounted to ₱65.2 million and ₱26.5 million as of December 31, 2006 and 2005, respectively. The mark-to-market gain on the embedded derivative recognized under "Other income" account in the consolidated statement of income amounted to ₱59.8 million and ₱26.5 million in 2006 and 2005, respectively.

Investor Information

Company Headquarters

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

Common Stock

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

Annual Stockholder's Meeting

The 2007 Stockholder's Meeting will be held on July 05, 2007 at 2:00 P.M., (registration starts at 1:00 P.M.) Thursday 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 to the Office of the Corporate Secretary.

Produced by **Jollibee Foods Corporation**
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JOLLIBEE FOODS CORPORATION

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