

COVER SHEET

						7	7	4	8	7
--	--	--	--	--	--	---	---	---	---	---

SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

Mr. Ysmael V. Baysa
(Contact Person)

(Contact Person)

634-1111
(Company Telephone Number)

(Company Telephone Number)

1	2
---	---

3	1
---	---

Month Day
(Fiscal Year)

A	A	C	F	S
---	---	---	---	---

(Form Type)

0	6
---	---

1	8
---	---

Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

₹2,403,886,894

Domestic

₱118,271,340

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

LCU

[illegible]

Document ID

Cashier

Cashier

STAMPS

STAMPS

Remarks: Please use BLACK ink for scanning purposes.



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Jollibee Foods Corporation
10th 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, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Ramon D. Dizon

Partner

CPA Certificate No. 46047

SEC Accreditation No. 0077-AR-1

Tax Identification No. 102-085-577

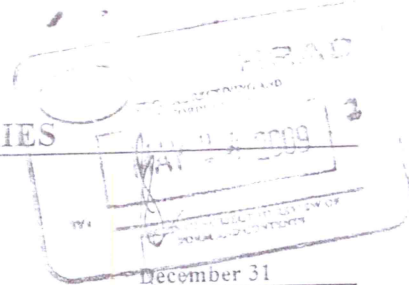
PTR No. 1566425, January 5, 2009, Makati City

April 28, 2009



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS



	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 31 and 32)	P6,858,849,056	P5,575,943,093
Short-term investments (Notes 31 and 32)	20,002,018	—
Receivables - net (Notes 7, 31 and 32)	1,940,700,399	1,942,450,718
Inventories - net (Note 8)	2,727,464,412	1,629,428,021
Other current assets - net (Notes 9 and 15)	1,497,720,460	1,261,258,621
Total Current Assets	13,044,736,345	10,409,080,453
Noncurrent Assets		
Investments in shares of stock (Note 11)	41,866,500	—
Investment properties - net (Note 12)	306,371,826	214,115,773
Property, plant and equipment - net (Note 13)	8,274,918,781	7,491,045,497
Goodwill (Notes 10 and 14)	3,186,353,082	1,601,606,272
Operating lease receivable (Note 30)	43,621,847	37,789,598
Deferred tax assets (Note 24)	760,124,418	874,166,872
Other noncurrent assets - net (Notes 15, 31 and 32)	1,467,707,707	1,317,197,084
Total Noncurrent Assets	14,080,964,161	11,535,921,096
	P27,125,700,506	P21,945,001,549
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 16, 31 and 32)	P8,828,966,051	P7,404,724,470
Income tax payable	82,483,163	83,725,085
Current portion of:		
Provisions (Note 17)	17,039,685	25,394,090
Long-term debt (Notes 18, 31 and 32)	37,769,129	40,549,919
Total Current Liabilities	8,966,258,028	7,554,393,564
Noncurrent Liabilities		
Provisions - net of current portion (Note 17)	29,269,304	32,112,104
Long-term debt - net of current portion (Notes 18, 31 and 32)	2,484,389,105	102,858,308
Accrued benefit liability (Note 26)	400,526,978	443,613,066
Operating lease payable (Note 30)	1,033,055,572	1,028,047,054
Deferred tax liabilities (Note 24)	72,370,098	126,820,592
Other noncurrent liabilities	—	8,819,817
Total Noncurrent Liabilities	4,019,611,057	1,742,270,941
Equity Attributable to Equity Holders of the Parent (Note 31)		
Capital stock (Note 19)	1,040,005,488	1,034,139,179
Subscriptions receivable	(17,177,884)	(17,177,884)
Additional paid-in capital (Notes 19 and 27)	2,245,675,482	2,086,941,086
Cumulative translation adjustments of subsidiaries	22,952,351	151,039,682
Unrealized gain on available-for-sale financial assets (Note 15)	19,880,054	30,895,367
Excess of the acquisition cost over the carrying value of minority interests (Note 10)	(543,978,573)	(543,978,573)
Retained earnings (Note 19):		
Appropriated	1,200,000,000	1,200,000,000
Unappropriated	10,349,648,543	8,884,408,730
	14,317,005,461	12,826,267,587
Less cost of common stock held in treasury (Notes 19 and 27)	180,511,491	183,338,740
	14,136,493,970	12,642,928,847
	3,337,451	5,408,197
Minority interests (Note 10)	14,139,831,421	12,648,337,044
Total Stockholders' Equity	P27,125,700,506	P21,945,001,549

