JOLLIBEE FOODS CORPORATION

30 Years

Enhancing Celebrations

2007

ANNUAL REPORT

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30 Years Enhancing Celebrations!

JOLLIBEE BEGAN WITH TWO ICE CREAM PARLORS in Manila in 1975. It became a formal business enterprise on January 11, 1978 with the establishment of Jollibee Foods Corporation. Since then, JFC had grown to become the largest food service company in the Philippines and one of Asia's most promising food service enterprises.

Today, JFC operates more than 1,600 stores in the Philippines and 9 other countries with 8 brands: Jollibee, Chowking, Greenwich, Red Ribbon, Yonghe King, Delifrance, Chun Shui Tang and its latest addition Manong Pepe.

Even in its earliest years, Jollibee brand was not just about convenience and affordability in eating out. It has always been about great tasting food in a fun and wholesome place. It is a great place for celebrations!

These qualities have become parts of the character of all brands in the Jollibee Group.

In 2008, Jollibee Foods Corporation is celebrating its 30th year of official existence. More meaningfully for its employees—they are celebrating 30 years of doing a fine job of enhancing customer celebrations!

In this annual report, Jolllibee Foods Corporation features customer celebrations patronizing our products in and outside of our stores.

Celebrating Milestones...

1978
Jollibee Foods Corporation (JFC) is born—a 100% Filipino-owned corporation.

1980
Jollibee introduces its Chicken Joy.

1987
The Company takes its first step towards international expansion—opens its first overseas store in Brunei.

1989
Jollibee's systemwide sales reach ₱1 billion.

1991
Jollibee's 100th store opens its doors in Davao.

1993
JFC lists shares in the Philippine Stock Exchange.

1994
Jollibee acquires Greenwich Pizza Corporation and is cited as one of the leading companies in Asia by the Far Eastern Economic Review.

1996
Jollibee opens its 200th store in Malolos, Bulacan. Jollibee re-engineers its visual identity system. JFC becomes the sole franchisee of Delifrance in the Philippines.

1998
Jollibee opens its first store in Daly City, USA and its 300th store in Balagtas, Bulacan. The Company lists warrants.

2000
JFC acquires Chowking Food Corporation. Systemwide sales reach ₱20 billion.

2001
Jollibee opens its 400th store in historic Intramuros, Manila.

2002
Mr. Tony Tan Caktiong is named MAP "Management Man of the Year"

2003
For the sixth straight year, the Far Eastern Economic Review ranks JFC as the Philippines' Leading Company.

2004
JFC acquires the Yonghe King business in the People's Republic of China. The Chairman and Chief Executive Officer of the Company, Mr. Tony Tan Caktiong is named the Ernst and Young's 2004 World Entrepreneur of the Year.

2005
JFC acquires Red Ribbon.

2006
JFC opens its first Chun Shui Tang (CST) Tea House in Shanghai.

2007
JFC introduces a new restaurant concept with the trade name "Manong Pepe's Karinderia." Jollibee opens its 600th store in Aparri.

2008
Jollibee Foods Corporation celebrates its 30th year.

...and Growing!

Chairman's Message

To My Fellow Shareholders,

OUR COUNTRY EXPERIENCED IN 2007 an economic growth that was the best in 17 years. Our Gross Domestic Product grew by 7.3% with Private Consumption, the largest segment rising by 6.0%. Our inflation rate went down to 3.9%, the lowest in 5 years. The Philippine peso strengthened by 15.7% to reach Php 41.40 to 1 US dollar by year- end, a level equal to that in 1999 aided by a 13.2% increase in the remittances of our Overseas Filipino Workers. The foreign exchange reserves of the Central Bank increased by 47.0% to USD 33.8 billion. Interest rates, following the decline in inflation rate decreased to 3.7% for the benchmark 90 days Treasury Bills. Meanwhile, the government was able to limit its budget deficit to Php 12.4 billion, surpassing its target of Php 63.0 billion for the year. With these remarkable achievements, our stock market rose by 21.4%. The Philippine stock market and the peso were among the best performers in the world in 2007.

Our business greatly benefited from this remarkable economic recovery. Our brands sensed even in the first months of the year that something remarkable was happening when they began experiencing very high same store sales growth. Indeed, the growth of our brands in the Philippines remained strong throughout the year. For the entire year, sales of our restaurant chains in the Philippines grew by 14.4%. Based on our market research, the entire restaurant industry in the country grew remarkably in 2007. More people were eating out and they were eating out more often than in previous years.

Our businesses abroad performed remarkably as well. In many countries, primarily in China and the United States, our same store sales grew significantly. Our total sales in foreign countries grew by

11.3% including the effect of the appreciation of the peso. Excluding the effect of the changes in exchange rates, our sales from foreign operations grew by 19.6% mostly from same store sales growth.

The strong performance of our Philippine and foreign businesses delivered a 14.0% growth in our System Wide Sales, and a 14.1% increase in our Revenues. Part of this growth was attributed to the expansion of our store network. In 2007, we opened 174 new stores, 152 in the Philippines and 22 abroad. In the Philippines, the Jollibee brand opened 62 new stores, Chowking 31, Greenwich 13, Red Ribbon 43, Delifrance 1 and our new brand Manong Pepe 2. In our foreign operations, Jollibee US opened 9; 3 in the United States, 4 in Vietnam and 2 in other markets. Chowking opened 6, of which 3 were in Dubai. Red Ribbon opened 2 in the United States, and Yonghe King in the People's Republic of China opened 5.

By the end of the year, the Jollibee Group had reached 1,639 stores of which 1,460 were in the Philippines and 179 abroad. Our Jollibee brand in the Philippines achieved a new milestone when it opened its 600th store in July 2007 in Aparri, the northernmost municipality in the Luzon Island.

The situation in 2007, however, was not all rosy mainly on account of developments in the world economy. Due to continuous strong demand primarily from the emerging markets, the prices of food raw materials and various other commodities increased significantly. Between the beginning and end of the year, the world price of wheat increased by 71.9% and crude oil by 57.0%. The impact of this increase in the world prices to businesses in the Philippines could have been quite significant had the peso not appreciated strongly.

As a result of the increases in the cost of raw materials and energy, our Cost of Raw Materials as a percent of Revenues increased by 1.1% from 45.1% in 2006 to 46.2% in 2007. We began making price adjustments in the latter part of the year to help offset the cost of raw material price changes. They were however, not yet sufficient to fully recover the rapid cost increases. Meanwhile, our Operating Expenses and General and Administrative Expenses improved by 0.2% from 13.5% of Revenues to 13.3% resulting from increased efficiency in the operation of our stores, head offices and in our marketing activities.

Due to the impact of raw material and energy cost increases, our profit grew at a rate that was less than our Revenue growth of 14.1%. Our Net Income grew by 10.6% from 2.160 billion pesos in 2006 to 2.388 billion pesos in 2007, with the net income margin decreasing from 6.4% of Revenues in 2006 to 6.2% of Revenues in 2007—still a very strong performance considering the significant cost pressures that our business had experienced.

The net income translated to an earning of 2.364 pesos per share, an increase of 9.4% compared to 2006. We declared 1/3 of this earning as cash dividends, amounting to 80 centavos per share, representing an increase of 17.6% compared to the cash dividends declared in 2006.

With our profit performance, the company still managed to generate a Return On Equity of 20.2% in 2007, only slightly lower than the Return On Equity of 20.7% achieved in 2006.

The company continued to generate healthy cash flows. We generated Cash from Operating Activities of Php 4.3 billion, 8.4%

Our business greatly benefited from the remarkable economic recovery. The growth of our brands remained strong throughout the year.

Our Net Income grew by 10.6% from ₱2.160 billion in 2006 to ₱2.388 billion in 2007—still a very strong performance considering the significant cost pressures that our business experienced.

lower than the amount of Php 4.7 billion that we generated in 2006 due mainly to our investment in working capital to support our rapidly growing business. We invested part of this amount to capital expenditures, which amounted to 2.1 billion pesos, 7.1% higher than the amount we invested in 2006. For the entire year, we generated a net additional cash of 1.4 billion pesos, 15.7% lower than the amount in 2006 but still significant and quite healthy. As a result, the total cash of the company rose to Php 5.6 billion, 32.1% higher than last year. Your company had remained with very little debt as of the end of the year representing less than 1% of total assets.

Your company achieved these results partly from the strong performance of the economy and partly from the execution of its strategies, which it relentlessly pursued. To cite only a few: we continued to improve our products and introduce new products to delight our customers. Jollibee brand launched 17 new products that included the new Crispy Chicken Burger and Pancake Sandwich; Chowking launched its improved Chao Fan and Rice Toppings; Greenwich significantly improved the texture and quality of its pizza crust; Red Ribbon introduced the Banoffee Pie and a new Mousse Selection; Delifrance significantly improved its coffee by introducing major changes in its entire system of making coffee; Yonghe King in China launched 5 new products including extensions of its successful Dawang Beef Noodle and Beef Rice; Chun Shui Tang in China likewise introduced several products that included delicious toasts, snacks and tea drinks.

To reinforce its value propositions, your company also introduced products with even lower price points. These price points helped increase the frequency of customer visits to our stores: Jollibee launched the 39ers Rice Meals; Greenwich began offering Big Time Meals and Chowking relaunched its Salo-Salo Sets.

We also continued to take steps to make our brands even more distinctive and our stores even more appealing to our customers. Red Ribbon introduced its new visual identity that is more contemporary and dynamic, with new designs of its stores, store crew uniforms and product packaging; Chowking came up with its new 5th generation or 5G store design; Greenwich opened new stores and renovated some existing ones that are based on its next generation store concept (G-6); and Yonghe King likewise developed a new visual identity and in-store merchandising to make its restaurants more modern looking and vibrant.

We created a new brand, Manong Pepe that serves Filipino cuisine. Its aim is to offer Filipino workers with very affordable food with the quality of home cooked meals, in clean, comfortable and presentable stores. We believe that this latest addition to our business has a huge potential, catering to the largest segments of our population. We opened two stores of Manong Pepe in Metro Manila.

To support the expansion of our businesses, we invested in our commissary facilities and production capacities. In the Philippines, we made significant investments in increasing the production capacity of our fast growing Red Ribbon business; in the United States, our Jollibee and Red Ribbon businesses moved to a new manufacturing and administrative facility in the City of Industry of California near Los Angeles.

Most importantly, to make our long-term growth possible, we continued building our organization capability. In 2007, we hired 1,500 people for management and administrative positions, and recruited 5,000 people for our store crew. We conducted 800 training programs as part of our continuous effort to build the capability of our people to run a larger and even more dynamic business. We are quite happy that the rapid growth of our business has been creating significant employment for our countrymen and for people in other countries.

In this year 2008, we are celebrating the 30th year anniversary of Jollibee Foods Corporation. I would like to take this opportunity to thank all of our fellow employees for the huge effort they made and are making in building our business. I tha nk them for their initiatives and dedication in serving our customers and in making our operations more efficient. We also recognize the great contributions given and being provided by our business partners and suppliers in building our business and our organization capability. Most of all, we thank our customers for continuing to trust us, through their ever increasing patronage of our products and services.

The economic condition in 2007 and the past 30 years was both very promising and challenging, in which we achieved good results. The future remains very promising and challenging. Let us look forward to even stronger performance by our organization and more prosperity for our company.

Tony Tan Caktiong
Chairman and Chief Executive Officer


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HAPPY BIRTHDAY LEO!

Continued Dominance

2007 WAS A YEAR of outstanding results and achievements for Jollibee, firmly placing our Company on its successful growth path and sustaining the momentum of a solid performance. Jollibee registered 15% growth in systemwide sales and opened 62 stores bringing its store network in the country to 619 at the end of the year. It also celebrated the opening of its 600th store in the municipality of Aparri, the country's northern-most municipality in the island of Luzon—a milestone that marks Jollibee's coast-to-coast dominance.

Jollibee continued to blaze new trails in Marketing with media campaigns and product innovations that affirmed our dominance in the Philippine QSR industry. Our marketing thrust "towards local market dominance and global market growth" led us to develop a program designed to "reclaim the brand's superiority in taste and value" and assert our leadership in innovation.

Through robust Marketing and R&D efforts, Jollibee successfully launched 17 new products. We expanded our chicken-rice offerings with the new Crispy Chicken Burger and Crispy Chicken Steak and boosted our breakfast line with the unique hand-held Pancake Sandwich that features a sausage patty held between pancakes. We launched Bangus Sisig for Lent, welcomed the rainy season with Molo Meatball Soup, and perked up our summer-cooler line with Crema Ice Craze, Saba con Hielo and Jolly Frosty Blends, products that double up as refreshing meal-enders.

We livened up the menu with the re-launched Jollibee Spaghetti which we billed as QSR's *meatiest, tastiest, spaghettiest,* and fired up the burger market with Spice, Spice Burgers, a duo of zesty, spicy sandwiches: Cheesy Chili con Carne & Spicy Crispy Chicken Burger.

For the teen set, we presented Jolly Fries in a youthful light with the Jolly Cheezy Fries Nacho Festival in three variants and, for the kids, paired-off our Kiddie Meals with exciting fun-and-function toys. We launched the 39ers Sulit Sarap Rice Meals to reinforce our value proposition and showed our grasp of the market's evolving lifestyle with a push for the Jollibee Express Delivery Service that offers convenience and a product selection without limit.

Two thematic campaigns reinforced Jollibee's corporate values: a treatise on family ties performed by the Muhlachs, and a trio of TVCs that brought home the message of Christmas.

Our marketing efforts were crowned with our winning the gold medal in the "Most Effective Use of Sponsorship" category of Media Magazine's Asian Marketing Effectiveness Awards, for our *Bituing Walang Ningning Bee-2-Win* media campaign, a first-of-its-kind in Philippine media.

All these propelled us to an even bigger share of the Philippine QSR market.

Rising to the Global Challenge

JOLLIBEE'S INTERNATIONAL OPERATIONS stayed on course and kept its growth goals on track in 2007 despite global economic challenges. By yearend, Jollibee had a store network of 33 in the United States, Brunei, Vietnam, Guam, Saipan and Hongkong.

In the US, we expanded our network to 14 stores in 2007 with the opening of three stores: Las Vegas in May, San Francisco in September and San Bruno in November. Of particular significance was the opening of our first store in the state of Nevada, Jollibee-Las Vegas which generated record breaking opening day numbers. We celebrated the opening of Jollibee-Las Vegas, our 12th store in the US with a blast with two of our biggest celebrity endorsers, Aga Muhlach and Sarah Geronimo as special guests.

Our stores in Daly City and Union City commenced 24-hour drive-through operations, while other stores extended drive-thru service to midnight.

Maintaining a strategy of periodically creating new products to keep the menu fresh, Jollibee-US introduced products attuned to US tastes—Chickenjoy with salsa picante; buttered corn and mashed potatoes as Chickenjoy sidekicks; the innovative Pancake Sandwich and Muffin Sandwich; and Mango de Crema and Ube Quezo, desserts with a Pinoy touch and an international appeal. In December, we capitalized on the seasonal rise in Christmas functions by launching Christmas Bucket Treats. And addressing issues on health, we completed our shift to Zero Transfat Oil.

In Marketing, Jollibee-US bombarded the TFC (The Filipino Channel) airwaves with TVC materials carrying end-tags customized to target US audiences, while print ad campaigns served to enhance the image and appeal of Jollibee's signature product, Chickenjoy.

Encouraged by the good performance of our stores, we are paving the way for an expansion of our US operations to the East Coast.

