

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2003 and 2002
and Years Ended December 31, 2003, 2002 and 2001

and

Report of Independent Auditors

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

Mr. Ysmael Baysa

(Contact Person)

634-1111

(Company Telephone Number)

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Month Day
(Fiscal Year)

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(Form Type)

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Month Day
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings
₱510,000,000
Domestic Foreign

To be accomplished by SEC Personnel concerned

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Jollibee Foods Corporation and Subsidiaries (the Group) as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jollibee Foods Corporation and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.



G. J. SAN PEDRO
Partner
CPA Certificate No. 32614
SEC Accreditation No. 0094-A
Tax Identification No. 102-096-610
PTR No. 7012882
January 5, 2004
Makati City

March 22, 2004



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱2,788,514,243	₱2,297,887,999
Receivables (Note 5)	879,547,140	864,927,511
Inventories (Note 6)	880,984,892	818,342,097
Deferred tax assets (Note 20)	2,003,065	6,952,116
Prepaid expenses and other current assets (Note 7)	821,533,925	1,076,722,102
Total Current Assets	5,372,583,265	5,064,831,825
Noncurrent Assets		
Interest in and advances to a joint venture (Notes 9, 24 and 27)	54,179,683	69,050,140
Investment properties (Note 10)	72,443,077	91,443,077
Property, plant and equipment (Notes 7, 11, 13 and 26)	5,782,210,909	4,887,341,447
Deferred tax assets (Note 20)	389,848,233	165,988,526
Other noncurrent assets (Note 12)	979,992,552	928,109,074
Total Noncurrent Assets	7,278,674,454	6,141,932,264
	₱12,651,257,719	₱11,206,764,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade payables	₱1,701,210,008	₱1,510,982,412
Accrued expenses (Notes 14, 22 and 26)	1,964,880,205	1,510,530,689
Current portion of long-term debt (Note 16)	226,666,667	226,666,667
Current portion of provisions (Note 13)	17,000,000	5,500,000
Other current liabilities (Note 15)	433,436,923	498,196,699
Total Current Liabilities	4,343,193,803	3,751,876,467
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	283,333,333	510,000,000
Provisions - net of current portion (Note 13)	90,433,000	20,000,000
Other noncurrent liabilities	57,827,369	20,604,180
Total Noncurrent Liabilities	431,593,702	550,604,180
Minority Interests		
	187,487,107	179,647,405
Stockholders' Equity		
Capital stock (Notes 17 and 23)	1,032,928,362	1,030,081,688
Subscriptions receivable	(72,351,160)	(97,303,721)
Additional paid-in capital	1,833,141,842	1,788,889,996
Share in cumulative translation adjustments of subsidiaries	207,736,533	190,492,509
Retained earnings (Note 17)	5,298,507,799	4,386,731,055
	8,299,963,376	7,298,891,527
Less treasury shares (Notes 17 and 23)	610,980,269	574,255,490
Total Stockholders' Equity	7,688,983,107	6,724,636,037
	₱12,651,257,719	₱11,206,764,089

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2003	2002	2001
REVENUES			
Net sales	₱19,970,375,920	₱18,774,292,493	₱17,446,126,352
Royalty, franchise fees and others - net (Note 18)	1,679,014,889	1,476,833,027	1,320,533,439
	21,649,390,809	20,251,125,520	18,766,659,791
COST OF SALES (Notes 19 and 22)	17,369,986,630	16,325,319,099	15,480,178,021
GROSS PROFIT	4,279,404,179	3,925,806,421	3,286,481,770
OPERATING INCOME (EXPENSES)			
General and administrative (Notes 19 and 22)	(1,958,362,478)	(1,715,934,805)	(1,681,770,948)
Advertising and promotion (Note 18)	(799,297,120)	(683,252,041)	(516,341,943)
Provisions for:			
Impairment in value of property, plant and equipment due to restructuring (Notes 11 and 13)	(97,028,695)	-	-
Restructuring costs (Note 13)	(75,983,000)	-	-
Impairment in value of nonoperating assets and investment properties (Notes 11 and 13)	(32,899,020)	(53,184,345)	(362,182,558)
Legal claims (Note 13)	(11,450,000)	(5,000,000)	(10,000,000)
Other operating income - net	88,267,343	18,638,639	46,941,947
INCOME FROM OPERATIONS	1,392,651,209	1,487,073,869	763,128,268
FINANCE INCOME (CHARGES)			
Interest income	129,509,729	63,289,019	45,676,771
Interest expense	(56,813,534)	(87,648,781)	(78,308,850)
EQUITY IN NET LOSS OF A JOINT VENTURE (Note 9)	(23,004,509)	(14,994,953)	(1,643,152)
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS	1,442,342,895	1,447,719,154	728,853,037
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 20 and 21)			
Current	397,216,896	373,755,325	314,272,098
Deferred	(218,910,656)	40,930,742	(35,507,033)
	178,306,240	414,686,067	278,765,065
INCOME BEFORE MINORITY INTERESTS	1,264,036,655	1,033,033,087	450,087,972
MINORITY INTERESTS	(7,839,702)	6,323,987	36,305,301
NET INCOME	₱1,256,196,953	₱1,039,357,074	₱486,393,273
Earnings Per Share (Note 25)			
Basic	₱1.2691	₱1.0670	₱0.5015
Diluted	1.2638	1.0628	0.5010