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
REVENUES			
Net sales	P41,374,272,795	P36,221,306,253	P31,939,209,596
Royalty, franchise fees and others (Notes 12, 20 and 30)	2,517,286,157	2,472,355,491	1,972,008,085
	43,891,558,952	38,693,661,744	33,911,217,681
COST OF SALES (Notes 12 and 21)	35,780,174,124	30,596,612,445	26,918,732,047
GROSS PROFIT	8,111,384,828	8,097,049,299	6,992,485,634
OTHER INCOME - Net (Notes 12, 31 and 32)	419,918,386	113,588,559	389,615,681
EXPENSES (Notes 12, 22 and 27)	(5,423,621,683)	(5,163,143,103)	(4,579,738,446)
FINANCE INCOME (CHARGES)			
Interest income (Note 23)	208,464,081	142,988,980	135,490,812
Interest expense (Note 23)	(105,080,420)	(55,469,288)	(80,407,514)
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)
INCOME BEFORE INCOME TAX	3,211,065,192	3,135,014,447	2,902,954,155
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 24 and 25)			
Current	829,656,114	853,376,333	609,362,773
Deferred	59,591,960	(106,719,536)	133,433,459
	889,248,074	746,656,797	742,796,232
NET INCOME	P2,321,817,118	P2,388,357,650	P2,160,157,923
Attributable to:			
Equity holders of the Parent	P2,319,087,864	P2,386,722,219	P2,156,618,463
Minority interests	2,729,254	1,635,431	3,539,460
	P2,321,817,118	P2,388,357,650	P2,160,157,923
Earnings Per Share for Net Income Attributable to the Equity Holders of the Parent (Note 29)			
Basic	P2.268	P2.364	P2.161
Diluted	2.253	2.341	2.152

See accompanying Notes to Consolidated Financial Statements.



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

	Equity Attributable to Equity Holders of the Parent										Minority Interests (Note 19)	Total Stockholders' Equity
	Excess of the											
	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	Cost over the Carrying Value of Minority Interests (Note 10)	Retained Earnings (Note 19)	Cost of Common Stock Held in Treasury (Notes 19 and 27)	Total			
Balances at January 1, 2008	P1,034,139,179	(P17,177,884)	P2,086,941,086	P151,039,682	P30,895,367	(P543,978,573)	P1,200,000,000	P8,884,087,730	(P183,338,740)	P12,642,928,847	P5,408,197	P12,648,337,044
Net income for the year	-	-	-	-	-	-	-	2,319,087,864	-	2,319,087,864	2,729,254	2,321,817,118
Translation adjustments during the year	-	-	-	(128,087,331)	-	-	-	-	-	(128,087,331)	-	(128,087,331)
Change in fair value of available-for-sale financial assets	-	-	-	-	(11,015,313)	-	-	-	-	(11,015,313)	-	(11,015,313)
Total income for the year	-	-	-	(128,087,331)	(11,015,313)	-	-	2,319,087,864	-	2,179,985,220	2,729,254	2,182,714,474
Subscriptions and issuances of shares	5,866,309	-	-	-	-	-	-	-	-	5,866,309	-	5,866,309
Re-issuances of treasury shares for stock purchase exercised	-	-	73,080,096	-	-	-	-	2,827,249	-	75,907,345	-	75,907,345
Cost of stock options granted	-	-	85,654,300	-	-	-	-	-	-	85,654,300	-	85,654,300
Cash dividends	-	-	-	-	-	-	-	(853,848,051)	-	(853,848,051)	(4,800,000)	(858,648,051)
	5,866,309	-	158,734,396	-	-	-	-	2,827,249	-	(686,420,097)	(4,800,000)	(691,220,097)
Balances at December 31, 2008	P1,040,005,488	(P17,177,884)	P2,245,675,482	P22,952,351	P19,880,054	(P543,978,573)	P1,200,000,000	P10,349,648,543	(P180,511,491)	P14,136,493,970	P3,337,451	P14,139,831,421
Balances at January 1, 2007	P1,024,182,326	(P17,177,884)	P1,817,488,852	P72,950,363	(P198,091)	(P168,257,659)	P1,200,000,000	P7,303,774,395	(P292,445,970)	P10,940,316,332	P21,474,598	P10,961,790,930
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
Change in fair value of available-for-sale financial assets	-	-	-	-	31,093,458	-	-	-	-	31,093,458	-	31,093,458
Total income for the year	-	-	-	78,089,319	31,093,458	-	-	2,386,722,219	-	2,495,904,996	1,635,431	2,497,540,427
Subscriptions and issuances of shares	9,956,853	-	-	-	-	-	-	-	-	9,956,853	-	9,956,853
Re-issuances of treasury shares for stock purchase exercised	-	-	188,949,443	-	-	-	-	109,107,230	-	298,056,673	-	298,056,673
Cost of stock options granted	-	-	80,502,791	-	-	-	-	-	-	80,502,791	-	80,502,791
Cash dividends	-	-	-	-	-	-	-	(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	-	269,452,234	-	-	(375,720,914)	-	(806,087,884)	109,107,230	(793,292,481)	(17,701,832)	(810,994,313)
Balances at December 31, 2007	P1,034,139,179	(P17,177,884)	P2,086,941,086	P151,039,682	P30,895,367	(P543,978,573)	P1,200,000,000	P8,884,087,730	(P183,338,740)	P12,642,928,847	P5,408,197	P12,648,337,044