Jollibee Brunei opened two stores, bringing its yearend store count to 9. It maintained its lead over its nearest competitor, a major international brand, on two fronts—9-7 in store network and 60-40 in market share, both in favor of Jollibee. On its first year of enrolment in the FSC (Food, Service and Condition of stores), 7 out of 8 stores were cited for outstanding FSC, offering concrete proof of Jollibee-Brunei's solid commitment to stringent quality measures.

Our foray into the Vietnam market has proven to be auspicious as well. We opened 4 stores during the year, for a network of 7 stores at yearend. Jollibee-Vietnam affirmed the international appeal of Jollibee's langhap-sarap signature with the results of tests showing consistent preference for our core product, Chickenjoy, over competitors.

The impressive performance of the Jollibee International business in 2007 brought optimism in building a substantial foreign business in the future.


bee happy

Drive for Continuous Improvement

THE YEAR 2007 SET a great milestone for Chowking—the breach of the ₱10 Billion sales mark with systemwide sales of ₱10.2 Billion. The year also saw the Company making the ₱1Billion mark in monthly sales twice—first in May, and again in December. With 376 stores nationwide, we have strengthened our No. 2 ranking among quick service restaurant brands in the Philippines.

Our aggressive product development and marketing efforts continued to move forward, fueling growth with higher sales and customer retention.

We redoubled our efforts to keep our menu exciting by introducing new products and working out improvements on existing ones. Thus we saw the improved Chao Fan and Rice Toppings line grow by 28% and 14%, respectively. Several other products made headway in customer preference including the value-for-money Salo-Salo Sets which increased transaction count during weekends. The improved Halo-Halo in new, elegant bowls contributed nearly ₱1B to overall revenue or a growth of 15% over the previous year. A study by AC Nielsen revealed that in Metro Manila, a staggering 80% of respondents preferred Chowking Halo-Halo over competition. Furthermore, we have tapped the market for spicy treats with the Spicy Chao Fan and the all-new Spicy Noodles, the latter bringing back excitement to our Noodle line and effectively broadened the noodle category customer base from previous year by 7%. Our marketing partnerships with Western Union and the Department of Tourism started to significantly impact on product awareness and revenue generation.

We completed the phased improvement of our Commissaries with the rehabilitation of major production buildings in Muntinlupa. We also started the operation of the automated Siopao line in our Sucat facility that improved cost efficiencies and increased production capacity to meet present and future demands.

We introduced a fresh look to our retail identity with our 5th generation (5G) design. Launched at the Chowking Global City, the design conveys warmth and understated elegance in a welcoming atmosphere.

Towards midyear, we upgraded the Customer Feedback System. The FSC (Food, Service and Condition of stores) Certification Program, on the other hand, also received further impetus with the addition of a regular certification audit. Hand in hand with emphasis on the need for manager presence in the dining area, we produced and disseminated a training video on "Inspiring Leadership" that defines a leader as a coach who teaches, leads and inspires.

Indeed, 2007 was an inspiring year for Chowking.

Chow king

Solid Sales Growth

CHOWKING'S INTERNATIONAL operations, which cover the United States (US), United Arab Emirates (UAE), and Indonesia, remained robust in 2007, with a total yearend count of 26 stores—12 in the USA, 9 in the UAE, and 5 in Indonesia. Together they registered a combined 30% growth (45% growth, excluding the effect of peso appreciation) and a contribution of ₱1.15 Billion to the Company's overall sales.

Despite the economic downturn in the United States, our lean, 12-store US operation is doing well against the fast-food giants that dominate the American food landscape. Our Las Vegas store, which opened in August, made Company history by generating US$20,000 on opening day, the highest among our international stores. Las Vegas is our twelfth in the US and our first outside California; the rests are spread out over Northern California (5), Southern California (4) and the San Diego area (2).

We now have nine stores in the United Arab Emirates (UAE), including three that opened in 2007. Our seventh store opened on May 31st at the Crowne Plaza Hotel, our eighth on December 1st at the Mankhool Road, both in Abu Dhabi, and our ninth store on December 27 in Dubai Outlet Mall.

In Indonesia, we opened two stores in 2007 to give us a five-store presence in that country. We opened our fourth store on May 10 at the Mal Kelapa Gading in North Jakarta, the first store in the entire Chowking network to adopt the new fifth generation (5G) design that features wooden tables, leather seats, and photographic murals, in a classy and cozy ambience. Our fifth store at Supermall Karawaci, which opened on June 19, also sports the 5G design.

The strong performance of our international operations was a result of our strict adherence to FSC (Food, Service and Condition of stores), our sound service fundamentals, and know-how of local market trends and preferences.

A Revitalized Greenwich Grew Strongly in 2007!

2007 SAW GREENWICH REAP the benefits of its efforts to "get back to basics", and focus on strengthening the most important drivers of its business. Top- and bottom-line results were well above the previous year as the brand significantly improved overall customer satisfaction. The year saw significant increases in sales and transaction counts as more customers were delighted by the "new and improved" fundamentals of Greenwich called "TISPV" – better Taste, a more distinct Image, great Service, an enhanced Place/Store experience, and superior Value-for-Money.

Taste. Extensive customer research, competitive benchmarking and expert technical support capability drove major product innovation in Greenwich's core product lines. A significant improvement in taste, texture and quality of its crust was the foundation of the brand's well-accepted new Garlic Rolled-Edge pizzas which included Pizza Pinoy and Pizza de Lechon premium offerings. Pizzabar variant helped make Greenwich more affordable and accessible to more customers. Greenwich also introduced it's largest-ever pizza, the 18" Garlic Rolled-Edge crust.

Meaty Spaghetti, Beef Cannelloni and Super Meatball Spaghetti along with Lasagna Supreme all burnished Greenwich's reputation for great-tasting pastas. Fruity dessert Pizzabars like Mango Fiesta, Peach Paradise and Cinnamon Apple Dapple complemented the brand's core products.

The brand was "in touch" with emerging customer trends and preferences as it launched "Delicious 'N Light" Choices, a complete line for the health & fitness conscious.

Image. Greenwich strengthened its equities with effective communications to powerfully communicate the brand's benefits and create strong affinities with its customers. The brand invested heavily in tri-media advertising, and ran innovative in-store activation and public relations efforts that have helped position the brand more distinctly among its customer base.

Service. Intensified programs were implemented across the system, led by the Quality Management unit. Enhanced service training programs for frontliners and technical crew members were implemented. Similar improvements in its delivery operation have helped make dialing "5-55-55" the first choice of more delivery customers.

Store/Place. Greenwich began rolling-out a next-generation store concept (G6) that sets new standards in customer focus which makes every in-store "moment of truth" – from entering the store, to ordering, to service at table, to facilities use, to leaving the store – a "surprise and delight" for every customer.

Value for money. Greenwich has been meeting the challenge of delivering superior customer value with a combination of delicious products offered at different price points. "All Day Delicious, All Day Affordable" lineup of Pizzabars, pastas, rice meals and sides, with prices below ₱50, along with great-value Big Time Meals have helped increase customer traffic and drive significant same store sales growth.

In 2008, Greenwich will sustain growth and widen its margin of leadership by continuing to focus on satisfying its customers and fulfilling its mission of "serving great tasting food, bringing the joy of eating to everyone."

greenwich
Discover Delicious

New Look, New Cakes

2007 WAS INDEED A banner year for Red Ribbon Bakeshop. This year marked the rebirth of the brand as we unveiled our new visual identity in February 2007. The new visual identity has a more contemporary and dynamic look while retaining its brand charm.

The launch of the new visual identity extended to: a) packaging materials as we introduced new cakes & pastry boxes which are more in line with the brand's equity of celebrations & gifting; b) new store look which was unveiled starting with Trinoma, Mall of Asia & Commonwealth stores; c) new store crew uniforms in red, chocolate brown & cream, colors which are truly associated with the brand.

The relaunch was also supported with the new equity line, "Whatever the celebration, it's more beautiful with a Red Ribbon" that best captures the brand's heritage of bringing families and friends together.

2007 also marked the launch of the Cakes by Design in March 2007 with more beautiful birthday, wedding, all occasion & licensed cake designs. We also opened 17 new Cakes by Design Centers which showcase all the beautiful cakes in e-catalogues and which also now have While-You-Wait photocakes.

Red Ribbon also aggressively introduced new and innovative cakes in 2007 with the new Mousse Selection & the Banoffee Pie. New rolls were also introduced like the Custard, Mocha & Honey Rolls for more everyday occasions.

Plus 2007 also marked a renewed drive to improve our FSC (Food, Service and Condition of stores) to ensure we delight our customers in every encounter. And indeed, Red Ribbon ended the year with ₱2.3 billion revenues, a high 27% systemwide sales growth versus previous year. Red Ribbon also added 43 stores, bringing its store network in the country to 192 at the end of 2007.


Red Ribbon

Achieving Great Results

2007 WAS A GREAT YEAR for Red Ribbon Bakeshop in the USA. The Company finally made its move to a new 60,000 sq. ft. facility located in the City of Industry in California that now houses the manufacturing, warehousing and administrative support divisions under one roof resulting in more streamlined operations. New and more advanced manufacturing and warehousing equipment were procured to increase efficiency and productivity to better respond to the Company's aggressive expansion program.

Red Ribbon Bakeshop also achieved milestones in 2007 with the inauguration of (2) company stores—one in Las Vegas Nevada, which opened in May and another, at The Shops at Tanforan in San Bruno California. The new production facility also allowed the Company to serve the United States Defense Commissary Agency that runs all the military base commissaries in the world.

The US Naval Base commissary in San Diego, CA, which is the biggest military commissary in the world, is the first military commissary to serve Red Ribbon cakes and pastries. Red Ribbon Bakeshop's success in this commissary led to sales contracts with the Miramar Air Base also in San Diego, March Reserve Air Base in Moreno Valley, Los Angeles Air Base in Los Angeles and Nellis Air Base in Las Vegas. These new locations helped the Company achieve a 19.6% growth in net sales in 2007.

The Company also completed its new commissary located in Englewood, New Jersey that fully equips the East Coast operations to respond to its 2008 expansion program.

Red Ribbon Bakeshop also adopted the new visual identity through new cake boxes and bags that were introduced in May 2007. The Red Ribbon kiosk inside The Shops at Tanforan in San Bruno, CA was the first to display the new store concept and design that would be applied on all new stores that will open in 2008. Red Ribbon Bakeshop's Tanforan Store won the BEST KIOSK DISPLAY in the 2008 Visual Victories Awards organized by the Specialty Retail Report, a leading national trade publication.

New products were introduced in the last quarter of 2007. In order to further grow the Company's signature meat pie empanada, a new variant—Beef—was added to the product line. This new version contributed to the 27% growth of total empanada sales experienced in the latter part of 2007.

The Company also introduced Mango Delight, a light and refreshing version of the top-seller Mango Cake. This new product helped fill the gap during the absence of Mango Cake in our shelves by contributing 2.5% to total system sales in just 2 months.

Red Ribbon Bakeshop achieved an outstanding profit performance with an impressive growth versus the previous year.

A New Phase, A Different Face

THESE PAST YEARS, DELIFRANCE has been quietly operating in the Metro. It has maintained a loyal clientele that has treated this European-styled café as their own best-kept secret. But now, Delifrance is transforming and taking on a new face—poised to enter a new phase in Philippine dining.

Long famous for its freshly baked signature breads such as the *Baguette* and *Croissant,* Delifrance has also taken its precise attention to quality and taste and extended it to other European inspired offerings such as pastas, sandwiches and salads. The bestseller *Seafood Pasta* and the line of Clubhouse Sandwiches led by the *Premiere Clubhouse* top the list.

In 2007, Delifrance focused on its bestsellers, embarking on its first above-the-line campaign to relaunch the brand's beloved Breakfast Tray. A series of highly creative radio ads and mouthwatering print ads permeated the city, resulting in 8.5% growth in breakfast sales from last year, and 4.2% growth in average daily sales from the previous year.

Delifrance also launched even more healthy treats for its customers. First up was the very filling *Chef's Salad,* featuring hydrophonic romaine lettuce topped with chicken mayo, cheese, fresh eggs, ham and juicy grapes, a good meal all on its own. In the fourth quarter, Delifrance added two delicious pasta variants to its product line, the *Seafood Soup Linguine* and the hearty *Beef Stroganoff.* Originally intended to be just a part of the seasonal Christmas line-up, Delifrance continues to serve these two flavors today because of high positive customer feedback, and steadily increasing contribution to pasta sales.

In a quest to further improve the coffee at Delifrance, a Coffee Team went abroad to undergo intensive training by the thrice acclaimed coach of the World Barista Champions of the past two years. Their newfound knowledge caused a major overhaul of the Coffee System, which resulted in the even better tasting and quality coffee people enjoy today. The new Mocha and Caramel Frappes introduced last year showcased the improvements made in Delifrance's coffee line. In a blind taste survey composed of 101 respondents, Delifrance coffee tested to be significantly preferred over the top two coffee shops in the city.

Delifrance also opened its 26th store at Ayala Tower One, making fresh, healthy, quality food and coffee available to the young, smart achievers and energetic executives that patronize the brand today.

Ultimately, what makes Delifrance so special is that everything is freshly prepared upon ordering. Every cup of coffee is freshly brewed, and all of the products are made with premium quality ingredients. All these contribute to an experience that's very aptly called, *"Delightfully Different."*

The Power of Teamwork and Innovation

2007 HAD BEEN AN EXCITING and rewarding year for Yonghe King as changes were made by the new management to make Yonghe King a bigger and stronger brand in China. From the beginning, the new management knew that change is only possible if there is an alignment among all the staff in Yonghe King on our new Company Vision, Mission and Values. Hence, a 5-Year Business Planning Meeting for Management and Company Roadshows were held, resulting in a more confident and highly charged team.

To support our Company Vision—To be the No. 1 Quick Service Restaurant and customer's favorite place for delicious meal throughout the day, we developed a new Visual Identity and In-store Merchandising to make Yonghe King more contemporary and relevant to our customers' changing needs.

Our new restaurant design aims to give customers a more pleasant, elegant dining experience, combining traditional with the contemporary and stands out from competition in terms of façade (large burgundy red painting with Peonies as background), color (Burgundy Red) and elegant feel that customers can only get at a restaurant and not a fast food store.

Aside from the restaurant design, we also upgraded our in-store utensils and merchandising. So far, there are seven new image restaurants implemented nationally and customer feedback is very favourable.

Simultaneously, RSQM (Restaurant System and Quality Management) is testing out new kitchen layout, processes and equipment to improve our in-store efficiency and effectiveness to ensure that eventually we are able to offer delicious food faster and more consistent than competition.

Yonghe King had also been very aggressive with new product launches and improvements in 2007 to provide customers with varieties of delicious food at any day part. We have successfully launched a total of five products for different day parts resulting in significant improvement in sales. To capitalize on the previous successful launch of our Dawang Beef Noodles, we introduced two new product extensions:- Dawang Three Treasures and Dawang Banjinbanrou Beef Noodles in December. These are indeed another successful launches, reinforcing Yonghe King's new slogan :" Not only Soy Milk and Youtiao Expert." We are also an expert in Beef Noodles.

All these new initiatives were only possible with great teamwork among the different departments. We, in Yonghe King are proud of the year that was and look forward to providing more choices of delicious and nutritious food to our customers.

永和大王

Improving Products and Store Experience

2007 HAD BEEN A busy year for Chun Shui Tang (CST). In order to increase our turnover and improve brand awareness, we launched many promotional activities and new products.