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2003	2002	2001
CAPITAL STOCK (Notes 17 and 23)			
Issued and subscribed:			
Balance at beginning of year	₱1,030,081,688	₱1,017,238,784	₱1,017,217,451
Subscriptions and issuances	2,846,674	12,842,904	21,333
Balance at end of year	1,032,928,362	1,030,081,688	1,017,238,784
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	(97,303,721)	–	(16,942,492)
New subscriptions	(25,311,996)	(97,303,721)	–
Collections	50,264,557	–	16,942,492
Balance at end of year	(72,351,160)	(97,303,721)	–
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	1,788,889,996	1,656,967,805	1,656,967,805
Premium on new issuances, subscriptions and treasury shares	44,251,846	131,922,191	–
Balance at end of year	1,833,141,842	1,788,889,996	1,656,967,805
SHARE IN CUMULATIVE TRANSLATION ADJUSTMENTS OF SUBSIDIARIES			
Balance at beginning of year	190,492,509	85,196,487	(26,022,885)
Share in translation adjustments during the year	17,244,024	105,296,022	111,219,372
Balance at end of year	207,736,533	190,492,509	85,196,487
RETAINED EARNINGS			
Appropriated for future expansion	1,200,000,000	1,200,000,000	1,200,000,000
Unappropriated (Note 17):			
Balance at beginning of year	3,186,731,055	2,420,244,231	2,163,633,450
Cash dividends - ₱0.35 a share in 2003, ₱0.28 a share in 2002 and ₱0.24 a share in 2001	(344,420,209)	(272,870,250)	(229,782,492)
Net income	1,256,196,953	1,039,357,074	486,393,273
Balance at end of year	4,098,507,799	3,186,731,055	2,420,244,231
	5,298,507,799	4,386,731,055	3,620,244,231
TREASURY SHARES (Notes 17 and 23)			
Balance at beginning of year	(574,255,490)	(703,962,598)	(290,619,607)
Acquisitions	(136,425,205)	–	(614,619,023)
Reissuance	99,700,426	129,707,108	201,276,032
Balance at end of year	(610,980,269)	(574,255,490)	(703,962,598)
	₱7,688,983,107	₱6,724,636,037	₱5,675,684,709

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interests	₱1,442,342,895	₱1,447,719,154	₱728,853,037
Adjustments for:			
Depreciation and amortization	980,008,172	900,469,994	808,228,939
Loss on disposals and retirement of property and equipment (Note 11)	184,696,128	22,790,473	91,755
Interest income	(129,509,729)	(63,289,019)	(45,676,771)
Provisions for:			
Impairment in value of property, plant and equipment due to restructuring (Notes 11 and 13)	97,028,695	-	-
Restructuring costs (Note 13)	75,983,000	-	-
Impairment in value of nonoperating assets and investment properties (Notes 11 and 13)	32,899,020	53,184,345	362,182,558
Legal claims (Note 13)	11,450,000	5,000,000	10,000,000
Interest expense	56,813,534	87,648,781	78,308,850
Equity in net loss of a joint venture	23,004,509	14,994,953	1,643,152
Loss on write-off of nonoperating assets	-	12,015,739	4,558,933
Operating income before working capital changes	2,774,716,224	2,480,534,420	1,948,190,453
Decrease (increase) in:			
Receivables	(14,619,629)	(31,682,125)	(21,493,699)
Inventories	(62,642,795)	251,152,967	(191,227,142)
Prepaid expenses and other current assets	255,188,177	93,097,471	(246,691,958)
Increase (decrease) in:			
Trade payables	190,227,596	344,682,063	(85,012,280)
Accrued expenses	492,049,378	33,914,151	170,666,134
Provisions	(5,500,000)	-	-
Other current liabilities	(122,934,236)	(54,961,840)	51,912,959
Cash generated from operations	3,506,484,715	3,116,737,107	1,626,344,467
Income taxes paid	(399,534,193)	(320,180,263)	(369,166,312)
Net cash provided by operating activities	3,106,950,522	2,796,556,844	1,257,178,155
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(2,011,102,142)	(1,612,554,479)	(1,903,442,280)
Increase in other noncurrent assets	(294,870,800)	(45,910,504)	126,686,034
Interest received	129,509,729	63,005,656	45,479,934
Proceeds from disposal of property and equipment	91,906,018	61,195,527	943,340
Net cash used in investing activities	(2,084,557,195)	(1,534,263,800)	(1,730,332,972)

(Forward)



	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	(₱321,558,314)	(₱252,265,022)	(₱220,196,067)
Long-term debt	(226,666,667)	(113,333,333)	-
Acquisition of treasury shares	(136,425,205)	-	(614,619,023)
Proceeds from:			
Issuances of warrants and treasury shares	99,700,426	129,707,108	201,276,032
Availment of long-term debt	-	-	850,000,000
Issuance of and subscriptions to capital stock	72,051,081	47,461,374	19,786,422
Interest paid	(56,883,534)	(87,648,781)	(78,308,850)
Increase in other noncurrent liabilities	37,223,189	1,477,492	13,666,539
Increase in minority interest	-	86,963,526	130,525,987
Net cash provided by (used in) financing activities	(532,559,024)	(187,637,636)	302,131,040
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	791,941	65,519,638	111,219,372
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	490,626,244	1,140,175,046	(59,804,405)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	2,297,887,999	1,157,712,953	1,217,517,358
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	₱2,788,514,243	₱2,297,887,999	₱1,157,712,953

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The total number of the Group’s employees was 5,648, 5,496 and 5,330 as of December 31, 2003, 2002 and 2001, respectively. The registered office address of the Parent Company is 9th Floor, Jollibee Plaza Building, No. 10 Emerald Avenue, Ortigas Centre, Pasig City.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on March 22, 2004.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Adoption of New Statements of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS)

The Group adopted the following SFAS/IAS, which became effective on January 1, 2003:

- SFAS 10/IAS 10, “Events After the Balance Sheet Date,” prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the consolidated financial statements, principally the date of authorization for release of the consolidated financial statements.
- SFAS 22/IAS 22 “Business Combinations,” requires that an acquisition where an acquirer can be identified should be accounted for by the purchase method. Any goodwill arising from the acquisition should be amortized generally over 20 years. The adoption of the standard did not result in restatement of prior years’ consolidated financial statements.
- SFAS 37/IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. The adoption of the standard has no effect on the Group’s recorded provisions. Additional disclosures required by the standard, principally the change in the provisions for the year, were included in the consolidated financial statements.



New Accounting Standards Effective Subsequent to 2003

The Accounting Standards Council has approved the following accounting standards which will be effective subsequent to 2003:

- SFAS 12/IAS 12, "Income Taxes," prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.
- SFAS 17/IAS 17, "Leases," prescribes the accounting policies and disclosures to apply to finance and operating leases. It requires the recognition of operating lease expense on a straight-line basis.
- SFAS 21/IAS 21, "The Effects of Changes in Foreign Exchange Rates," provides restrictions on the capitalization of foreign exchange losses.