In June, we held Ikebana and GongFu Cha performances in the store which attracted a large number of VIP customers. This program gave customers a better understanding of CST's culture. In the hot summer months of July and August, we held the "Healthy Summer Drink (Luoshen cold drink)" promotional activity. Both promotions gave average daily sales a boost of 8%.

After careful research and studies, we launched new products to the market in October, including various types of delicious toasts, snacks, ginger tea, and oolong tea.

In December, in order to achieve a proper business model and align our menu to the strategy of being a premium brand, we increased prices across the board by 20%. This also allowed us consequently to cope with rising food cost. More new products were introduced and low volume products were eliminated.

On the operating side, we continued to improve service and for the first time introduced a customer survey feedback system. This survey now allows us to track customer opinion of the brand on a monthly basis and helps us indentify the potential opportunities for improving in-store dining experience.

Preparations for new store openings in 2008 were made by sourcing new store designers for the brand. The new designers worked hard to come up with a refreshingly new way to communicate the CST brand and have it appeal to a younger audience. These new store designs will be implemented in 2008.

The year 2008 will be another busy and exciting year for CST as we continue to improve product and store experience. We plan to open more stores in Shanghai, and to open more stores in major cities across the country within the next five years.

A Potential Giant

THE IDEA FOR MANONG PEPE'S came about because the average Filipino worker eats out more frequently in unbranded stores than in branded restaurants mainly due to significant price difference. In September of 2006 a team of JFC employees came together under the guidance of the Chowking Group with one goal: to create a brand where the average Filipino can enjoy great tasting lutong bahay, or homestyle Filipino meals, and come back every single day. Ten months later in July 2007 the first store opened at EDSA Central in Ortigas to great response: within two days the media featured the new concept on TV news. The store performed at over double its initial sales forecasts and the new brand secured its place as another successful member of the Jollibee group.

Manong Pepe's features a product line of great tasting homestyle Filipino food. Filipino favorites like *Adobo, Caldereta, Laing,* and *Picadillo* are the bestsellers of the menu line. In addition, Filipino desserts and merienda are available like *Halo-Halo, Maja Blanca, Bibingka,* and *Ginataang Bilo-Bilo.* The initial response to the products have been very favorable with some customers saying that the meals bring them back to flavors that they experienced during childhood.

Aside from great taste, what keeps Manong Pepe's customers coming back daily are its very low prices. An average meal with rice and free soup costs between ₱39 and ₱49 or $1.00 to $1.20. And a value or Solo Meal with rice, viand, fried lumpia, free soup, and a softdrink costs just ₱57 or roughly $1.40.

In order to keep the menu exciting, the stores have a rotating product line which adds three new products each week. Dishes like *Nilagang Baka, Bopis, Bistek Tagalog, Sinigang na Bangus, Sinigang na Baboy, Bicol Express,* and *Kare-Kare* are some of the favorites.

Manong Pepe's opened it's second store in Quezon city in November of 2007 and plans for an aggressive double digit store count by the end of 2008. Though still a newcomer to the QSR game, Manong Pepe's has the winning concept to become a potential giant of the fast food industry. The entire JFC group is excited about the great potential of this brand and is eagerly awaiting Manong Pepe's future stores and future products.

Paying it Forward

THE JOLLIBEE FOUNDATION, INC. is on its third year of serving as the corporate social responsibility arm of JFC. As we incorporate in our work the elements that have contributed to the corporation's growth, we find that teamwork emerges as one of the key elements to program success.

In 2007, your Foundation embarked on a school-based feeding program (Busog, Lusog, Talino or BLT) that aims to contribute in the mitigation of hunger, attributed to cause low school attendance and high dropout amongst lower grade pupils. The results are measured by pupils' weight gain. Daily lunch feeding to selected Grades 1 and 2 students and monthly parents' education on health and parenting were conducted in eight schools in Manila and Nueva Vizcaya. The program mobilized the leadership of the schools and the local government units and the heart for volunteerism among our employees. We aim to expand this program in different regions throughout the country as a major thrust under the Foundation's education agenda.

Also in the area of education, we worked with local disaster groups for the repair of elementary school buildings in Naga City and Albay. Our customers took part through their donations in the Disaster Response coin bank campaign.

We see teamwork and partnership happening among our second batch of 39 scholars in Don Bosco Technical College. Already, part of their allowances goes to a pay-it-forward effort to help feed public school children in our BLT program.

The year 2007 also saw the completion of the second Jollibee Gawad Kalinga [GK] Village in Bontoc, Southern Leyte, providing 100 families relocated from landslide danger zones with a brighter future. This is the first GK village with disaster prevention as its focus. Both the homeowners and the GK Caretaker Team were instrumental in getting this project done.

In time, we hope to see more partnerships built as we continue our Citizen Responsive Leadership Development project with AIM-Team Energy Center. Through trainings conducted, bridging leaders from different communities would emerge, bringing various stakeholders together to address key issues, similar to our good experience in Nueva Vizcaya, our initial project site.

The Foundation is also building our institutional capacity to be an effective partner. This year we acquired a donee institution status after being certified by the Philippine Council for NGO Certification (PCNC). The Foundation board has also defined the strategic directions we will pursue—a corporate social responsibility strategy that is anchored on the much encouraged CSR principle of shared value. Thus in 2008, we will undertake new programs that will provide meaningful benefit to society while being also relevant to our business.

Guided by a shared vision and driven by teamwork, we are certain that our joint ventures with our partners are moving toward finding new solutions to empower more communities and individuals.

Jollibee FOUNDATION


Jollibee
Chow king
greenwich
Red Ribbon
永和大王
Délifrance
Manong Pepe's

Board of Directors and Corporate Management Team*

DIRECTORS

ANG NGO CHIONG
Chairman Emeritus

TONY TAN CAKTIONG
Chairman of the Board

WILLIAM TAN UNTIONG
Director/ Corporate Secretary

ERNESTO TANMANTIONG
Director

ANG CHO SIT
Director

ANTONIO CHUA POE ENG
Director

FELIPE ALFONSO
Director

MONICO JACOB
Director

EXECUTIVE COMMITTEE MEMBERS

TONY TAN CAKTIONG
President and Chief Executive Officer

ERNESTO TANMANTIONG
President, Jollibee Business

WILLIAM TAN UNTIONG
VP – Real Estate and President, Delifrance Business

RUFINO L. DELA ROSA
President, Chowking Business

ERWIN M. ELECHICON
President, Greenwich Business

MA. REGINA B. NAVARRETE
President, Red Ribbon Business

ANDREW TAN
President, Yonghe King Business

CARL TAN CAKTIONG
Head, Chun Shui Tang Tea House Business

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

JOHN VICTOR R. TENCE
VP – Corporate Human Resources Development

POLLY YANG
VP – Research and Development

PAUL A. ZALDARRIAGA
VP – Information Management

CORPORATE OFFICERS

BENIGNO M. DIZON
VP – Corporate Engineering

WILLIAM S. LORENZANA, JR.
VP – Commissary

ANASTACIA S. MASANCAY
VP – Corporate Audit

SUSANA K. TANMANTIONG
VP – Corporate Purchasing

ERLINDA F. CASTRO
Head, Shared Services

GRACE A. TAN
President – Jollibee Foundation

BELEN O. RILLO
VP – Jollibee Foundation

GISELA TIONGSON-VELASCO
Executive Director – Jollibee Foundation

* As of December 31, 2007

Selected Financial Data

Jollibee Foods Corporation and Subsidiaries

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

FOR THE YEAR	2005	2006	2007
Consolidated Systemwide Sales	39,829,461	45,206,332	**51,550,858**
Gross Revenues	29,040,525	33,911,218	**38,693,662**
Net Income	1,689,797	2,160,158	**2,388,358**
Net Income (Attributable to Equity Holders of the Parent)	1,674,629	2,156,618	**2,386,722**
Payroll and Benefits	4,041,340	5,793,465	**6,749,023**
Personnel	31,420	32,440	**32,918**
Number of Stores			
Jollibee*	552	592	**652**
Chowking*	344	375	**402**
Greenwich	239	239	**245**
Red Ribbon*	156	178	**212**
Yonghe King of China	101	105	**99**
Delifrance	37	37	**26**
Chun Shui Tang	–	1	**1**
Manong Pepe's	–	2	**2**

** Domestic and International*

AT YEAR-END	2005	2006	2007
Total Assets	17,763,326	19,268,354	**21,945,002**
Property & Equipment	6,806,707	7,056,773	**7,491,045**
Stockholders' Equity	9,897,982	10,961,791	**12,648,337**
Current Ratio	1.07	1.31	**1.38**
Debt-to-Equity Ratio	44.9	43.2	**42.4**

PER SHARE DATA	2005	2006	2007
Basic Earnings Per Share	1.69	2.16	**2.36**
Diluted Earnings Per Share	1.68	2.15	**2.34**
Cash Dividend	0.55	0.68	**0.80**
Book Value	9.96	10.95	**12.43**

SHARE INFORMATION	2005	2006	2007
Outstanding Shares (net of Treasury Shares)	994,246,185	1,001,448,298	**1,017,447,029**

Management's Responsibility for Financial Statements

Jollibee Foods Corporation and Subsidiaries

The management of Jollibee Foods Corporation is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

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

TONY TAN CAKTIONG
Chairman of the Board and
Chief Executive Officer

MARILOU SIBAYAN
Comptroller

Independent Auditors' Report

Jollibee Foods Corporation and Subsidiaries

SGV & Co

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

We have audited the accompanying financial statements of Jollibee Foods Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, 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, 2007 and 2006, and their financial performance and their cash flows for each of the three years in period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0017602, January 3, 2008, Makati City

April 28, 2008

Consolidated Balance Sheets

Jollibee Foods Corporation and Subsidiaries

	December 31 2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 31 and 32)	**₱5,575,943,093**	₱4,221,510,834
Short-term investments (Notes 31 and 32)	**–**	230,932,964
Receivables - net (Notes 7, 31 and 32)	**1,942,450,718**	1,638,383,534
Inventories - net (Note 8)	**1,629,428,021**	1,266,342,778
Other current assets - net (Notes 9 and 15)	**1,261,258,621**	1,148,520,994
Total Current Assets	**10,409,080,453**	8,505,691,104
Noncurrent Assets		
Investment properties - net (Note 12)	**214,115,773**	183,315,118
Property, plant and equipment - net (Note 13)	**7,491,045,497**	7,056,773,390
Goodwill (Notes 10 and 14)	**1,601,606,272**	1,601,606,272
Operating lease receivable (Note 30)	**37,789,598**	137,371,278
Deferred tax assets (Note 24)	**874,166,872**	850,387,186
Other noncurrent assets - net (Notes 15, 31 and 32)	**1,317,197,084**	933,210,148
Total Noncurrent Assets	**11,535,921,096**	10,762,663,392
	₱21,945,001,549	₱19,268,354,496
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 16, 31 and 32)	**₱7,404,724,470**	₱6,224,497,110
Income tax payable	**83,725,085**	8,850,346
Current portion of:		
Provisions (Note 17)	**25,394,090**	43,231,997
Long-term debt (Notes 18, 31 and 32)	**40,549,919**	59,930,544
Liability for acquisition of a business (Notes 10 and 32)	**–**	160,689,955
Total Current Liabilities	**7,554,393,564**	6,497,199,952
Noncurrent Liabilities		
Provisions - net of current portion (Note 17)	**32,112,104**	32,112,104
Long-term debt - net of current portion (Notes 18, 31 and 32)	**102,858,308**	47,158,955
Accrued benefit cost (Note 26)	**443,613,066**	290,224,437
Operating lease payable (Note 30)	**1,028,047,054**	1,064,294,624
Deferred tax liabilities (Note 24)	**126,820,592**	209,760,442
Liability for acquisition of a business - net of current portion (Notes 10 and 32)	**–**	147,189,331
Other noncurrent liabilities	**8,819,817**	18,623,721
Total Noncurrent Liabilities	**1,742,270,941**	1,809,363,614
Equity Attributable to Equity Holders of the Parent (Note 31)		
Capital stock (Note 19)	**1,034,139,179**	1,024,182,326
Subscriptions receivable	**(17,177,884)**	(17,177,884)
Additional paid-in capital (Notes 19 and 27)	**2,095,676,172**	1,817,488,852
Cumulative translation adjustments of subsidiaries	**151,039,682**	72,950,363
Unrealized gain (loss) on available-for-sale financial assets (Note 15)	**22,160,281**	(198,091)
Excess of the acquisition cost over the carrying value of minority interests (Note 10)	**(543,978,573)**	(168,257,659)
Retained earnings (Note 19)	**10,084,408,730**	8,503,774,395
	12,826,267,587	11,232,762,302
Less cost of common stock held in treasury (Notes 19 and 27)	**183,338,740**	292,445,970
	12,642,928,847	10,940,316,332
Minority interests (Note 10)	**5,408,197**	21,474,598
Total Stockholders' Equity	**12,648,337,044**	10,961,790,930
	₱21,945,001,549	₱19,268,354,496

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Jollibee Foods Corporation and Subsidiaries

	Years Ended December 31		
	2007	2006	2005
REVENUES			
Net sales	**₱36,221,306,253**	₱31,939,209,596	₱26,867,289,677
Royalty, franchise fees and others (Notes 12, 20 and 30)	**2,472,355,491**	1,972,008,085	2,173,235,680
	38,693,661,744	33,911,217,681	29,040,525,357
COST OF SALES (Notes 12 and 21)	**30,596,612,445**	26,918,732,047	23,341,504,162
GROSS PROFIT	**8,097,049,299**	6,992,485,634	5,699,021,195
EXPENSES (Notes 12, 22 and 27)	**(5,163,143,103)**	(4,579,738,446)	(3,784,508,494)
FINANCE INCOME (CHARGES)			
Interest income (Note 23)	**142,988,980**	135,490,812	157,688,525
Interest expense (Note 23)	**(55,469,288)**	(80,407,514)	(43,245,566)
OTHER INCOME - Net (Notes 12, 31 and 32)	**113,588,559**	389,615,681	121,293,597
EXCESS OF FAIR VALUE OF NET ASSETS OVER ACQUISITION COST OF A SUBSIDIARY (Note 10)	**–**	68,415,573	–
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 11)	**–**	(22,907,585)	(20,625,664)
INCOME BEFORE INCOME TAX	**3,135,014,447**	2,902,954,155	2,129,623,593
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 25)			
Current	**853,376,333**	609,362,773	516,597,458
Deferred	**(106,719,536)**	133,433,459	(76,770,462)
	746,656,797	742,796,232	439,826,996
NET INCOME	**₱2,388,357,650**	₱2,160,157,923	₱1,689,796,597
Attributable to:			
Equity holders of the Parent	**₱2,386,722,219**	₱2,156,618,463	₱1,674,629,286
Minority interests	**1,635,431**	3,539,460	15,167,311
	₱2,388,357,650	₱2,160,157,923	₱1,689,796,597
Earnings Per Share for Net Income Attributable to the Equity Holders of the Parent (Note 29)			
Basic	**₱2.364**	₱2.161	₱1.687
Diluted	**2.341**	2.152	1.684

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2007, 2006 and 2005

	Equity Attributable to Equity Holders of the Parent										Minority Interests (Note 10)	Total Stockholders' Equity
	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Notes 19 and 27)	Cumulative Translation Adjustments of Subsidiaries	Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Excess of the Acquisition Cost over the Carrying Value of Minority Interest (Note 10)	Retained Earnings (Note 19) Appropriated for Future Expansion	Retained Earnings (Note 19) Unappropriated	Cost of Common Stock Held in Treasury (Notes 19 and 27)	Total		
Balance at January 1, 2007	**₱1,024,182,326**	**(₱17,177,884)**	**₱1,817,488,852**	**₱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**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,386,722,219**	**–**	**2,386,722,219**	**1,635,431**	**2,388,357,650**
Translation adjustments during the year	**–**	**–**	**–**	**78,089,319**	**–**	**–**	**–**	**–**	**–**	**78,089,319**	**–**	**78,089,319**
Unrealized gain on available-for-sale financial assets for the year	**–**	**–**	**–**	**–**	**22,358,372**	**–**	**–**	**–**	**–**	**22,358,372**	**–**	**22,358,372**
Total income for the year	**–**	**–**	**–**	**78,089,319**	**22,358,372**	**–**	**–**	**2,386,722,219**	**–**	**2,487,169,910**	**1,635,431**	**2,488,805,341**
Subscriptions and issuances of shares	**9,956,853**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,956,853**	**–**	**9,956,853**
Re-issuances of treasury shares for stock purchase exercised	**–**	**–**	**197,684,529**	**–**	**–**	**–**	**–**	**–**	**109,107,230**	**306,791,759**	**–**	**306,791,759**
Cost of stock options granted	**–**	**–**	**80,502,791**	**–**	**–**	**–**	**–**	**–**	**–**	**80,502,791**	**–**	**80,502,791**
Cash dividends - ₱0.80 a share	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(806,087,884)**	**–**	**(806,087,884)**	**–**	**(806,087,884)**
Acquisition of minority interest (Note 10)	**–**	**–**	**–**	**–**	**–**	**(375,720,914)**	**–**	**–**	**–**	**(375,720,914)**	**(17,701,832)**	**(393,422,746)**
	9,956,853	**–**	**278,187,320**	**–**	**–**	**(375,720,914)**	**–**	**(806,087,884)**	**109,107,230**	**(784,557,395)**	**(17,701,832)**	**(802,259,227)**
Balance at December 31, 2007	**₱1,034,139,179**	**(₱17,177,884)**	**₱2,095,676,172**	**₱151,039,682**	**₱22,160,281**	**(₱543,978,573)**	**₱1,200,000,000**	**₱8,884,408,730**	**(₱183,338,740)**	**₱12,642,928,847**	**₱5,408,197**	**₱12,648,337,044**
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	1,482,271	–	19,557,197	–	–	–	–	–	–	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 10)	–	–	–	–	–	(168,257,659)	–	–	–	(168,257,659)	(215,742,341)	(384,000,000)
	1,482,271	–	46,141,517	–	–	(168,257,659)	–	(678,484,020)	71,970,942	(727,146,949)	(215,742,341)	(942,889,290)
Balance at December 31, 2006	₱1,024,182,326	(₱17,177,884)	₱1,817,488,852	₱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

Jollibee Foods Corporation and Subsidiaries

	Equity Attributable to Equity Holders of the Parent									Minority Interests	Total Stockholders' Equity
	Capital Stock (Note 19)	Subscriptions Receivable	Additional Paid-in Capital (Notes 19 and 27)	Cumulative Translation Adjustments of Subsidiaries	Unrealized Loss on Available-for-Sale Financial Assets	Retained Earnings (Note 19) Appropriated for Future Expansion	Retained Earnings (Note 19) Unappropriated	Cost of Common Stock Held in Treasury (Notes 19 and 27)	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	–	–	–	–	–	–	(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	–	–	–	–	(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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,135,014,447**	₱2,902,954,155	₱2,129,623,593
Adjustments for:			
Depreciation and amortization (Notes 21 and 22)	**1,579,558,873**	1,573,844,757	1,400,286,400
Interest income (Note 23)	**(142,988,980)**	(135,490,812)	(157,688,525)
Stock options expense (Note 27)	**85,907,703**	40,042,485	32,446,258
Reversal of impairment in investment property (Note 12)	**(61,452,608)**	–	–
Interest expense (Note 23)	**55,469,288**	80,407,514	43,245,566
Provisions for:			
Impairment in value of receivables and inventories	**39,507,137**	–	–
Impairment in value of property, plant and equipment and investment properties (Note 22)	**32,308,313**	–	25,946,421
Legal claims, lease contract pre-terminations and restructuring costs (Note 22)	**–**	–	16,851,057
Loss (gain) on disposals and retirements of property and equipment	**31,593,162**	33,456,907	(18,509,476)
Marked-to-market gain on derivative asset (Note 32)	**(21,456,517)**	(59,789,200)	(26,547,078)
Net unrealized foreign exchange loss (gain)	**1,035,909**	12,732,993	17,951,836
Excess of fair value of net assets over acquisition cost of a subsidiary (Note 10)	**–**	(68,415,573)	–
Equity in net loss of a joint venture (Note 11)	**–**	22,907,585	20,625,664
Income from Manila Electric Company	**–**	–	(35,921,151)
Dividend income	**–**	–	(6,786,000)
Income before working capital changes	**4,734,496,727**	4,402,650,811	3,441,524,565
Decrease (increase) in:			
Short-term investments	**230,932,964**	43,656,606	7,007,268
Receivables	**(229,874,271)**	(19,666,326)	(265,960,324)
Inventories	**(377,203,613)**	113,717,410	(196,264,986)
Other current assets	**(112,737,627)**	(146,367,422)	(63,027,007)
Increase (decrease) in:			
Trade payables and other current liabilities	**738,688,175**	697,621,491	319,123,488
Provisions	**(17,837,907)**	(13,878,455)	(85,803,933)
Accrued benefit cost	**153,388,629**	56,405,890	21,766,224
Operating lease payable	**(37,023,197)**	177,466,757	54,818,585
Cash generated from operations	**5,082,829,880**	5,311,606,762	3,233,183,880
Income taxes paid	**(778,501,594)**	(614,031,740)	(524,063,291)
Net cash provided by operating activities	**4,304,328,286**	4,697,575,022	2,709,120,589

(Forward)

Jollibee Foods Corporation and Subsidiaries

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 13)	**(P2,055,998,382)**	(₱1,920,244,179)	(₱1,382,821,010)
Acquisition of minority interest (Note 10)	**(413,657,153)**	(384,000,000)	–
Increase in other noncurrent assets	**(332,749,634)**	(61,062,648)	(64,837,232)
Interest received	**128,571,500**	110,853,954	157,688,525
Proceeds from disposals of property and equipment	**7,375,429**	57,418,024	84,750,511
Advances to a joint venture (Note 11)	**–**	(37,002,202)	(18,372,157)
Acquisition of a subsidiary - net of cash acquired (Note 10)	**–**	25,617,679	(1,198,130,924)
Dividend received	**–**	–	4,000,000
Net cash used in investing activities	**(2,666,458,240)**	(2,208,419,372)	(2,417,722,287)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	**(364,548,699)**	(659,641,177)	(472,598,717)
Liability for acquisition of a business	**(251,404,641)**	(172,303,733)	–
Long-term debt	**(96,180,410)**	(78,484,848)	(272,477,687)
Proceeds from:			
Issuances of and subscriptions to capital stock	**202,236,470**	21,039,468	8,830,771
Re-issuances of treasury shares	**109,107,230**	58,512,778	61,814,913
Long-term debt	**132,499,138**	–	–
Increase (decrease) in:			
Other noncurrent liabilities	**(9,803,904)**	(21,071,021)	45,359,479
Minority interests	**20,234,407**	7,846,639	2,723,106
Interest paid	**(24,541,469)**	(25,758,710)	(33,577,499)
Net cash used in financing activities	**(282,401,878)**	(869,860,604)	(659,925,634)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,035,909)**	(12,732,993)	(17,951,836)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,354,432,259**	1,606,562,053	(386,479,168)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,221,510,834**	2,614,948,781	3,001,427,949
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱5,575,943,093**	₱4,221,510,834	₱2,614,948,781

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as "the Jollibee Group") are involved primarily in the development, operation and franchising of Quick Service Restaurants (QSR) under the trade names "Jollibee," "Chowking," "Greenwich," "Yonghe King," "Red Ribbon" and "Delifrance." The other activities of the Jollibee Group include manufacturing and property leasing in support of the QSR systems and in other independent business activities (see Notes 5 and 10). 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 28, 2008.

2. Basis of Preparation

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

Statement of Compliance

The consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The subsidiaries are presented in Note 10. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized profits and losses resulting from intra-group transactions are eliminated in full.

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 during the year are included in the consolidated statements 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 net assets not held by the Jollibee Group and are presented separately in the consolidated statements of income and within equity in the consolidated balance sheets, separately from equity attributable to equity holders of the Parent. The 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.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years, except for the adoption of the following new PFRS, amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC), which the Jollibee Group has adopted starting January 1, 2007.

- PFRS 7, *Financial Instruments: Disclosures,* requires disclosures that enable users of financial statements to evaluate the significance of the Jollibee Group's financial instruments and the nature and extent of risks arising from those financial instruments.

  The Jollibee Group availed of the amendment to the transition provisions of this standard, as approved by the FRSC, which gives transition relief with respect to the presentation of comparative information for new risks disclosures about the nature and extent of risks arising from financial instrument in paragraphs 31 - 42 of PFRS 7. Accordingly, an entity that applies PFRS 7 for annual periods beginning on or after January 1, 2007 need not present comparative information.

  The adoption of this standard resulted in the inclusion of additional disclosures, such as rollforward of allowance for impairment losses, credit quality of financial assets that are neither past due nor impaired, aging analysis of past due but not impaired financial assets, contractual maturity analysis of financial liabilities, market sensitivity analysis as to changes in foreign exchange rates and carrying amount per category of financial assets and liabilities in the consolidated financial statements (see Notes 7, 31 and 32).

- Amendments to PAS 1, *Presentation of Financial Statements,* requires the Jollibee Group to make additional disclosures to enable the users of the financial statements to evaluate the Jollibee Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2,* requires PFRS 2, *Share-based Payment,* to be applied to any arrangement where the entity cannot specifically identify some or all of the goods received, in particular 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 had no impact on the financial position or performance of the Jollibee Group.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Jollibee Group has no new embedded derivative requiring separation from the host contract, the interpretation had no impact on its financial position or performance.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting Impairment,* requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Jollibee Group has no previously reversed impairment losses, the interpretation had no impact on its financial position or performance.

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

- PFRS 8, *Operating Segments,* becomes effective for annual periods beginning on or after January 1, 2009, and will replace PAS 14, *Segment Reporting.* It adopts a management approach to reporting segment information. The information reported would be that 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 sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences.

- Revised PAS 1, *Presentation of Financial Statements,* becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements.

- PAS 23, *Amendment - Borrowing Costs,* becomes effective for annual periods beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs that relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions,* becomes effective for annual periods beginning on or after March 1, 2007. This 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.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements,* becomes effective for annual periods beginning on or after 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.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes,* becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits.*

The Jollibee Group is currently evaluating the effect of the new and amended accounting standards and interpretations in its financial statements. The new and revised accounting treatments and disclosures required by these accounting standards and interpretations will be included in the financial statements when the standards and interpretation are adopted on their effective dates.

3. Summary of Significant Accounting Policies

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

Financial Assets and Liabilities

Date of Recognition. 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.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Jollibee Group classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

Notes to Consolidated Financial Statements

Determination of Fair Value. The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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 statements 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 statements 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.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statements of income. Gains or losses on investments held-for-trading are recognized in the consolidated statements of income.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

The Jollibee Group has no financial assets classified under this category as of December 31, 2007. Derivative instruments are classified as financial assets at FVPL as of December 31, 2006 (see Note 32).

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 statements of income when the investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date.

The Jollibee Group has no investment classified under this category as of December 31, 2007 and 2006.

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 statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when the Jollibee Group expects to realize or sell the asset within twelve months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Jollibee Group's cash and cash equivalents, short-term investments, receivables, refundable deposits, employee car plan and receivable from Manila Electric Company (Meralco) are classified under this category (see Notes 31 and 32).

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 statements of income. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date.

The Jollibee Group's investments in club shares and other shares of stock are classified under this category (see Notes 31 and 32).

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 classified under this category as of December 31, 2007 and 2006.

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 (see Note 32).

Impairment of Financial Assets

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 statements 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 statements 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 statements of income, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS investments are not recognized in the consolidated statements of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statements 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 statements of income.

Embedded Derivatives

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.

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. The Jollibee Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

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 10 and 32).

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:

(a) the rights to receive cash flows from the asset have expired;

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

(c) the Jollibee Group has transferred its rights to receive cash flows from the asset and either (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.

Notes to Consolidated Financial Statements

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

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

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.
Food supplies, novelty items and packaging, store and other supplies	-	Purchase cost on a first-in, first-out basis.

The 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.

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

Interest in a Joint Venture
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 consolidated statements of income reflect the share in the results of operations of the joint venture.

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 became a wholly owned subsidiary (see Notes 10 and 11).

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 5 to 15 years.

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

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

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties and taxes and any other costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

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

Land improvements	5	years
Plant and buildings, commercial condominium units and improvements	5–10	years
Leasehold rights and improvements	2–10	years or term of the lease, whichever is shorter
Office, store and food processing equipment	2–15	years
Furniture and fixtures	3–5	years
Transportation equipment	3–5	years

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 each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operations.

Construction in progress represents structures under construction and 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.

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 statements of income.

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Notes to Consolidated Financial Statements

unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statements 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.

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 reliably measured.

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.

Employee Benefits

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.

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 statements of income over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of the options granted to the personnel of the joint venture that 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 sheets.

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 27). 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 statements 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.

Research Costs

Research costs are expensed as incurred.

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 statements 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.

Borrowing Costs

Borrowing costs are expensed as incurred.

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.

Business Segments

The Jollibee Group is organized and managed separately according to the nature of business. The three major operating businesses of the Jollibee Group are food service, franchising and leasing. These operating businesses are the basis upon which the Jollibee Group reports its primary segment information presented in Note 5 to the consolidated financial statements.

Treasury Shares

Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated balance sheets as a deduction from the total stockholders' equity. Upon 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.

Dividends on Common Shares

Dividends on common shares are recognized as liability and deducted from stockholders' 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.

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.

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

Foreign Currency Transactions and Translations
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Each entity in the Jollibee Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currencies of the Jollibee Group's foreign operations are U.S. dollar, Chinese yuan, Indonesia rupiah, Vietnam dong and Hong Kong dollar. As of the reporting date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the balance sheet date while their income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are included in the consolidated statements of changes in stockholders' equity under the account "Cumulative translation adjustments of subsidiaries." On disposal of a foreign entity, the accumulated exchange differences are recognized in the consolidated statements of income as a component of the gain or loss on disposal.

Income Tax

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 balance sheet date.

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 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.

Value Added Tax. Revenue, expenses and assets are recognized net of the amount of tax, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events After Balance Sheet Date
Post year-end events that provide additional information about the Jollibee Group's financial position at balance sheet date (adjusting events) are reflected in the Jollibee Group's consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

4. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

<u>Judgments</u>
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.

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.

<u>Operating Leases</u>

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

Rent income amounted to ₱96.3 million, ₱88.1 million and ₱72.0 million for the years ended December 31, 2007, 2006 and 2005, respectively (see Note 30).

Jollibee Group as Lessee. The Jollibee Group has entered into commercial property leases for its QSR and offices as a 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, remain with the lessor. Accordingly, the leases are accounted for as operating leases.

Rent expense amounted to ₱2,391.0 million, ₱2,137.2 million and ₱1,782.3 million for the years ended December 31, 2007, 2006 and 2005, respectively (see Note 30).

Impairment of AFS Investments - Significant and Prolonged Decline in Fair Value. The Jollibee Group determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Jollibee Group determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than twelve months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Jollibee Group evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

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.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at 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.