The Group will adopt SFAS 12/IAS 12 and SFAS 17/IAS 17 in 2004 and SFAS 21/IAS 21 in 2005. The Group has not yet determined the financial impact of the adoption of the new standards.

Basis of Consolidation

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

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

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

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

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.

Receivables

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



Inventories

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

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

Net realizable value of food supplies, novelty items and processed inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of packaging, store and other supplies is the current replacement cost.

Interest in a Joint Venture

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to current operations.



Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

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

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

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

Impairment of Assets

The carrying values of property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss, if any, is recognized in the consolidated statements of income.

Investment Properties

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

Nonoperating Assets

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

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 stockholders' equity. Upon issuance or resale of the treasury shares, treasury shares account is credited for the cost of the treasury shares. Cost is determined using the simple average method. Gains on sale are credited to additional paid-in



capital. Losses are charged against additional paid-in capital but only to the extent of previous gains from original issuance, sale or retirement for the same class of stock; otherwise, losses are charged to retained earnings.

Provisions

Starting 2003, provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at balance sheet date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

Revenue

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

- Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the customers.
- Revenue from royalty fees are recognized as the royalty accrues based on certain percentages of the franchisees' net sales.
- Revenue from franchise fees is recognized when all services or conditions relating to the transaction have been substantially performed.
- Dividend income is recognized when the Group's right to receive the payment is established.
- Rental income is accounted for based on the terms of the lease agreements.
- Interest revenue is recognized as the interest accrues.

Income Tax

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases, the carryforward benefits of the net operating loss carryover (NOLCO) and the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the year in which those temporary differences are expected to be recovered or settled, and the carryforward benefits of the NOLCO and MCIT are expected to be applied. A valuation allowance is provided for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized in the future.



Retirement Costs

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

Foreign Currency Translation

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

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

Borrowing Costs

Borrowing costs are expensed as incurred.

Research Costs

Research costs are expensed as incurred.

Stock Option Plan

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

Operating Lease

Operating lease payments are recognized as expense in the consolidated statements of income based on the terms of the lease agreements.

Earnings Per Share

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



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

Contingencies

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

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

Subsequent Events

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

3. **Segment Information**

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

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

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



Business Segments

The following tables present revenues and expense information and certain asset and liability information regarding the different business segments as of and for the years ended December 31, 2003, 2002 and 2001:

As of and for the Year Ended December 31, 2003					
	Food Service	Franchising	Real Estate	Eliminations	Total
	<i>(In Thousands)</i>				
Results of Operations					
Revenues from external customers	P19,968,134	P1,601,173	P80,084	P-	P21,649,391
Inter-segment revenues	1,359,453	97,702	88,688	(1,545,843)	-
Segment revenue	21,327,587	1,698,875	168,772	(1,545,843)	21,649,391
Segment expense	(21,563,240)	(5,847)	(166,428)	1,607,870	(20,127,645)
Impairment losses	(110,928)	-	(19,000)	-	(129,928)
Provision for legal claims and restructuring costs	(87,433)	-	-	-	(87,433)
Other segment income	149,980	-	1,417	(63,130)	88,267
Segment result	(P284,034)	P1,693,028	(P15,239)	(P1,103)	1,392,652
Interest income					129,510
Interest expense					(56,814)
Equity in net loss of a joint venture	(P23,005)	-	-	-	(23,005)
Income before income tax and minority interests					1,442,343
Income tax expense					(178,306)
Minority interests					(7,840)
Net income					P1,256,197
Assets and liabilities					
Segment assets	P16,545,262	P98,334	P883,112	(P5,321,481)	P12,205,227
Deferred tax assets					391,851
Interest in and advances to a joint venture	54,180	-	-	-	54,180
Total assets					P12,651,258
Segment liabilities	P6,866,660	P167,097	P432,425	(P3,201,394)	P4,257,021
Long-term debt					510,000
Total liabilities					P4,774,788
Other segment information					
Capital expenditures	P2,006,863	P-	P4,239	P-	P2,011,102
Depreciation and amortization	969,919	-	10,089	-	980,008
Impairment losses	110,928	-	19,000	-	129,928
Other non-cash expenses:					
Provision for legal claims and restructuring costs	87,433	-	-	-	87,433



As of and for the Year Ended December 31, 2002					
	Food Service	Franchising	Real Estate	Eliminations	Total
<i>(In Thousands)</i>					
Results of Operations					
Revenues from external customers	₱18,732,047	₱1,417,043	₱102,035	₱-	₱20,251,125
Inter-segment revenues	1,129,160	101,045	54,273	(1,284,478)	-
Segment revenue	19,861,207	1,518,088	156,308	(1,284,478)	20,251,125
Segment expense	(19,925,375)	(1,460)	(165,937)	1,321,603	(18,771,169)
Impairment losses	(42,467)	-	(10,717)	-	(53,184)
Provision for legal claims	(5,000)	-	-	-	(5,000)
Other segment income	101,967	460	-	(37,125)	65,302
Segment result	(₱9,668)	₱1,517,088	(₱20,346)	₱-	1,487,074
Interest income					63,289
Interest expense					(87,649)
Equity in net loss of a joint venture	(₱14,995)	₱-	₱-	₱-	(14,995)
Income before income tax and minority interests					₱1,447,719
Income tax expense					(414,686)
Minority interests					6,324
Net income					₱1,039,357
Assets and liabilities					
Segment assets	₱13,584,507	₱13,873	₱927,920	(₱3,561,527)	₱10,964,773
Deferred tax assets					172,944
Interest in and advances to a joint venture	69,050	-	-	-	69,050
Total assets					₱11,206,764
Segment liabilities	₱5,254,215	₱30,418	₱431,223	(₱2,150,042)	₱3,565,814
Long-term debt					736,667
Total liabilities					₱4,302,481
Other segment information					
Capital expenditures:					
Tangible fixed assets	₱1,612,554	₱-	₱-	₱-	₱1,612,554
Investment properties	-	-	18	-	18
Depreciation and amortization	890,572	-	9,898	-	900,470
Impairment losses	42,467	-	10,717	-	53,184
Other non-cash expenses:					
Provision for legal claims	5,000	-	-	-	5,000