Impairment of Receivables. The Jollibee Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Jollibee Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Jollibee Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessments. The amount and timing of recorded expenses for any period would differ if the Jollibee Group made different judgments or utilized different methodologies. An increase in allowance account would increase general and administrative expenses and decrease current and noncurrent assets.

The allowance for impairment loss on trade receivables as of December 31, 2007 and 2006 amounted to ₱82.6 million and ₱57.3 million, respectively. The carrying value of receivables amounted to ₱1.9 billion and ₱1.6 billion as of December 31, 2007 and 2006, respectively (see Note 7).

Impairment of AFS Investments. The computation of impairment for quoted equity instruments requires the determination of fair values by reference to quoted market bid prices at the close of business at balance sheet date. The Jollibee Group expands its analysis to consider changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the investments. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The carrying values of AFS investments, included under "Other noncurrent assets" account in the consolidated balance sheets, amounted to ₱46.2 million and ₱15.4 million as of December 31, 2007 and 2006, respectively (see Notes 15 and 32).

Net Realizable Value of Inventories. The Jollibee Group writes down inventories to net realizable value, through the use of an allowance account, whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amounts the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after balance sheet date to the extent that such events confirm conditions existing at balance sheet date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

Notes to Consolidated Financial Statements

In 2007, 2006 and 2005, the Jollibee Group assessed that the net realizable value of inventories is lower than cost, hence it recognized impairment losses on inventories amounting to ₱14.1 million, ₱18.4 million and ₱14.1 million, respectively. The carrying value of inventories amounted to ₱1,629.4 million and ₱1,266.3 million as of December 31, 2007 and 2006, respectively.

Impairment of Nonfinancial Assets. The Jollibee Group performs annual impairment review of non-financial assets (except goodwill) when certain impairment indicators are present. Determining the fair value of assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Jollibee Group to make estimates and assumptions that can materially affect the 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 financial condition and performance.

The accumulated impairment losses on investment properties and property, plant and equipment amounted to ₱116.0 million and ₱145.1 million as of December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, the aggregate carrying amounts of property, plant and equipment and investment properties assets amounted to ₱7,705.2 million and ₱7,240.1 million, respectively (see Notes 12 and 13).

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

There is no change in the estimated useful lives of property, plant and equipment and investment properties in 2007 and 2006. The carrying values of property, plant and equipment were ₱7,491.0 million and ₱7,056.8 million as of December 31, 2007 and 2006, respectively (see Note 13). The carrying values of investment properties were ₱214.1 million and ₱183.3 million as of December 31, 2007 and 2006, respectively (see Note 12).

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, 2007 and 2006 amounted to ₱1,601.6 million (see Note 14).

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Jollibee Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Jollibee Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Jollibee Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Jollibee Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension and other pension obligations.

The accrued benefit cost as of December 31, 2007 and 2006 amounted to ₱443.6 million and ₱290.2 million, respectively. The unrecognized net actuarial losses amounted to ₱20.0 million and ₱488.0 million as of December 31, 2007 and 2006, respectively (see Note 26).

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

Deferred tax assets amounted to ₱874.2 million and ₱850.4 million as of December 31, 2007 and 2006, respectively (see Note 24).

Fair Value of Financial Assets and Liabilities. The Jollibee Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if different valuation methodologies and assumptions are utilized. Any changes in the fair value of these financial assets and liabilities would directly affect profit and loss and equity.

The fair value of financial assets and liabilities are discussed in Note 32.

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

Provisions recognized for legal claims, restructuring costs and contingent payments on an acquisition, and others amount to ₱57.5 million and ₱75.3 million (including current portion) as of December 31, 2007 and 2006, respectively (see Notes 17 and 30).

5. **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 QSR 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 leasing segment leases store sites mainly to the Jollibee Group's independent franchisees.

The Jollibee Group generally accounts for inter-segment sales and transfers at current market prices as if the sales or transfers were to third parties. 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 the customers.

Business Segments

The following tables present certain information on revenues, expenses, assets and liabilities of the different business segments as of December 31, 2007 and 2006 and for each of the three years in the year ended December 31, 2007:

	As of and for the Year Ended December 31, 2007				
	Food Service	**Franchising**	**Leasing**	**Eliminations**	**Total**
		(In Thousands)			
Revenues from external customers	₱36,338,859	₱2,024,652	₱333,420	₱–	₱38,696,931
Inter-segment revenues	4,178,741	257,865	305,210	(4,745,085)	(3,269)
Segment revenues	40,517,600	2,282,517	638,630	(4,745,085)	38,693,662
Segment expenses	(35,594,902)	–	(164,854)	–	(35,759,756)
Other segment income	113,589	–	–	–	113,589
Segment result	₱5,036,287	₱2,282,517	₱473,776	(₱4,745,085)	3,047,495
Interest income					142,989
Interest expense					(55,469)
Income before income tax					3,135,015
Income tax expense					(746,657)
Net income					₱2,388,358
Assets and liabilities					
Segment assets	₱20,764,336	₱–	₱306,499	₱–	₱21,070,835
Deferred tax assets	793,594	–	80,573	–	874,167
Total assets	₱21,557,930	₱–	₱387,072	₱–	₱21,945,002
Segment liabilities	₱8,807,187	₱–	₱135,524	₱–	₱8,942,711
Deferred tax liabilities	–	–	–	–	126,821
Long-term debt - including current portion	–	–	–	–	143,408
Income tax payable	–	–	–	–	83,725
Total liabilities	₱8,807,187	₱–	₱135,524	₱–	₱9,296,665
Other segment information					
Capital expenditures	₱2,050,911	₱–	₱5,088	₱–	₱2,055,999
Depreciation and amortization	1,572,591	–	6,968	–	1,579,559

Notes to Consolidated Financial Statements

	As of and for the Year Ended December 31, 2006				
	Food Service	Franchising	Leasing	Eliminations	Total
			(In Thousands)		
Revenues from external customers	₱32,015,218	₱1,807,557	₱94,388	₱–	₱33,917,163
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	898,179	–	56,465	(104,257)	850,387
Total assets	₱27,812,146	₱–	₱392,119	(₱8,935,911)	₱19,268,354
Segment liabilities	₱9,786,158	₱–	₱354,656	(₱1,950,188)	₱8,190,626
Long-term debt - including current portion	–	–	–	–	107,090
Income tax payable	–	–	–	–	8,850
Total liabilities	₱9,786,158	₱–	₱354,656	(₱1,950,188)	₱8,306,566
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	Leasing	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					157,689
Interest expense					(43,246)
Equity in net loss of a joint venture					(20,626)
Income before income tax					2,129,624
Income tax expense					(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
Other segment information					
Capital expenditures	₱1,382,821	₱–	₱–	₱–	₱1,382,821
Depreciation and amortization	1,365,049	–	35,237	–	1,400,286

Geographical Segments

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

	Philippines	International	Eliminations	Total
		(In Thousands)		
2007:				
Revenue	₱35,179,857	₱3,513,805	₱–	₱38,693,662
Segment assets	18,421,431	2,649,404	–	21,070,835
Capital expenditures	1,806,309	249,690	–	2,055,999
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

6. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand and in banks	**₱2,627,756,883**	₱1,919,923,820
Short-term deposits	**2,948,186,210**	2,301,587,014
	₱5,575,943,093	₱4,221,510,834

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.

7. Receivables

This account consists of:

	2007	2006
Trade	**₱1,900,987,648**	₱1,545,679,195
Less allowance for impairment loss	**82,641,005**	57,252,238
	1,818,346,643	1,488,426,957
Advances to employees	**66,854,998**	97,456,713
Current portion of:		
Employee car plan	**36,942,306**	19,934,962
Receivable from Meralco (see Note 15)	**10,963,731**	11,097,483
Others	**9,343,040**	21,467,419
	₱1,942,450,718	₱1,638,383,534

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

The movements in the allowance for impairment loss as of December 31, 2007 follow:

	2007	2006
Beginning	**₱57,252,238**	₱56,596,723
Provision (see Note 22)	**25,388,767**	5,286,310
Reversal	**–**	(4,630,795)
	₱82,641,005	₱57,252,238

The provisions in 2007 and 2006 resulted from specific impairment assessments performed by the Parent Company and its subsidiaries.

8. Inventories

This account consists of:

	2007	2006
At cost:		
Food supplies and processed inventories	**₱1,318,587,677**	₱957,409,017
Packaging, store and other supplies	**103,310,224**	206,674,764
Novelty items	**7,269,053**	38,041,293
Inventories in transit	**–**	3,398,746
	1,429,166,954	1,205,523,820
At net realizable value:		
Novelty items	**100,241,215**	–
Packaging, store and other supplies	**100,019,852**	60,818,958
	200,261,067	60,818,958
Total inventories at lower of cost and net realizable value	**₱1,629,428,021**	₱1,266,342,778

The cost of inventories carried at net realizable value amounted to ₱214.4 million and ₱79.2 million as of December 31, 2007 and 2006, respectively.

9. Other Current Assets

This account consists of:

	2007	2006
Deposits to suppliers	**₱251,191,525**	₱228,858,740
Prepaid expenses	**222,275,983**	221,343,313
Refundable deposits	**83,381,117**	104,614,635
Others - net of allowance for impairment loss of ₱2.2 million in 2007 and 2006	**704,409,996**	593,704,306
	₱1,261,258,621	₱1,148,520,994

Notes to Consolidated Financial Statements

10. Investments in Subsidiaries

The consolidated financial statements include the accounts of the Parent Company and the following wholly owned and majority owned subsidiaries:

	Country of Incorporation	Principal Activities	Percentage of Ownership 2007	2006	2005
Fresh N' Famous Foods, Inc. (Fresh N' Famous)[a]	Philippines	Food service	**100**	100	100
▪ Chowking Food Corporation USA[g]	United States of America (USA)	Holding company	**100**	100	100
Freemont Foods Corporation	Philippines	Food service	**100**	100	100
Red Ribbon Holdings Inc. (Red Ribbon)	Philippines	Holding company	**100**	100	100
▪ Red Ribbon Bakeshop, Inc. (RRBI)[b]	Philippines	Food service	**100**	100	100
▪ Red Ribbon Bakeshop, Inc. (RRBI USA)[b]	USA	Food service	**100**	100	100
Vismin Foods Corporation (Vismin)[j]	Philippines	Food service	**100**	100	100
Zenith Foods Corporation (Zenith)[j]	Philippines	Food service	**100**	100	100
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	**100**	100	100
▪ Adgraphix, Inc.[d]	Philippines	Digital printing	**60**	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
Jollibee Foods Corporation USA	USA	Holding company	**100**	100	100
Honeybee Foods Corporation (Honeybee)	USA	Food service	**100**	100	100
▪ Tokyo Teriyaki Corporation[e]	USA	Food service	**100**	90	90
Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide)	Singapore	Holding company	**100**	100	100
▪ Kuai Le Feng Food & Beverage (Shenzhen) Co. Ltd.	PRC	Food service	**100**	–	–
▪ Jollibee International (BVI) Ltd. (JIBL)[f]	British Virgin Islands (BVI)	Holding company	**100**	100	100
▫ Jollibee Vietnam Corporation Ltd.[h]	Vietnam	Food service	**100**	100	100
▫ Shanghai Chunlu Co. Ltd.[h, i]	PRC	Food service	**100**	100	100
▫ PT Chowking Indonesia[h]	Indonesia	Food service	**100**	100	100
▫ Jollibee (Hong Kong) Limited[h]	Hong Kong	Food service	**85**	85	85
• Hanover Holdings Limited (Hanover)[h]	Hong Kong	Food service	**100**	100	100
▫ Belmont Enterprises Ventures Limited (Belmont)[h]	BVI	Holding company	**100**	85	85
• Yonghe Holdings Co., Ltd.[h]	BVI	Holding company	**100**	85	85
• Centenary Ventures Limited[h]	BVI	Holding company	**100**	85	85
• Colossus Global Limited[h]	BVI	Holding company	**100**	85	85
∘ Wuhan Yongchang Food and Beverage Co., Ltd.[h]	PRC	Food service	**100**	85	85
• Granite Management Limited[h]	BVI	Holding company	**100**	85	85
∘ Beijing Yonghe King Soy Bean Milk Food and Beverage Co., Ltd.[h]	PRC	Food service	**100**	85	85
• Cosmic Resources Limited[h]	BVI	Holding company	**100**	85	85
∘ Shenzhen Yongnan Restaurant Co., Ltd.[h]	PRC	Food service	**100**	85	85
• Shanghai Belmont Enterprises Management and Adviser Co., Ltd.[h]	PRC	Business management service	**100**	85	85
• All Great Resources Limited[h]	BVI	Holding company	**100**	85	85
• Eastpower Resources Limited[h]	BVI	Holding company	**100**	85	85
∘ Hangzhou Yongtong Foods and Beverage Co., Ltd.[h]	PRC	Food service	**100**	85	85
∘ Hangzhou Yonghong Foods & Beverage Co., Ltd.[h]	PRC	Food service	**100**	85	85
∘ Shanghai Yonghe King Co., Ltd.[h]	PRC	Food service	**100**	85	85
∘ Shanghai Yongjue Foods & Beverage Co., Ltd[h]	PRC	Food service	**100**	85	85
• Eaglerock Development Limited[h]	BVI	Holding company	**100**	85	85
• Gladstone Company Limited[h]	BVI	Dormant	**100**	85	85

(a) On December 29, 2006, the Securities and Exchange Commission (SEC) approved the merger of 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, 2007.

(d) Indirectly owned through Grandworth.

(e) Indirectly owned through Honeybee.

(f) Indirectly owned through Jollibee Worldwide.

(g) Indirectly owned through Fresh N' Famous.

(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.

(j) On February 27, 2008, the SEC approved the merger between Zenith and Vismin effective January 1, 2008, with Zenith as the surviving entity.

Acquisition/Establishment of New Subsidiaries

Baker Fresh

On September 29, 2006, the Parent Company acquired the 50% ownership interest of Delifrance Asia Ltd. (DAL) in Baker Fresh, a joint venture with the Jollibee Group in 2005 (see Note 11), for a Singapore dollar (SG$)1. 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 became a wholly owned subsidiary of the Jollibee Group.

The total consideration consists of the following:

Conversion of receivables	₱84,699,123
Cash paid (SG$1)	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 2006 consolidated statement of income.

The cash inflows on acquisition in 2006 were as follows:

Cash paid	(₱32)
Less cash acquired from the 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 sheets) 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 Parent Company opted to early settle the liability on September 27, 2007 and recognized a loss on early settlement amounting to ₱40.9 million (see Note 32).

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

	2006
Current portion	₱160,689,955
Noncurrent portion	147,189,331
	₱307,879,286

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 are shown below:

	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 (Carried Forward)	₱1,060,695,890	₱798,902,690

Notes to Consolidated Financial Statements

	Fair Market Value	Carrying Amount
Total identifiable assets (Brought Forward)	₱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 14)	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 14). Accordingly, the goodwill and net deferred tax assets recognized 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 14).

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 14) was reversed and adjusted against goodwill and an income amounting to ₱6.0 million was recognized, representing reversal of accretion on the previously recognized liability.

Merger of Chowking Food Corporation (Chowking), Greenwich and Baker Fresh

On December 29, 2006, the Philippine SEC approved the merger of 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

Belmont

On June 18, 2007, the Parent Company through its international subsidiary, JIBL, acquired the 15% interest of Academy Resources Ltd. in Belmont for ₱413.7 million. The acquisition resulted to Belmont becoming a wholly owned subsidiary of JIBL.

The difference between the acquisition cost and the carrying value of the minority interest at the date of acquisition amounting to ₱375.7 million was recognized under "Excess of the acquisition cost over the carrying value of minority interests," a separate component of stockholders' equity in the consolidated balance sheets.

Greenwich

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 becoming 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 interests," a separate component of stockholders' equity in the consolidated balance sheets.

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 (₱1.6 billion). The issuance of new shares was done at the exchange rate of SG$1.67 to US$1.00.

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

11. **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 10).

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 28)	80,719,568
	₱47,169,602

The equity in net loss 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)

12. **Investment Properties**

The details of investment properties are as follows:

	2007		
	Land and Land Improvements	**Buildings and Building Improvements**	**Total**
		(In Thousands)	
Cost:			
Beginning and ending balance	**₱252,501**	**₱208,860**	**₱461,361**
Accumulated depreciation:			
Beginning balance	**–**	**198,359**	**198,359**
Depreciation	**–**	**3,431**	**3,431**
Ending balance	**–**	**201,790**	**201,790**
Accumulated impairment losses:			
Beginning balance	**79,687**	**–**	**79,687**
Provision for impairment (see Note 22)	**27,221**	**–**	**27,221**
Reversal of impairment	**(61,453)**	**–**	**(61,453)**
Ending balance	**45,455**	**–**	**45,455**
Net book value	**₱207,046**	**₱7,070**	**₱214,116**

	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:			
Beginning balance	–	223,992	223,992
Depreciation	–	10,118	10,118
Reclassifications	–	(35,751)	(35,751)
Ending balance	–	198,359	198,359
Accumulated impairment losses:			
Beginning balance	74,135	–	74,135
Reclassifications	5,552	–	5,552
Ending balance	79,687	–	79,687
Net book value	₱172,814	₱10,501	₱183,315

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The allowance for impairment in value of land amounting to ₱45.46 million represents the excess of the carrying values over the estimated recoverable amount of non income-generating investment properties. The estimated recoverable amount is the estimated selling price less cost to sell.

The cost of fully depreciated buildings still being leased out by the Jollibee Group amounted to ₱172.52 million and ₱71.87 million as of December 31, 2007 and 2006, respectively.

The parcels of land have aggregate fair values of ₱1,151.16 million as of December 31, 2007 as determined by an independent appraiser. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation in accordance with International Valuation Standards.

Rental income derived from income-generating properties amounted to ₱58.35 million, ₱52.51 million and ₱67.79 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Direct operating costs relating to the investment properties that generated rental income recognized under "Cost of sales" and "General and administrative expenses" account amounted to ₱41.87 million, ₱46.8 million and ₱46.66 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Direct operating costs relating to the investment properties that did not generate rental income recognized under "Cost of sales" and "General and administrative expenses" account amounted to ₱1.3 million, ₱1.6 million and ₱1.45 million for the years ended December 31, 2007, 2006 and 2005, respectively.

13. **Property, Plant and Equipment**

The details of property and equipment are as follows:

	2007							
	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	₱724,703	₱795,597	₱5,750,717	₱5,754,887	₱501,799	₱259,196	₱ 299,426	₱14,086,325
Additions	200	53,770	368,014	938,634	28,484	52,883	614,014	2,055,999
Retirements	–	(139)	(587,480)	(132,468)	(32,358)	(5,456)	(24,862)	(782,763)
Reclassifications	7,169	45,379	532,186	(184,100)	(67,429)	(29,166)	(713,579)	(409,540)
Ending balance	732,072	894,607	6,063,437	6,376,953	430,496	277,457	174,999	14,950,021
Accumulated depreciation:								
Beginning balance	–	408,803	2,790,969	3,298,994	329,315	136,046	–	6,964,127
Depreciation and amortization	–	65,061	631,818	778,942	53,591	46,714	–	1,576,126
Retirements	–	(42)	(579,852)	(132,084)	(30,809)	(1,007)	–	(743,794)
Reclassifications	–	66,633	(144,790)	(283,627)	(44,141)	(2,071)	–	(407,996)
Ending balance	–	540,455	2,698,145	3,662,225	307,956	179,682	–	7,388,463
Accumulated impairment loss								
Beginning balance	–	–	49,740	–	–	–	15,685	65,425
Impairment loss	–	–	–	–	–	–	5,088	5,088
Ending balance	–	–	49,740	–	–	–	20,773	70,513
Net book value	₱732,072	₱354,152	₱3,315,552	₱2,714,728	₱122,540	₱97,775	₱154,226	₱7,491,045

Jollibee Foods Corporation and Subsidiaries

	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	₱161,469	₱13,124,448
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	–	(216,436)	(2,816)
Ending balance	724,703	795,597	5,750,717	5,754,887	501,799	259,196	299,426	14,086,325
Accumulated depreciation:								
Beginning balance	431	392,920	2,465,705	2,925,237	340,559	127,022	–	6,251,874
Depreciation and amortization	–	43,230	592,609	822,486	44,792	60,609	–	1,563,726
Retirements	–	(26,701)	(322,949)	(411,134)	(55,577)	(37,400)	–	(853,761)
Reclassifications	(431)	(646)	55,604	(37,595)	(459)	(14,185)	–	2,288
Ending balance	–	408,803	2,790,969	3,298,994	329,315	136,046	–	6,964,127
Accumulated impairment:								
Beginning balance	–	–	49,740	–	–	–	16,127	65,867
Transfers	–	–	–	–	–	–	(442)	(442)
Ending balance	–	–	49,740	–	–	–	15,685	65,425
Net book value	₱724,703	₱386,794	₱2,910,008	₱2,455,893	₱172,484	₱123,150	₱283,741	₱7,056,773

The cost of fully depreciated assets still in use by the Jollibee Group amounted to ₱3,871.4 million and ₱2,905.7 million as of December 31, 2007 and 2006, respectively.

14. Goodwill

Goodwill acquired through business combinations are allocated as follows:

	Red Ribbon	Belmont	Total
Balance at December 31, 2005	1,172,590,156	994,059,821	2,166,649,977
Reversal of liability for contingent payment (see Note 10)	–	(565,043,705)	(565,043,705)
Balance at December 31, 2006	₱1,172,590,156	₱429,016,116	₱1,601,606,272
Balance at December 31, 2007	**₱1,172,590,156**	**₱429,016,116**	**₱1,601,606,272**

Impairment testing of goodwill
The recoverable amounts of goodwill from Red Ribbon and Belmont have been determined based on value in use calculations 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 calculation of value in use is most sensitive to the following assumptions: a) gross margin, b) discount rate and c) growth rate.

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15. Other Noncurrent Assets

This account consists of:

	2007	2006
Refundable deposits	**₱504,555,973**	₱407,244,554
Deferred rent expense	**61,167,252**	69,862,947
Noncurrent portion of:		
Employee car plan	**70,993,342**	52,167,754
Receivable from Meralco	**17,134,633**	28,678,990
Deferred compensation - employee car plan	**15,765,087**	9,896,154
Derivative asset (see Note 32)	**–**	65,170,320
Others - net of allowance for impairment loss of ₱144.7 million in 2007 and 2006	**647,580,797**	300,189,429
	₱1,317,197,084	₱933,210,148

Refundable deposits represent 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, *Financial Instruments: Recognition and Measurement*. The discount rates used range from 6% to 21%. 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*.

The "Employee car plan" account is 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 - employee car plan" account, which is amortized using the effective interest method over the credit period. The discount rates used range from 4% to 17%.

The receivable from Meralco arises from a refund scheme agreed upon by Meralco and the Energy Regulatory Commission. Under the scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Jollibee Group intends to recover the refund through receipt of quarterly postdated checks of equal amount over 5.25 years until 2010. The receivable was discounted using an effective interest rate of 12%.

The movements in unamortized deferred interest income are as follows:

	2007		
	Refundable Deposits	**Employee Car Plan**	**Receivable from Meralco**
Beginning	**₱97,504,840**	**₱9,896,154**	**₱8,770,458**
Additions	**7,501,543**	**13,343,876**	**–**
Interest accretion	**(6,085,395)**	**(4,603,373)**	**(3,728,712)**
Disposals/pre-terminations	**(455,463)**	**(2,871,570)**	**(152,549)**
	₱98,465,525	**₱15,765,087**	**₱4,889,197**

	2006		
	Refundable Deposits	Employee Car Plan	Receivable from Meralco
Beginning	₱100,774,366	₱12,456,484	₱13,414,292
Additions	10,177,543	18,988,306	–
Interest accretion	(12,925,493)	(10,225,271)	(4,643,834)
Disposals/pre-terminations	(521,576)	(11,323,365)	–
	₱97,504,840	₱9,896,154	₱8,770,458

As of December 31, 2007 and 2006, other noncurrent assets include AFS financial assets representing investments in shares of stock and club shares amounting to ₱39.6 million and ₱6.6 million, and ₱10.4 million and ₱5.0 million, respectively. The Jollibee Group recognized ₱22.4 million and ₱0.1 million unrealized gain from fair value adjustments in investments for the years 2007 and 2006, respectively. As there were no disposals in 2007 and 2006, no amount was taken out of stockholders' equity in both years.

16. Trade Payables and Other Current Liabilities

This account consists of:

	2007	2006
Trade	**₱2,257,255,629**	₱2,813,654,413
Accruals for:		
Salaries, wages and allowances	**902,638,625**	788,968,558
Local and other taxes	**596,270,170**	443,069,268
Advertising and promotions	**364,343,928**	279,896,883
Rent	**164,150,137**	153,821,107
Retention payable	**112,288,700**	19,946,762
Dividends payable	**693,296,023**	251,756,838
Short-term loans	**157,461,779**	121,007,013
Deposits	**186,893,865**	119,696,184
Output VAT	**266,842,771**	96,499,077
Others	**1,703,282,843**	1,136,181,007
	₱7,404,724,470	₱6,224,497,110

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

Short-term loans consist of secured and unsecured bank loans of Belmont (see Note 10). The secured bank loan is collateralized by a pledge of Belmont's bank deposits of US$500,000, equivalent to ₱20.6 million and ₱24.5 million as of December 31, 2007 and 2006, respectively. The secured bank loans will mature on January 16, 2008. The pledged bank deposits earn interest at the average bank deposit rates of 2.9% in 2007 and 2006. Interest on the secured bank loans was charged on the outstanding balance at a rate of 5.4% per annum in 2007 and 4.90% per annum in 2006.

The unsecured bank loans are short-term loans availed from banks in 2006 with maturity of one year or less. The interest rate on unsecured bank loans is 5.8% and 5.0% in 2007 and 2006, respectively.

Dividends payable, deposits and output VAT are expected to be settled within the next financial year.

Other current liabilities include accruals for economic value added compensation, building improvements, stale checks and gift certificates issued to customers of the Jollibee Group and other liabilities relating to store operations. These liabilities are normally settled within the next financial year.

17. Provisions

	2007				2006
	Legal Claims	Restructuring Costs	Others	Total	
Balance at beginning of year	**₱32,112,104**	**₱23,994,706**	**₱19,237,291**	**₱75,344,101**	₱650,837,320
Payments during the year	**–**	**(17,837,907)**	**–**	**(17,837,907)**	(575,493,219)
Balance at end of year	**32,112,104**	**6,156,799**	**19,237,291**	**57,506,194**	75,344,101
Less current portion	**–**	**6,156,799**	**19,237,291**	**25,394,090**	43,231,997
	₱32,112,104	**₱–**	**₱–**	**₱32,112,104**	₱32,112,104

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

The provision for restructuring costs relates to the Parent Company's Cost Improvement Program to improve the quality of services and reduce the costs of backroom operations for its various QSR systems.

18. Long-term Debt

	2007	2006
Peso-denominated:		
Loan 1	**₱8,181,819**	₱24,545,455
Loan 2	**2,727,270**	8,181,818
US dollar-denominated:		
Loan 3	**–**	74,362,226
Loan 4	**55,728,000**	–
Loan 5	**76,771,138**	–
	143,408,227	107,089,499
Less current portion	**40,549,919**	59,930,544
	₱102,858,308	₱47,158,955

Peso-denominated loans of RRBI:

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 ₱15.0 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.

US dollar-denominated loans of RRBI USA:

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.

The loan was paid in full in 2007.

Loan 4 consists of a 3-year loan acquired from a foreign bank in December 2007 amounting to US$1.35 million with interest rate of 6.50%. The principal is payable in 36 monthly installments commencing on January 17, 2008 up to December 17, 2010, the date of maturity.

Loan 5 consists of a 5-year loan acquired from a foreign bank in December 2007 amounting to US$1.9 million with an interest rate of 6.50%. The principal is payable in 60 monthly installments commencing on January 1, 2008 up to January 1, 2013, the date of maturity.

The repayment schedule of the outstanding long-term debt as of December 31, 2007 is as follows:

Year	Amount
2008	₱40,549,919
2009	32,805,389
2010	35,020,204
2011	16,226,001
2012	17,312,688
2013	1,494,026
	₱143,408,227

Notes to Consolidated Financial Statements

19. **Stockholders' Equity**

a. Capital stock

The details of this account are shown below:

	Number of Shares	
	2007	2006
Authorized - ₱1 par value	**1,450,000,000**	1,450,000,000

Issued:		
Balance at beginning of year	**1,022,173,029**	1,020,690,758
Issuances	**9,956,853**	1,482,271
Balance at end of year	**1,032,129,882**	1,022,173,029
Subscribed:		
Balance at beginning of year	**2,009,297**	2,009,297
Subscriptions	**9,956,853**	1,482,271
Issuances	**(9,956,853)**	(1,482,271)
Balance at end of year	**2,009,297**	2,009,297
	1,034,139,179	1,024,182,326

b. Treasury shares

	Number of Shares	
	2007	2006
Common shares held in treasury (see Note 27):		
Balance at beginning of year	**22,734,028**	28,453,870
Re-issuances for stock purchase exercised	**(6,041,878)**	(4,599,152)
Re-issuances for stock purchased by retirement fund	**–**	(1,120,690)
Balance at end of year	**16,692,150**	22,734,028

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 27).

c. Retained earnings

On November 28, 2007, the BOD approved the declaration of cash dividends of ₱0.46 a share in favor of the stockholders of record as of December 14, 2007, payable on January 4, 2008. The BOD also approved on April 11, 2007 the declaration of cash dividends of ₱0.34 a share in favor of stockholders of record as of April 27, 2007. This was paid on May 24, 2007.

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.

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 ₱1.1 billion and ₱1.2 billion as of December 31, 2007 and 2006, respectively; and (b) cost of common shares held in treasury amounting to ₱183.3 million and ₱292.4 million as of December 31, 2007 and 2006, respectively.