As of and for the Year Ended December 31, 2001					
	Food Service	Franchising	Real Estate	Eliminations	Total
<i>(In Thousands)</i>					
Results of Operations					
Revenues from external customers	₱17,437,716	₱1,239,379	₱89,565	₱-	₱18,766,660
Inter-segment revenues	1,014,054	88,488	70,062	(1,172,604)	-
Segment revenue	18,451,770	1,327,867	159,627	(1,172,604)	18,766,660
Segment expense	(18,829,032)	(1,960)	(191,455)	1,340,199	(17,682,248)
Impairment losses	(108,033)	-	(254,149)	-	(362,182)
Provisions for legal claims	(10,000)	-	-	-	(10,000)
Other segment income (loss)	63,139	(2)	2,641	(14,880)	50,898
Segment result	(₱432,156)	₱1,325,905	(₱283,336)	₱152,715	763,128
Interest income					45,677
Interest expense					(78,309)
Equity in net loss of a joint venture	(1,643)	-	-	-	(1,643)

(Forward)



As of and for the Year Ended December 31, 2001					
	Food Service	Franchising	Real Estate	Eliminations	Total
<i>(In Thousands)</i>					
Income before income tax and minority interests					728,853
Income tax expense					(278,765)
Minority interests					36,305
Net income					₱486,393
Assets and liabilities					
Segment assets	₱11,666,957	₱8,082	₱984,999	(₱3,187,875)	₱9,472,163
Deferred tax assets					228,803
Interest in and advances to a joint venture	49,994	-	-	-	49,994
Total assets					₱9,750,960
Segment liabilities	₱3,991,254	₱29,353	₱1,235,774	(₱2,130,113)	₱3,126,268
Long-term debt					850,000
Total liabilities					₱3,976,268
Other segment information					
Capital expenditures	₱1,900,527	₱-	₱2,915	₱-	₱1,903,442
Depreciation and amortization	786,302	-	21,927	-	808,229
Impairment losses	108,033	-	254,149	-	362,182
Other non-cash expenses:	14,651	-	-	-	14,651
Provision for legal claims	10,000	-	-	-	10,000

Geographical Segments

The Company operates in the domestic and international markets. Revenues from operations within the Philippines account for 96% of the Company's total revenues in 2003, 2002 and 2001.

4. Cash and Cash Equivalents

	2003	2002
Cash on hand and in banks	₱1,138,241,538	₱1,057,065,761
Short-term deposits	1,650,272,705	1,240,822,238
	₱2,788,514,243	₱2,297,887,999

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

5. Receivables

	2003	2002
Trade receivables	₱923,938,106	₱920,454,897
Others	4,546,737	4,867,789
	928,484,843	925,322,686
Less allowance for doubtful accounts	48,937,703	60,395,175
	₱879,547,140	₱864,927,511



6. Inventories

	2003	2002
Food supplies and processed inventories - at cost	₱606,883,694	₱531,941,568
Packaging, store and other supplies - at cost	223,456,200	215,381,892
Novelty items - at net realizable value	43,992,785	63,135,775
Inventories in transit - at cost	6,652,213	7,882,862
	₱880,984,892	₱818,342,097

7. Prepaid Expenses and Other Current Assets

	2003	2002
Prepaid expenses	₱155,718,920	₱245,077,448
Deposits	133,698,778	98,730,201
Input VAT	130,883,735	28,944,530
Claims receivable	121,153,756	418,983,646
Advances to employees	98,054,425	76,937,431
Other receivables	185,409,671	212,327,235
	824,919,285	1,081,000,491
Less valuation allowance	3,385,360	4,278,389
	₱821,533,925	₱1,076,722,102

Claims receivable represent claims by a subsidiary against an insurance company for losses incurred in connection with a fire that damaged the subsidiary's facilities under construction. The claims were fully settled in 2004.

8. Investments in Subsidiaries

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

	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2003	2002	2001
With operations in the Philippines:					
Chowking Food Corporation (Chowking)	Philippines	Food service	100	100	100
Greenwich Pizza Corporation (Greenwich)	Philippines	Food service	80	80	80
Freemont Foods Corporation (Freemont)	Philippines	Food service	100	100	100
Vismin Foods Corporation (Vismin)	Philippines	Food service	100	100	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	100	100	-
Grandworth Resources Corporation (Grandworth)	Philippines	Leasing	100	100	100

(Forward)



	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2003	2002	2001
Donut Magic Phils., Inc. (Donut Magic) ^(a)	Philippines	Dormant	100	100	100
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(a)	Philippines	Dormant	100	100	100
Mary's Foods Corporation (Mary's) ^(a)	Philippines	Dormant	100	100	100
With operations outside of the Philippines:					
Honeybee Foods Corporation (Honeybee)	USA	Food service	100	-	-
Jollibee International Company Limited (JICL)	Hong Kong	Holding company	100	100	100
Jollibee International (BVI) Ltd. (JIBL)	British Virgin Islands	Holding company	100	100	100
Tokyo Teriyaki Corporation (Tokyo Teriyaki) ^(b)	USA	Food service	90	90	90
Hanover Holdings Limited (Hanover) ^(c)	Hong Kong	Food service	85	85	85
Jollibee (Hong Kong) Limited ^(c)	Hong Kong	Food service	85	85	85
FSC Foods Corporation (FSC) ^(d)	Philippines	Food service	-	100	100
Superior FSC Corporation (Superior FSC) ^(d)	Philippines	Holding company	-	100	100

(a) *In liquidation*

(b) *Indirectly owned through Honeybee in 2003 and Superior in 2002*

(c) *Indirectly owned through JIBL*

(d) *Merged with the Parent Company in 2003*

On October 10, 2003 the Parent Company and wholly-owned subsidiaries, FSC and Superior FSC signed the Articles of Merger with the Parent Company as the surviving entity. Under the terms of the Articles of Merger, the merger shall take effect on December 31, 2003.