20. **Royalty and Franchise Fees**

The Parent Company and four of its subsidiaries have existing Royalty and Franchise 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. **Cost of Sales**

This account consists of:

	2007	2006	2005
Cost of inventories	**₱17,878,964,134**	₱15,287,365,939	₱14,060,316,349
Personnel costs:			
Salaries, wages and benefits	**4,588,476,833**	3,724,283,110	3,034,066,894
Retirement benefits (see Note 26)	**108,281,404**	47,287,480	36,598,560
Rent (see Note 30)	**2,192,579,879**	2,005,199,365	1,713,001,243
Electricity and water	**1,746,714,091**	1,616,880,563	1,433,361,574
Depreciation and amortization	**1,376,155,592**	1,364,645,995	1,096,472,105
Supplies	**935,052,357**	700,409,592	594,264,014
Repairs and maintenance	**437,468,866**	358,305,578	306,515,294
Security and janitorial	**195,509,983**	139,120,211	108,507,071
Professional fees	**69,296,351**	58,202,996	18,017,211
Entertainment, amusement and recreation (EAR)	**17,434,361**	12,293,301	13,401,373
Others	**1,050,678,594**	1,604,737,917	926,982,474
	₱30,596,612,445	₱26,918,732,047	₱23,341,504,162

22. Expenses

This account consists of:

	2007	2006	2005
General and administrative expenses	₱3,985,019,306	₱3,743,488,260	₱2,530,046,301
Advertising and promotions	1,106,308,347	829,241,413	1,208,071,190
Provisions	71,815,450	7,008,773	46,391,003
	₱5,163,143,103	₱4,579,738,446	₱3,784,508,494

The general and administrative expenses consist of:

	2007	2006	2005
Personnel costs:			
Salaries, wages and benefits	₱1,899,224,852	₱1,932,017,188	₱944,550,396
Stock options expense	80,502,791	40,042,497	–
Retirement benefits (see Note 26)	72,537,479	49,834,864	26,123,920
Taxes and licenses	303,222,981	292,386,861	241,228,305
Professional fee	203,740,268	62,542,529	103,463,895
Depreciation and amortization	203,403,281	209,198,762	303,814,295
Rent (see Note 30)	198,424,514	131,980,154	69,254,512
Transportation and travel	155,562,358	127,084,481	90,668,668
Supplies	73,551,598	54,229,829	38,004,829
Electricity and water	69,884,621	73,428,361	67,373,950
Repairs and maintenance	60,345,187	57,688,153	63,621,276
Communication	58,939,755	53,435,433	–
EAR	42,493,374	28,835,754	30,526,954
Security and janitorial	34,400,596	32,543,982	23,672,325
Donation	30,000,000	–	–
Training	26,814,833	35,700,145	–
Insurance	22,961,799	26,160,455	8,866,241
Others	449,009,019	536,378,812	518,876,735
	₱3,985,019,306	₱3,743,488,260	₱2,530,046,301

The provisions consist of:

	2007	2006	2005
Impairment in value of:			
Receivables and inventories (see Notes 7 and 8)	₱39,507,137	₱7,008,773	₱3,593,525
Property, plant and equipment and investment properties (see Notes 12 and 13)	32,308,313	–	25,946,421
Legal claims, lease contract pre-terminations and restructuring costs (Note 17)	–	–	16,851,057
	₱71,815,450	₱7,008,773	₱46,391,003

23. Finance Income (Charges)

These accounts consist of:

	2007	2006	2005
Interest income:			
Money market placements	₱104,285,248	₱71,860,068	₱88,485,493
Cash in banks	16,953,116	22,303,143	20,670,163
Accretion of interest on financial assets (see Note 15)	14,417,480	27,794,598	27,489,949
Loan and advances	7,333,136	13,533,003	21,042,920
	₱142,988,980	₱135,490,812	₱157,688,525
Interest expense:			
Accretion of interest on financial liabilities (see Notes 10 and 18)	₱30,927,819	₱54,648,804	₱11,112,951
Long-term loans	24,491,469	4,977,009	20,090,155
Short-term loans	50,000	20,781,701	12,042,460
	₱55,469,288	₱80,407,514	₱43,245,566

24. Income Tax

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

	2007	2006
Regular income tax	₱450,068,940	₱398,518,079
Final tax withheld on royalty and interest income	403,307,393	210,844,694
	₱853,376,333	₱609,362,773

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

	2007	2006
Deferred tax assets:		
Operating lease payable	₱353,129,197	₱330,764,600
Accrued retirement and other benefits	154,648,221	148,570,029
NOLCO	88,420,281	79,558,209
Provision for impairment in value of property, plant and equipment, investment properties, and other non-financial assets	46,014,199	82,086,300
MCIT	33,549,526	103,749,561
Provisions for legal claims and restructuring costs	19,405,647	19,405,647
Allowance for impairment losses	16,776,321	9,899,918
Allowance for inventory losses	8,488,671	6,448,341
Unamortized past service costs	3,912,692	14,554,530
Others	149,822,117	55,350,051
	₱874,166,872	₱850,387,186

Notes to Consolidated Financial Statements

	2007	2006
Deferred tax liabilities:		
Operating lease receivable	**₱47,063,623**	₱43,806,549
Income from Meralco refund	**10,514,094**	10,152,283
Excess of fair value over book value of property, plant and equipment of acquired businesses	**837,205**	99,598,303
Unamortized discount on noninterest-bearing liability for acquisition of a business	**–**	8,908,917
Others	**68,405,670**	47,294,390
	₱126,820,592	₱209,760,442

As of December 31, 2007, the NOLCO and MCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carry Forward Benefit Up to	NOLCO	MCIT
December 31, 2004	December 31, 2007	₱–	₱61,927,994
December 31, 2005	December 31, 2008	58,987,746	17,002,487
December 31, 2006	December 31, 2009	189,742,363	31,972,780
December 31, 2007	December 31, 2010	–	4,905,086
		248,730,109	115,808,347
Less:			
Applied against regular taxable income in 2007		9,066,077	78,795,596
Expired in 2007		–	3,463,225
		9,066,077	82,258,821
Balance at year end		₱239,664,032	₱33,549,526

As of December 31, 2007, 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, 2003	December 31, 2008	₱2,312,569
December 31, 2004	December 31, 2009	7,737,296
December 31, 2005	December 31, 2010	6,400,222
December 31, 2006	December 31, 2011	15,420,379
December 31, 2007	December 31, 2012	34,892,190
		₱66,762,656

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

	2007	2006	2005
Provision for income tax at statutory income tax rates of 35% in 2007 and 2006 and 32.5% in 2005	**₱1,097,255,056**	₱1,016,033,954	₱692,127,668
Income tax effects of:			
Effect of different tax rate for royalty fees and interest	**(333,250,076)**	(298,888,559)	(265,506,696)
Incentives availed by Zenith (see Note 25)	**(105,910,147)**	(83,704,389)	(44,283,257)
Effects of changes in tax rates	**29,096,536**	22,502,898	(74,016,350)
Nondeductible expenses	**31,366,946**	18,596,686	10,002,963
Expired/applied NOLCO and MCIT	**13,272,704**	2,193,039	11,032,259
Dividend income	**–**	–	(2,242,667)
Others	**14,825,778**	66,062,603	112,713,076
	₱746,656,797	₱742,796,232	₱439,826,996

The deferred income taxes and the provision for current income tax include the effect of the change in tax rates. Under Republic Act No. 9337, regular corporate income tax rate for domestic corporations and resident and nonresident foreign corporations is increased to 35% (from 32%) beginning November 1, 2005 and the rate will be reduced to 30% beginning January 1, 2009. The regular corporate income tax rate shall be applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the year, divided by 12.

25. 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, income tax holiday (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.

Incentives availed of by the subsidiary amounted to ₱105.9 million, ₱83.7 million and ₱44.3 million in 2007, 2006 and 2005, respectively (see Note 24).

26. 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.

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

Net benefit expense:

	2007	2006	2005
Current service cost	**₱111,560,548**	₱64,264,487	₱39,160,839
Interest cost on benefit obligation	**94,272,700**	63,029,401	46,549,078
Expected return on plan assets	**(43,777,679)**	(29,272,369)	(20,867,637)
Net actuarial loss (gain)	**18,763,314**	269,400	(2,119,800)
Effect of consolidation of Baker Fresh (see Note 10)	**–**	(1,168,575)	–
	₱180,818,883	₱97,122,344	₱62,722,480
Actual return on plan assets	**₱41,490,051**	₱132,461,913	₱23,142,549

Accrued benefit cost:

	2007	2006
Present value of defined benefit obligation	**₱896,922,683**	₱1,208,554,155
Fair value of plan assets	**433,325,653**	430,319,438
Present value of unfunded obligation	**463,597,030**	778,234,717
Unrecognized net actuarial losses	**(19,983,964)**	(488,010,280)
	₱443,613,066	₱290,224,437

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

	2007	2006
At January 1	**₱1,208,554,155**	₱551,321,126
Current service cost	**111,560,548**	64,264,487
Interest cost on benefit obligation	**94,272,700**	63,029,401
Actual benefits paid	**(70,412,849)**	(42,944,350)
Benefit obligation of acquired subsidiaries	**–**	4,655,600
Actuarial loss on benefit obligation	**(447,051,871)**	568,227,891
At December 31	**₱896,922,683**	₱1,208,554,155

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

	2007	2006
At January 1	**₱430,319,438**	₱291,831,385
Contributions	**6,621,695**	36,548,004
Expected return on plan assets	**43,777,679**	29,272,369
Actual benefits paid	**(4,920,700)**	(30,822,295)
Benefits payable to Parent Company and Jollibee Worldwide Services (reimbursement)	**(44,683,589)**	–
Plan assets of acquired subsidiary	**–**	300,431
Actuarial gain on plan assets	**2,211,130**	103,189,544
At December 31	**₱433,325,653**	₱430,319,438

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

	2007	2006
Investments in shares of stock	**32.80%**	33.67%
Cash and cash equivalents	**30.69**	11.57
Government securities	**26.94**	52.99
Special savings deposits	**5.19**	–
Loans/notes receivable	**2.28**	1.77
Other receivables	**2.10**	–
	100.00%	100.00%

The Jollibee Group will contribute a substantial part of the unfunded defined benefit obligation in 2008.

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, 2007.

As of December 31, 2007 and 2006, the principal actuarial assumptions used to determine retirement benefits obligations follow:

	2007	2006
Discount rate	**10.15%**	7.75%
Salary increase rate	**8.00%**	7.00%
Rate of return on plan assets	**8.00%**	10.50%

The amounts for the current and previous periods are as follows:

	2007	2006	2005
Defined benefit obligation	**₱896,922,683**	₱1,208,554,155	₱551,321,126
Plan assets	**433,325,653**	430,319,438	291,831,385
Deficit	**₱463,597,030**	₱778,234,717	₱259,489,741

Notes to Consolidated Financial Statements

	2007	2006	2005
Experience adjustments on:			
Plan obligation	(₱220,551,925)	₱28,704,737	₱14,169,100
Plan assets	2,211,130	103,583,944	2,955,900

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.

The contributions made to the scheme and recognized as retirement expense amounted to ₱180.8 million, ₱57.3 million and ₱56.8 million in 2007, 2006 and 2005, respectively.

27. Stock Option Plans

Tandem Stock Purchase and Option Plans

On January 1, 2002, the SEC approved the Parent Company's Stock Purchase and Option Plan II (Plan II). Under Plan II, 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 II. 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.

A total of 12,651,052 shares have been subscribed and fully paid by December 31, 2004 by the employee participants under the Purchase portion of Plan II. 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. One-third of the shares available for the Option portion will end its vesting period each year starting January 28, 2005 until January 30, 2007. Thus, the maximum option shares exercisable each year from January 28, 2005 until January 30, 2007 is one-third of the shares available for the Option portion. The unexercised option shares will expire on January 30, 2008.

The movements in the number of stock option for Plan II in 2007 and 2006 follow:

	Number of Shares	
	2007	2006
Balance at beginning of year	13,469,891	19,129,811
Options exercised during the year	(7,394,604)	(5,642,222)
Options of resigned employees	(3,283)	(17,698)
	6,072,004	13,469,891

The number of option shares exercisable as of December 31, 2007 and 2006 is 6,072,004 and 10,261,256, respectively. The option shares available are divided into three tranches. Tranche 1 has an exercise price of ₱10.00 a share, ₱12.00 a share for Tranche 2 and ₱15.75 a share for Tranche 3. The options that were exercised in 2007 and 2006 are as follows:

	Tranche 1	Tranche 2	Tranche 3	Total
2007	5,679,315	1,480,248	235,041	7,394,604
2006	4,612,107	881,999	148,116	5,642,222

The weighted average share price of options exercised was ₱10.58.

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 28, 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.

The movements in 2007 and 2006 in the number of stock options outstanding for the 1st, 2nd and 3rd MSOP cycles follow:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle	Total
Balance at December 31, 2005	2,289,235	2,577,000	–	4,866,235
Options granted during the year	–	–	2,556,000	2,556,000
Options exercised during the year	(214,574)	(143,769)	–	(358,343)
Balance at December 31, 2006	**2,074,661**	**2,433,231**	**2,556,000**	**7,063,892**
Option exercised during the year	**(299,032)**	**(362,504)**	**(286,145)**	**(947,681)**
Balance at December 31, 2007	**1,775,629**	**2,070,727**	**2,269,855**	**6,116,211**

The weighted average share price of options exercised was ₱26.59.

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%	1.7%
Expected volatility	36.9%	36.9%	36.9%
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

On July 1, 2007, the Compensation Committee of the Parent Company granted 22,750,000 options under ELTIP to eligible participants. The options will vest at the rate of one-third of the total options granted on each anniversary of the ELTIP grant date. Vested ELTIP may be exercised starting July 1, 2007 and will expire on June 30, 2012.

The movements in 2007 in the number of outstanding stock options follow:

Options granted during the year	22,750,000
Options exercised during the year	(1,479,168)
Balance at December 31, 2007	21,270,832

The fair value as at the date of grant of the share options under ELTIP 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, 2007 are shown below:

Dividend yield	1.7%
Expected volatility	36.9%
Risk-free interest rate	6.2%
Expected life of the option	5 years
Stock price on grant date	₱24.00
Exercise price	₱20.00

The cost of the stock options charged to operations under "General and administrative expenses - personnel costs" account amounted to ₱85.9 million, ₱40.0 million and ₱32.4 million in 2007, 2006 and 2005, respectively.

28. 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. The outstanding balance of the advances amounted to ₱80.7 million as of December 31, 2005 (see Note 11). 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 10).

Notes to Consolidated Financial Statements

Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Salaries and short-term benefits	**₱295,501,721**	₱220,798,970	₱193,546,563
Retirement expense from:			
Defined benefit plan	**33,765,090**	13,246,147	18,725,571
Employee car plan and other long-term benefits	**14,033,389**	12,092,466	10,913,835
Stock options expense	**84,895,128**	32,008,199	26,125,929
	₱428,195,328	₱278,145,782	₱249,311,898

29. **Earnings Per Share Computation**

Basic and diluted EPS are computed as follows:

	2007	2006	2005
(a) Net income attributable to the equity holders of the Parent	**₱2,386,722,219**	₱2,156,618,463	₱1,674,629,286
(b) Weighted average number of shares - basic	**1,009,526,325**	997,857,977	992,870,323
Weighted average number of shares exercisable under the stock option plan	**14,985,242**	6,763,355	2,763,818
Weighted average number of shares that would have been purchased at fair market value	**(5,113,222)**	(2,593,210)	(1,064,476)
(c) Adjusted weighted average shares – diluted	**1,019,398,345**	1,002,028,122	994,569,665
Earnings per share:			
Basic (a/b)	**₱2.364**	₱2.161	₱1.687
Diluted (a/c)	**2.341**	2.152	1.684

30. **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. The 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 ₱2.3 billion, ₱2.1 billion and ₱1.8 billion in 2007, 2006 and 2005, respectively.

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

	2007	2006
Within one year	**₱638,552,582**	₱639,917,261
After one year but not more than five years	**2,942,218,031**	2,789,507,430
More than five years	**2,861,963,964**	2,471,980,933
	₱6,442,734,577	₱5,901,405,624

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 ₱2,391.0 million, ₱2,137.2 million and ₱1,782.3 million in 2007, 2006 and 2005, 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 ₱101.6 million, ₱38.7 million and ₱17.6 million in 2007, 2006 and 2005, respectively.