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

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

9. Interest in and Advances to a Joint Venture

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



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

	2003	2002
Acquisition cost:		
Balance at beginning of year	P89,846,774	P88,322,000
Additional investment (see Note 27)	-	1,524,774
Balance at end of year	89,846,774	89,846,774
Accumulated equity in net losses:		
Balance at beginning of year	(53,322,924)	(38,327,971)
Equity in net losses during the year	(23,004,509)	(14,994,953)
Balance at end of year	(76,327,433)	(53,322,924)
	13,519,341	36,523,850
Advances (see Note 24)	40,660,342	32,526,290
	P54,179,683	P69,050,140

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

	2003	2002
Current assets	P17,556,463	P21,801,138
Noncurrent assets	45,969,891	57,411,758
Current liabilities	(29,676,842)	(26,425,901)
Noncurrent liabilities	(20,330,171)	(16,263,145)
	P13,519,341	P36,523,850
Revenues	P118,190,773	P113,690,971
Cost of sales	(112,117,558)	(102,157,390)
Operating expenses	(27,232,102)	(25,189,921)
Other charges	(1,466,022)	(855,249)
Loss before income tax	(22,624,909)	(14,511,589)
Provision for income tax	(379,600)	(483,364)
Net loss	(P23,004,509)	(P14,994,953)

10. Investment Properties

	2003	2002
Investment properties at cost	P141,943,077	P141,943,077
Less allowance for impairment in value of investment properties	69,500,000	50,500,000
Investment properties at recoverable value	P72,443,077	P91,443,077

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



11. Property, Plant and Equipment

	2003							2002	
	Land and 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	Total
	(In Thousands)								
Cost									
For Group's use:									
Beginning balance	₱558,333	₱1,325,199	₱2,274,486	₱2,801,941	₱499,840	₱158,597	₱360,060	₱7,978,456	₱7,176,580
Additions	-	374,297	233,316	951,594	46,696	45,230	359,969	2,011,102	1,719,828
Fire loss (see Note 7)	-	-	-	-	-	-	-	-	(419,336)
Disposals	-	(20,245)	(61,225)	(152,322)	(17,919)	(26,446)	(74,770)	(352,927)	(401,179)
Retirements	-	-	(35,440)	(89,269)	(1,048)	(9,462)	(6,740)	(141,959)	(56,145)
Transfers	-	(221)	104,558	41,681	(529)	(7,032)	(129,140)	9,317	(83,037)
CIP transfer from JFC to Zenith	-	7,156	-	310,577	-	-	(317,733)	-	-
Transfers from AR insurance	-	198,691	-	-	-	-	-	198,691	-
Translations	3,082	3,512	7,064	7,277	33	323	-	21,291	41,745
Others	-	-	(17,008)	15,492	(28,121)	143	-	(29,494)	-
Ending balance	561,415	1,888,389	2,505,751	3,886,971	498,952	161,353	191,646	9,694,477	7,978,456
On lease to franchisees:									
Beginning and ending balance	1,431	17,113	12,743	21,053	-	-	-	52,340	52,340
	562,846	1,905,502	2,518,494	3,908,024	498,952	161,353	191,646	9,746,817	8,030,795
Accumulated Depreciation, Amortization and Impairment Loss									
For Group's use:									
Beginning balance	6,028	457,243	911,410	1,453,522	206,718	70,515	-	3,105,436	2,599,997
Depreciation and amortization	81	104,061	251,029	537,362	60,249	26,935	-	979,717	893,155
Disposals	-	(4,697)	(30,839)	(57,762)	(11,733)	(13,187)	-	(118,218)	(317,193)
Retirements	-	-	(27,672)	(65,783)	(1,492)	(5,119)	-	(100,066)	(56,145)
Impairment loss (see Note 13)	-	-	43,092	53,937	-	-	-	97,029	-
Transfers	-	(6,467)	(2,980)	(619)	46	(2,926)	-	(12,946)	(16,347)
Translations	-	1,179	789	1,892	54	924	-	4,838	1,969
Others	-	-	(14,723)	(11,211)	(3,560)	-	-	(29,494)	-
Ending balance	6,109	551,319	1,130,106	1,911,338	250,282	77,142	-	3,926,296	3,105,436
On lease to franchisees:									
Beginning balance	-	16,127	4,352	17,539	-	-	-	38,018	30,704
Depreciation and amortization	-	-	106	186	-	-	-	292	7,314
Ending balance	-	16,127	4,458	17,725	-	-	-	38,310	38,018
	6,109	567,446	1,134,564	1,929,063	250,282	77,142	-	3,964,606	3,143,454
Net book value	₱556,737	₱1,338,056	₱1,383,930	₱1,978,961	₱248,670	₱84,211	₱191,646	₱5,782,211	₱4,887,341

Property, plant and equipment no longer used in operations amounting to ₱20.2 million were reclassified to nonoperating assets (see Note 12) as of December 31, 2002.

Under the terms of agreement covering liabilities under trust receipts, equipment amounting to ₱10,344,439 as of December 31, 2003, have been released to Zenith in trust for the bank. Zenith is accountable to the bank for the trusted inventories or its sales proceeds.



12. Other Noncurrent Assets

	2003	2002
Refundable container and lease deposits	₱592,073,613	₱555,355,084
Nonoperating assets	342,776,066	363,555,091
Notes receivable	180,000,000	187,983,454
Prepaid leases and others (see Note 26)	147,012,750	117,858,592
	1,261,862,429	1,224,752,221
Less allowance for impairment in value of nonoperating assets	281,869,877	296,643,147
	₱979,992,552	₱928,109,074

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

Notes receivable represents the amount receivable from the minority shareholders of Greenwich. The Notes bear interest at prevailing market rates, payable upon declaration of dividends by Greenwich.

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

	2003	2002
Balance at beginning of year	₱296,643,147	₱384,229,536
Additional provision during the year	13,899,020	53,184,345
Write-off of nonoperating assets against allowance	(28,672,290)	(142,884,203)
Reclassifications to investment properties	-	2,113,469
Balance at end of year	₱281,869,877	₱296,643,147

13. Provisions

	2003			2002
	Legal Claims	Restructuring	Total	
Balance at the beginning of year	₱25,500,000	₱-	₱25,500,000	₱20,500,000
Provisions during the year	11,450,000	75,983,000	87,433,000	5,000,000
Payments during the year	(5,500,000)	-	(5,500,000)	-
Balance at the end of year	31,450,000	75,983,000	107,433,000	25,500,000
Less current portion	-	17,000,000	17,000,000	5,500,000
	₱31,450,000	₱58,983,000	₱90,433,000	₱20,000,000



In 2003, the Group started the implementation of a three-year Cost Improvement Program (CIP) to improve the quality of services and reduce the costs of backroom operations for its various QSR systems. The first phase of the CIP is the restructuring of international operations and the setting up of a shared services capability to improve certain common services required by the various QSR systems. The merger of Superior FSC and FSC to the Parent Company, with the Parent Company as the surviving entity (see Note 8), is an implementation of the programmed CIP activities. Discussions have also been initiated with the affected personnel of the international operations. On February 17, 2004, the Group made a public announcement of the planned restructuring activities and the recognition by the Group of restructuring charges against 2003 operations amounting to ₱173 million. Of this amount, the Group recognized a provision for restructuring of ₱76 million for planned payments relating to the implementation of the shared services capability and closure of certain US and Hong Kong stores. The additional provision of ₱97 million pertains to impairment losses on fixed assets of such stores (see Notes 11 and 12) and is shown as part of "Provisions for impairment in value of property, plant and equipment, nonoperating assets and investments properties" account in the 2003 consolidated statements of income.

A summary of restructuring provisions and impairment losses follow:

Provisions for restructuring	₱75,983,000
Impairment in value of property and equipment (see Note 11)	97,028,695
	₱173,011,695

The provisions for claims include estimates of legal services, settlement amounts and other costs on claims made against the Parent Company. Other information on the claims is not disclosed as this may prejudice the Parent Company's position as regards these claims. The Parent Company's management, after consultations with its legal counsel, believes that the provision is sufficient to meet the costs related to the claims. Provisions in 2002 amounting to ₱25.5 million that were previously carried under "Accrued expenses" account in the consolidated balance sheet have been reclassified to conform with the 2003 presentation in accordance with SFAS 37/IAS 37.

14. Accrued Expenses

	2003	2002
Salaries, wages and allowances (see Note 22)	₱652,163,963	₱474,127,550
Accrued purchases	326,200,650	273,536,350
Local and other taxes	266,977,074	235,512,102
Advertising and promotion	176,153,126	89,353,347
Rent (see Note 26)	78,618,104	64,813,777
Retention	40,318,828	15,874,610
Income tax payable	7,766,616	5,449,319
Others	416,681,844	351,863,634
	₱1,964,880,205	₱1,510,530,689



15. Other Current Liabilities

	2003	2002
Dividends payable	₱122,282,209	₱99,420,315
Deposits	109,948,348	104,974,380
Output tax	101,577,769	73,750,937
Nontrade payables	48,422,325	46,164,275
Others	51,206,272	173,886,792
	₱433,436,923	₱498,196,699

16. Long-term Debt

This represents the unsecured loan availed by the Parent Company from Citibank N.A. in the original amount of ₱850 million to finance certain capital expenditures. The loan is payable in 15 consecutive equal quarterly installments starting September 2002 until March 2005. The loan is subject to floating interest rate starting 2002 and is being repriced annually. Interest rate on the loan is 7.75% in 2003, 7.87% in 2002 and 11.91% in 2001.

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

As of December 31, 2003, the Parent Company is in compliance with the terms of the loan agreement.

Repayment schedule of the outstanding long-term debt as of December 31, 2003 is as follows:

Year	Amount
2004	₱226,666,667
2005	283,333,333
	₱510,000,000



17. Stockholders' Equity

a. Capital stock

The details of this account are shown below:

	Number of Shares		
	2003	2002	2001
Authorized - ₱1 par value	1,450,000,000	1,450,000,000	1,450,000,000
Issued:			
Balance at beginning of year	1,017,259,670	1,017,238,784	1,006,822,580
Issuances	1,080,310	20,886	10,416,204
Balance at end of year	1,018,339,980	1,017,259,670	1,017,238,784
Subscribed (see Note 23):			
Balance at beginning of year	12,822,018	–	10,394,871
Subscriptions	2,846,674	12,842,904	21,333
Issuances	(1,080,310)	(20,886)	(10,416,204)
Balance at end of year	14,588,382	12,822,018	–
	1,032,928,362	1,030,081,688	1,017,238,784
In treasury:			
Balance at beginning of year	47,962,590	59,487,997	8,597,587
Acquisitions	8,432,684	–	34,624,149
Issuances	(8,135,400)	(11,525,407)	(639,839)
Converted from warrants	–	–	16,906,100
Balance at end of year	48,259,874	47,962,590	59,487,997

The Parent Company purchases warrants of Queenbee Resources Corporation which are backed by a corresponding number of shares of the Parent Company at the rate of one share for every warrant held. In 2001, all warrants were converted to treasury shares.

b. Retained earnings

Unappropriated retained earnings is net of the accumulated equity in net losses of subsidiaries of ₱673.7 million and ₱592.5 million as of December 31, 2003 and 2002, respectively, and accumulated equity in net losses of a joint venture of ₱76.3 million and ₱53.3 million as of December 31, 2003 and 2002, respectively (see Note 9).

The unappropriated retained earnings account is restricted for the payment of dividends to the extent of ₱611.0 million in 2003 and ₱574.3 million in 2002, representing the cost of shares held in treasury.



18. Royalty and Franchise Fees

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

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

19. Expenses

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

	2003	2002	2001
Depreciation and amortization included in:			
Cost of sales	₱815,494,237	₱757,743,166	₱699,363,460
General and administrative expenses	164,513,935	142,726,828	108,865,479
	₱980,008,172	₱900,469,994	₱808,228,939
Cost of inventories recognized as expense	₱11,362,564,461	₱10,698,019,772	₱10,322,924,735

Staff costs included in the consolidated statements of income follow:

	2003	2002	2001
Included in cost of sales:			
Wages, salaries and benefits	₱2,148,515,297	₱1,991,291,978	₱1,839,324,779
Retirement benefits (see Note 22)	36,226,214	32,324,157	28,210,160
Total	2,184,741,511	2,023,616,135	1,867,534,939
Included in general and administrative expenses:			
Wages, salaries and benefits	885,260,552	711,187,565	532,455,024
Retirement benefits (see Note 22)	38,491,684	17,002,647	14,587,973
	923,752,236	728,190,212	547,042,997
	₱3,108,493,747	₱2,751,806,347	₱2,414,577,936