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

	2007	2006
Within one year	**₱30,203,165**	₱36,987,263
After one year but not more than five years	**71,791,612**	181,635,023
More than five years	**29,583,522**	74,039,023
	₱131,578,299	₱292,661,309

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 ₱96.3 million, ₱88.1 million and ₱72.0 million in 2007, 2006 and 2005, 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.

31. **Financial Risk Management Objectives and Policies**

The Jollibee Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Jollibee Group's risk management policies focus on actively securing the Jollibee Group's short-term to medium-term cash flows by minimizing the exposure to financial markets. The Jollibee Group does not actively engage in trading of financial assets for speculative purposes.

The Jollibee Group's principal instruments are cash and cash equivalents and long-term debt. The main purpose of these financial instruments is to raise financing for the Jollibee Group's operations. The Jollibee Group has various other financial assets and liabilities such as receivables, employee car plan, refundable deposits, receivable from Meralco, AFS investments and trade payable and other current liabilities.

The main risks arising from the Jollibee Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The Jollibee Group's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Foreign Currency Risk

The Jollibee Group's exposure to foreign currency risk arises as the Parent Company has investments outside of the Philippines, which are mainly in the PRC and in the USA. While the foreign business has been rapidly growing, the net assets of foreign business accounts for only 9.9% of the consolidated net assets of the Jollibee Group as of December 31, 2007. Therefore, the total exposure to foreign exchange risk of the Jollibee Group is still not significant.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from the cash in banks, short-term deposits and receivables in foreign currencies.

To manage its foreign exchange risk, the Jollibee Group normally buys forward foreign currency contracts representing 50% of its payables in foreign currency arising mainly from importation of raw materials and equipment. Thus, the movements in foreign exchange rates basically have minimal impact on its short-term transactions. The Jollibee Group did not engage in any forward currency contracts in 2007 and 2006, a period of appreciating value of the Philippine peso relative to the US dollar and many other foreign currencies.

The following table shows the Jollibee Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2007:

	Philippine Operations		Foreign Operations		
	USD	PHP	RMB	USD	PHP
Assets					
Cash and cash equivalents	2,300,079	94,947,272	33,710,323	4,845,537	390,750,027
Receivables	2,612,794	107,856,151	8,538,092	1,636,702	115,869,893
	4,912,873	202,803,423	42,248,415	6,482,239	506,619,920
Less payables	(65,262)	(2,693,997)	(97,272,932)	(21,982,230)	(1,457,780,976)
	4,847,611	200,109,426	(55,024,517)	(15,499,991)	(951,161,056)

The Jollibee Group has recognized in its consolidated statements of income foreign exchange gain of ₱25.0 million, ₱12.7 million and ₱18.0 million on its net foreign currency-denominated assets and liabilities for the years ended December 31, 2007, 2006 and 2005, respectively. This resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to	
	RMB	US Dollar
December 31, 2006	6.29	49.03
December 31, 2007	5.66	41.28

The following table demonstrates the sensitivity to a reasonably possible change in US dollar to Philippine peso exchange rate, with all other variables held constant, of the Jollibee Group's cumulative translation adjustments of subsidiaries and equity after income tax as of December 31, 2007 and income before income tax for the year then ended (due to changes in the fair value of monetary assets and liabilities).

		Effect on	
Increase (Decrease) in ₱ to		Income Before Income Tax	Stockholders' Equity
USD			
	₱1.50	₱7,271,418	(₱23,250,121)
	(1.50)	(7,271,418)	23,250,121
	1.00	4,847,612	(15,509,081)
	(1.00)	(4,847,612)	15,509,081
RMB			
	₱0.95	₱–	(₱51,998,169)
	(0.95)	–	51,998,169
	0.63	–	(34,665,446)
	(0.63)	–	34,665,446

The impact on the Jollibee Group's consolidated statements of changes in stockholders' equity already excludes the impact on the transactions affecting the consolidated statements of income.

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.

Notes to Consolidated Financial Statements

Credit Quality. The table below shows the credit quality by class of financial assets, based on the Jollibee Group's credit rating system.

	Total	Neither Past Due nor Impaired A	B	C	Past Due or Impaired
			(In Millions)		
Cash and cash equivalents	₱5,576.9	₱5,576.9	₱–	₱–	₱–
Receivables	2,025.1	1,064.3	118.1	10.7	832.0
Other noncurrent assets –					
Noncurrent portion of:					
Refundable deposits	504.6	504.6	–	–	–
Employee car plan	71.0	71.0	–	–	–
Receivable from Meralco	17.1	17.1	–	–	–
AFS investments:					
Shares of stock	39.6	39.6	–	–	–
Club shares	6.6	6.6	–	–	–
	₱8,240.9	₱7,280.1	₱118.1	₱10.7	₱832.0

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

A - For counterparty who is not expected by the Jollibee Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes banks, related parties and customers who pay on or before due date.

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

C - For counterparty who consistently defaults in settling its obligation and may be or actually referred to legal and/or subjected to cash before delivery (CBD) scheme. Under this scheme, the customer's credit line is suspended and all subsequent orders are paid in cash before delivery. The CBD status will only be lifted upon full settlement of the receivables and approval of management. Thereafter, the regular credit term and normal billing and collection processes will resume.

The aging analysis of receivables as of December 31, 2007 is as follows:

	Total	**Neither Past Due nor Impaired**	**Past Due but not Impaired (Age in Days) 1-30**	**31-60**	**61-120**	**Over 120**	**Impaired**
			(In Millions)				
Trade	1,901.0	₱1,069.0	₱253.7	₱109.3	₱188.2	₱198.2	₱82.6
Advances to officers and employees	66.9	66.9	–	–	–	–	–
Current portion of:							
Employee car plan	36.9	36.9	–	–	–	–	–
Receivable from Meralco	11.0	11.0	–	–	–	–	–
Others	9.3	9.3	–	–	–	–	–
Total	₱2,025.1	₱1,193.1	₱253.7	₱109.3	₱188.2	₱198.2	₱82.6

Credit Risk Exposure and Concentration. The table below shows the maximum exposure to credit risk of the Jollibee Group per business segment as of December 31, 2007, without considering the effects of collaterals and other credit risk mitigation techniques.

	Amount
Cash and cash equivalents	₱5,575,943,093
Receivables	1,942,450,718
Other noncurrent assets -	
Noncurrent portion of:	
Refundable deposits	504,555,973
Employee car plan	70,993,342
Receivable from Meralco	17,134,633
AFS investments:	
Shares of stock	39,554,343
Club shares	6,610,000
	₱8,157,242,102

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.

The Jollibee Group has no significant concentration of credit risk with counterparty since it has short credit terms to franchisees, which it implements consistently. In addition, the Jollibee Group's franchisee profile is such that no single franchisee accounts for more than 5% of the total systemwide sales of the Jollibee Group.

With respect to credit risk arising from financial assets of Jollibee Group, which comprise cash and cash equivalents, short-term investments, AFS investments and certain derivative instruments, 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. The Jollibee Group's credit risk on its financial assets is not significant since its financial assets are in fixed income investments in stable and reputable banks. There are no indications whatsoever that any of its investments in financial instruments is at risk of default or impairment in value.

Interest Rate Risk

The Jollibee Group's exposure to 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. Thus, the reasonably possible change in interest rates will have no impact on the Jollibee Group's consolidated statements of income.

The following table sets out the carrying amount, by maturity, of the Jollibee Group's financial instruments that are exposed to interest rate risk as of December 31, 2007:

	Fixed Interest Rate	Within 1 year	2-3 years	4-5 years	Total
Peso-denominated:					
Loan 1	9% and 11.75%	₱8,181,819	₱–	₱–	₱8,181,819
Loan 2	9.75%	2,727,270	–	–	2,727,270
US dollar-denominated:					
Loan 4	6.50%	17,362,908	38,365,092	–	55,728,000
Loan 5	6.50%	12,277,922	29,460,501	35,032,715	76,771,138
		₱40,549,919	₱67,825,593	₱35,032,715	₱143,408,227

Liquidity Risk

Jollibee Group's exposure to liquidity risk refers to the risk that its financial liabilities are not serviced in a timely manner and that its working capital requirements and planned capital expenditures are not met. To manage this exposure and to ensure sufficient liquidity levels, the Jollibee Group closely monitors its cash flows to be able to finance its capital expenditures and to pay its obligations, as and when they fall due.

On a weekly basis, the Jollibee Group's Cash and Banking Team monitors its collections, expenditures and any excess/deficiency in the working capital requirements, by preparing cash position reports that present actual and projected cash flows for the subsequent week. Cash outflows resulting from major expenditures are planned so that money market placements are available in time with the planned major expenditure. In addition, the Jollibee Group has short-term cash deposits and has available credit lines with accredited banking institutions, in case there is a sudden deficiency. The Jollibee Group maintains a level of cash and cash equivalents deemed sufficient to finance the operations.

No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and 2006.

The table below summarizes the maturity profile of the Jollibee Group's financial liabilities as of December 31, 2007 based on the contractual undiscounted payments:

	On demand	Within 1 year	2-3 years	4-5 years	Total
Trade payables and other current liabilities*	₱739,489,465	₱5,796,449,584	₱–	₱–	₱6,535,939,049
Long-term debt (including current portion)	–	49,697,910	77,103,321	37,552,891	164,354,122
	₱739,489,465	₱5,846,147,494	₱77,103,321	₱37,552,891	₱6,700,293,171

** Excluding output VAT, local and other taxes and other liabilities to government agencies.*

Capital Management

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

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing about 1/3 of its consolidated net income, a ratio that would still leave some additional cash for future acquisitions. If needed, the Jollibee Group would borrow money for acquisitions of new businesses.

The Jollibee Group's policy is to limit its debt to equity ratio at a maximum of 60:40. As of December 31, 2007, the Jollibee Group's total stockholders' equity represents 58% of the total assets, while its debt to creditors represents only 42% of the total assets. In addition, it has a total cash balance representing 25% of total assets.

As of December 31, 2007 and 2006, the Jollibee Group's ratio of debt to total capital and ratio of net debt to total capital are as follows:

Debt to total capital

	2007	2006
Total debt (a)	**₱9,296,664,505**	₱8,306,563,566
Total equity attributable to equity holders of the Parent	**12,642,928,847**	11,232,762,302
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱21,939,593,352**	₱19,539,325,868
Debt to equity ratio (a/b)	**42%**	43%

Net debt to total capital

	2007	2006
Total debt	**₱9,296,664,505**	₱8,306,563,566
Less cash and cash equivalents and short-term deposits	**5,575,943,093**	4,452,443,798
Net debt (a)	**3,720,721,412**	3,854,119,768
Total equity attributable to equity holders of the Parent	**12,642,928,847**	11,232,762,302
Total net debt and equity attributable to equity holders of the Parent (b)	**₱16,363,650,259**	₱15,086,882,070
Net debt to equity ratio (a/b)	**23%**	26%

Notes to Consolidated Financial Statements

32. **Fair Value of Financial Assets and Liabilities**

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities by category and by class as of December 31, 2007 and 2006. There are no material unrecognized financial assets and liabilities as of December 31, 2007.

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial Assets at FVPL -				
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheets)	**₱–**	**₱–**	₱65,170,320	₱65,170,320
Loans and Receivables:				
Cash and cash equivalents	**5,575,943,093**	**5,575,943,093**	4,221,510,834	4,221,510,834
Short-term investments	**–**	**–**	230,932,964	230,932,964
Receivables	**1,942,450,718**	**1,942,450,718**	1,638,383,534	1,638,383,534
Other noncurrent assets –				
Noncurrent portion of:				
Refundable deposits	**504,555,973**	**512,967,595**	407,244,554	437,151,977
Employee car plan	**70,993,342**	**72,384,757**	52,167,754	58,625,480
Receivable from Meralco	**17,134,633**	**18,992,548**	28,678,990	31,056,517
	8,111,077,759	**8,122,738,711**	6,578,918,630	6,617,661,306
AFS Investments:				
Shares of stock	**39,554,343**	**39,554,343**	10,396,219	10,396,219
Club shares	**6,610,000**	**6,610,000**	4,950,000	4,950,000
	46,164,343	**46,164,343**	15,346,219	15,346,219
	₱8,157,242,102	**₱8,168,903,054**	₱6,659,435,169	₱6,698,177,845
Other Financial Liabilities				
Trade payables and other current liabilities*	**₱6,535,939,049**	**₱6,535,939,049**	₱6,400,700,875	₱6,400,700,875
Long-term debt (including current portion)	**143,408,227**	**128,684,746**	107,089,499	104,617,000
Liability for acquisition of a business	**–**	**–**	307,879,286	322,958,000
	₱6,679,347,276	**₱6,664,623,795**	₱6,815,669,660	₱6,828,275,875

**Excluding output VAT, local and other taxes and other liabilities to government agencies.*

Financial instruments whose carrying amounts approximate fair value. Management has determined that the carrying amounts of cash and cash equivalents, receivables and trade payables and other current liabilities reasonably approximate their fair values because of their short-term maturities.

Financial instruments carried at other than fair value. Management has determined that the estimated fair value of refundable deposits, employee car plan, receivable from Meralco, long-term debt and liability for acquisition of a business are based on the discounted value of future cash flows using applicable rates, as follows:

	2007	2006
Receivable from Meralco	**7%–8%**	5%–6%
Employee car plan	**4%–6%**	5%–6%
Refundable deposits	**5%–8%**	5%–8%
Long-term debt	**5%–6%**	5%–6%
Liability for acquisition of a business	**–**	5%–6%

AFS Investments. The fair value of investments that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of business at balance sheet date.

Bifurcated Embedded Currency Forward

The Jollibee Group's derivative relates to the embedded currency forward or a foreign exchange adjustment provision in its acquisition of Red Ribbon (see Note 10) on the balance purchase price amounting to ₱0.5 billion. These currency forwards have various maturity dates up to October 27, 2008 but the Parent Company opted to early settle the liability on September 27, 2007. The fair value of the embedded derivative amounted to ₱86.6 million and ₱65.2 million as of September 27, 2007 and December 31, 2006, respectively. Marked-to-market gain on embedded derivative, recognized under "Other income" account in the consolidated statements of income, amounted to ₱21.4 million and ₱59.8 million in 2007 and 2006, respectively.

The movements in "Derivative asset" account are as follows:

	2007	2006
Balance at beginning of year	**₱65,170,320**	₱26,547,078
Add fair value changes	**21,456,517**	59,789,200
	86,626,837	86,336,278
Less amount realized upon settlement	**(86,626,837)**	(21,165,958)
	₱–	₱65,170,320

33. **Events After Balance Sheet Date**

Business Acquisition

The planned acquisition of Hongzhuangyuan, a restaurant chain based in PRC, has been proceeding as planned. Based on the financial reports and progress of legal work in that business, there is a strong likelihood that the acquisition will proceed toward completion in 2008.

Dividend Declaration

The Board of Directors of the Parent Company approved on April 14, 2008 a cash dividend of ₱0.36 per share of common stock to all stockholders of record as of May 2, 2008. This will be distributed on May 28, 2008. This cash dividend is 5.9% higher than that declared in the same period last year.

Investor Information

Company Headquarters

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Ortigas Center, Pasig City, Philippines
Telephone: (632) 634-1111
Facsimile: (632) 633-9504
Website: www.jollibee.com.ph

Common Stock

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

Annual Stockholder's Meeting

The 2008 Stockholder's Meeting will be held on June 27, 2008 at 2:00 P.M., (registration starts at 1:00 P.M.) Friday at the Philippine Stock Exchange Center Auditorium, Ground Floor, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

Stockholder Inquiries

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

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

SEC Form 17-A

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

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