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

	2003	2002	2001
Included in cost of sales	₱10,066,588	₱9,010,448	₱4,364,154
Included in general and administrative expenses	24,137,864	26,383,483	36,868,560
	₱34,204,452	₱35,393,931	₱41,232,714



20. Income Tax

The components of the Group's current and noncurrent deferred tax assets follow:

	2003	2002
Current deferred tax assets:		
Allowance for doubtful accounts	₱2,846,727	₱4,581,175
Allowance for inventory losses	768,752	3,278,461
Others	-	32,948
	3,615,479	7,892,584
Less valuation allowance	1,612,414	940,468
	₱2,003,065	₱6,952,116
Noncurrent deferred tax assets:		
NOLCO	₱134,461,700	₱151,573,072
Provision for impairment in value of nonoperating assets and investment properties	124,853,893	94,249,497
Provisions	34,378,560	84,225,310
Unamortized preoperating expenses	35,309,623	56,793,487
Accrued retirement and other benefits	63,904,991	31,190,746
MCIT	48,749,111	18,086,061
Unamortized past service costs	7,837,762	638,196
	449,495,640	436,756,369
Less valuation allowance	59,647,407	270,767,843
	₱389,848,233	₱165,988,526

The provision for income tax-current, as shown in the consolidated statements of income, includes the regular income tax or MCIT of the Parent company and certain subsidiaries and final tax withheld on franchise, interest and royalty income.

As of December 31, 2003, NOLCO and MCIT that can be claimed as deductions from taxable income and income tax due, respectively, follow:

Year Incurred/Paid	Carry Forward Benefit Up to	NOLCO	MCIT
December 31, 2000	December 31, 2003	₱156,994,980	₱5,642,211
December 31, 2001	December 31, 2004	120,334,350	5,983,076
December 31, 2002	December 31, 2005	196,336,521	6,460,773
December 31, 2003	December 31, 2006	152,295,953	36,305,262
		625,961,804	54,391,322
Less:			
Applied against regular taxable income in 2003		178,750,458	5,566,952
Expired in 2003		27,018,534	75,259
		205,768,992	5,642,211
		₱420,192,812	₱48,749,111



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

	2003	2002	2001
Provision for income tax at statutory income tax rate (32%)	₱461,878,522	₱463,270,129	₱233,232,971
Income tax effects of reconciling items substantially consisting of royalty and interest income subjected to final withholding tax at a lower rate and others	(73,123,792)	(70,211,348)	(159,967,108)
Change in valuation allowance	(210,448,490)	21,627,286	205,499,202
	₱178,306,240	₱414,686,067	₱278,765,065

21. Registration with the Board of Investments (BOI)

A subsidiary is registered with the BOI as a domestic producer of processed food on a non-pioneer status in accordance with the provisions of the Omnibus Investments Code of 1987. Under the terms of its registration, the subsidiary is entitled to certain tax and non-tax incentives, including among others, income tax holiday (ITH) for a four-year period on processed foods from March 2003 or actual start of commercial operations, whichever is earlier; exemption from wharfage dues and any export tax, duty, impost 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.

The subsidiary did not avail of any tax incentives in 2003 and 2002.

22. Retirement Benefits

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

As of April 1, 2003, the date of the latest actuarial valuation of the Parent Company, the actuarial present value of retirement benefits and unfunded actuarial liability amounted to ₱337.4 million and ₱255.1 million, respectively, while the fair value of the plan assets amounted to ₱82.3 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary increase rate of 10% per year.

As of January 1, 2004, the date of the latest actuarial valuation of Chowking, the actuarial present value of retirement benefits and unfunded actuarial liability amounted to ₱76.8 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 8% and annual salary increase of 8% per year.



As of January 1, 2003, the date of the latest actuarial valuation of Vismin, the actuarial present value of retirement benefits amounted to ₱1.3 million, the fair value of the plan assets amounted to ₱0.1 million and the unfunded actuarial liability amounted to ₱1.2 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary increase of 8% per year.

As of March 1, 2001, the date of the latest actuarial valuation of Greenwich, the actuarial present value of the retirement benefits and the unfunded actuarial liability amounted to ₱4.8 million. The principal actuarial assumptions used in determining the cost of retirement benefits are annual interest rate of 10% and annual salary increase of 8%.

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

Total retirement cost charged to operations amounted to ₱74.7 million in 2003, ₱49.3 million in 2002 and ₱42.8 million in 2001.

23. Tandem Stock Purchase and Option Plan (Plan)

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

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

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

	2003	2002
Number of option shares available:		
Balance at beginning of year	10,466,047	17,180,902
Less: Options exercised during the year	6,047,378	6,650,583
Options absorbed by retirement fund and options of resigned employees	334,004	64,272
Balance at end of year	4,084,665	10,466,047



The options that were exercised in 2003 had an exercise price of ₱12.00 per share on 5,535,646 options, ₱11.75 per share on 319,305 options, and ₱10.65 per share on 192,427 options. The total options exercised during the year amounted to ₱72.2 million. The total fair value of the shares as at the exercise date amounted to ₱102.6 million at ₱16.96 per share.

The aggregate number of share options exercised by the directors and officers of the Group was 1,016,704 in 2003 and 824,441 in 2002. The share options were granted on the same terms and conditions as those offered to other employees of the Group.

On January 1, 2002, the Parent Company adopted Stock Option Plan II (Plan II) which has the same terms and conditions set forth in Plan I. The Option Plan of Plan II will start in January 2005 and will end in December 2007. The number of shares available for future grants is 30,408,352, which will be taken from the Parent Company's treasury shares.

24. Related Party Transactions

The Group has transactions within and among the consolidated entities and with the joint venture. SFAS 24, Related Party Disclosures, defines a related party as an entity that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions between members of the Group and the related balances are eliminated in the consolidation and are no longer included in the disclosures. Transactions with the joint venture consist mainly of intercompany advances. Outstanding balance of the advances amounted to ₱40.7 million and ₱32.5 million as of December 31, 2003 and 2002, respectively (see Note 9).

25. Earnings Per Share Computation

	2003	2002	2001
(a) Net income	₱1,256,196,953	₱1,039,357,074	₱486,393,273
(b) Weighted average number of shares - basic	989,845,340	974,099,894	969,947,201
Weighted average number of shares exercisable under the stock option plan	13,390,427	25,824,808	20,811,364
Weighted average number of shares that would have been purchased at fair market value	(9,274,539)	(21,998,377)	(20,003,661)
(c) Adjusted weighted average shares - diluted	993,961,228	977,926,325	970,754,904
Earnings per share:			
Basic (a/b)	₱1.2691	₱1.0670	₱0.5015
Diluted (a/c)	1.2638	1.0628	0.5010



26. Commitments and Contingencies

a. Operating lease commitments - Group as lessee

The Group has various operating lease commitments for QSR outlets and offices. Most of the leases contain 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. Future minimum rentals payable for the non-cancellable periods of the operating leases follow:

	Amount
Within one year	₱485,723,879
After one year but less than five years	1,954,401,934
After more than five years	5,502,810,198
	<u>₱7,942,936,011</u>

b. Operating lease commitments - Group as lessor

The Group entered into commercial property leases for its franchised outlets. All leases include a clause to enable upward revision of the rental charges on an annual basis based on prevailing market conditions.

Future minimum rentals receivable for the non-cancellable portions of the operating leases follow:

	Amount
Within one year	₱108,195,224
After one year but less than five years	440,978,000
After more than five years	728,668,759
	<u>₱1,277,841,983</u>

c. Contingencies

In addition to the claims against the Parent Company as discussed in Note 13, the Group is involved in litigations, claims and disputes which are normal to its business. Management, in consultation with its legal counsel, believes that the ultimate liability, if any, with respect to such litigations, claims and disputes will not materially affect the financial position and result of operations of the Group. Consequently, no provision for possible losses was taken up in the accounts.

d. Refund from Manila Electric Company (Meralco)

As a customer of Meralco, the Group could expect to receive a refund for some of its previous billings. On April 30, 2003, the Third Division of the Supreme Court (SC) denied the Urgent Motion for Consideration filed by Meralco, rendering the SC decision dated November 15, 2002 final and executory. The decision mandates that Meralco refund its customers ₱0.167 per kilowatt-hour starting with the billing cycles beginning February 1994 until May 2003, or credit the refund in favor of the customers against future power consumption.



Meralco had reached an agreement with the Energy Regulatory Commission (ERC) on the manner and timing of the refund. The refund to the smaller, mostly residential customers (Refund Phases I to III) will first be satisfied and is presently ongoing. Refunds to commercial and industrial customers (Refund Phase IV) are proposed to be paid over a period of approximately five years starting May 2005. Details of Refund Phase IV will require further ERC approval.

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

27. Notes to Consolidated Statements of Cash Flows

- The Parent Company converted in 2001 its receivables from Baker Fresh amounting to ₱19.5 million into equity. On August 30, 2001, the Parent Company sold on account its 50% interest in Baker Fresh to DAL, its joint venture partner in Baker Fresh, at net book value as of the date of sale amounting to ₱64.7 million.

In 2002, a portion of the Parent Company's receivable from Baker Fresh amounting to ₱1.52 million was converted into equity as an additional investment (see Note 9).

- The Parent Company acquired on account in 2002 certain office spaces (included under Buildings, Commercial Condominium Units and Improvements under "Property, plant and equipment" account in the 2002 consolidated balance sheet) amounting to ₱107.3 million.

28. Subsequent Events

In February 2004, JIBL entered into an agreement for the purchase of 85% of the issued share capital of Belmont Enterprises Ventures, Ltd. (Belmont), the holding company of the Yonghe Group of Companies. The Sale and Purchase Agreement was signed in Hong Kong on February 6, 2004. The acquisition, to be accounted for under the purchase method, included a cash payment of US\$11.5 million and, based on certain profit after tax level, a future contingent payment for the next three years not to exceed US\$11 million. The maximum purchase price for the 85% interest is US\$22.5 million.

As a result of the purchase, the Parent Company, through JIBL, will own and operate stores of Yonghe King (Yonghe), a fast food business in the People's Republic of China. At December 31, 2003, Yonghe had approximately 2,900 employees and 78 stores located in key cities of China.

The acquisition will be accounted for as a purchase in 2004. The purchase price will be allocated to the identifiable assets acquired and liabilities assumed based upon their estimated fair values with the differences to be treated as goodwill. Results of operations for Belmont will be included with those of the Group for periods subsequent to the date of acquisition.



The following pro-forma summary presents the consolidated results of operations as if the acquisition had been completed at the beginning of the periods presented and does not purport to be indicative of what would have occurred had the acquisition actually been made as of such date or of results which may occur in the future. The proforma statements of income do not reflect any adjustments for goodwill amortization as the Parent Company has not yet completed the valuation process as of March 22, 2004.

	2003*	2002
Current assets	¥8,034,471,275	¥5,340,364,991
Noncurrent assets	10,105,363,748	6,355,098,162
	18,139,835,023	11,695,463,153
Current liabilities	7,079,639,860	4,260,191,257
Noncurrent liabilities	619,080,809	1,060,320,426
	7,698,720,669	5,320,511,683
Revenues	22,874,209,728	21,263,121,278
Cost of sales	(17,710,489,032)	(16,614,751,718)
Operating expenses	(3,747,800,789)	(3,137,726,724)
Other financial income (charges)	73,383,798	(40,986,764)
Equity in net loss of a joint venture	(23,004,509)	(14,994,953)
Provision for income tax	(181,758,735)	(417,744,304)
Minority interest	(10,915,273)	5,741,428
Net income	1,273,625,188	1,042,658,243
Basic earnings per share	¥1.2867	¥1.0704
Diluted earnings per share	1.2814	1.0662

* Based on unaudited financial statements of Belmont as of and for the year ended December 31, 2003.

Foreign currency-denominated monetary assets and liabilities as of December 31, 2003 and 2002 are translated at the exchange rate of Chinese Renminbi (RMB) 6.4269 and RMB6.7181 per ¥1, respectively; monetary income and expenses as of December 31, 2003 and 2002 are translated at the exchange rate of RMB6.5470 and RMB6.2070 per ¥1, respectively.