	Equity Attributable to Equity Holders of the Parent										Minority Interests (Note 10)	Total Stockholders' Equity
	Excess of the											
	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	Cost over the Carrying Value of Minority Interests (Note 10)	Retained Earnings (Note 19)	Cost of Common Stock Held in Treasury (Notes 19 and 27)		Total		
Balance at January 1, 2006	P1,022,700,055	(P17,177,884)	P1,771,347,335	P218,682,039	(P316,825)	P-	P1,200,000,000	P5,825,639,952	P9,656,457,760	P241,524,118	P9,897,981,878	
Net income for the year	-	-	-	-	-	-	-	-	2,156,618,463	3,539,460	2,160,157,923	
Translation adjustments during the year	-	-	-	(145,731,676)	-	-	-	-	-	(7,846,639)	(153,578,315)	
Change in fair value of available-for-sale financial assets	-	-	-	-	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	
Re-issuances of treasury shares for stock purchased by retirement fund	-	-	(2,711,887)	-	-	-	-	-	14,098,280	-	11,386,393	
Cost of stock options granted	-	-	40,042,485	-	-	-	-	-	40,042,485	-	40,042,485	
Cash dividends	-	-	-	-	-	-	-	(678,484,020)	-	-	(678,484,020)	
Acquisition of minority interest (Note 10)	-	-	-	-	-	(168,257,659)	-	-	(168,257,659)	(215,742,341)	(384,000,000)	
						(168,257,659)	-	-	(168,257,659)	(215,742,341)	(384,000,000)	
Balance at December 31, 2006	P1,024,182,326	(P17,177,884)	P1,817,488,852	P72,950,363	(P198,091)	(P168,257,659)	P1,200,000,000	P7,303,774,395	(P292,445,970)	P10,940,316,332	P21,474,598	P10,961,790,930

See accompanying Notes to Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	~ Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P3,211,065,192	P3,135,014,447	P2,902,954,155
Adjustments for:			
Depreciation and amortization (Notes 21 and 22)	1,728,879,763	1,579,558,873	1,573,844,757
Interest income (Note 23)	(208,464,081)	(142,988,980)	(135,490,812)
Interest expense (Note 23)	105,080,420	55,469,288	80,407,514
Stock options expense (Note 27)	85,654,300	85,907,703	40,042,485
Provisions for:			
Impairment in value of receivables and inventories (Note 22)	61,726,457	39,507,137	—
Impairment in value of property, plant and equipment and investment properties (Note 22)	3,792,817	32,308,313	—
Net unrealized foreign exchange loss	39,641,095	1,035,909	12,732,993
Loss on disposals and retirements of property and equipment	11,643,689	31,593,162	33,456,907
Gain on disposal of property and equipment	(8,404,409)	—	—
Reversal of impairment in investment property (Note 12)	(1,950,646)	(61,452,608)	—
Excess of fair value of net assets over acquisition cost of a subsidiary (Note 10)	—	—	(68,415,573)
Mark-to-market gain on derivative asset (Note 32)	—	(21,456,517)	(59,789,200)
Equity in net loss of a joint venture (Note 11)	—	—	22,907,585
Income before working capital changes	5,028,664,597	4,734,496,727	4,402,650,811
Decrease (increase) in:			
Short-term investments	(20,002,018)	230,932,964	43,656,606
Receivables	(28,002,090)	(229,874,271)	(19,666,326)
Inventories	(1,124,886,414)	(377,203,613)	113,717,410
Other current assets	(236,461,839)	(112,737,627)	(146,367,422)
Increase (decrease) in:			
Trade payables and other current liabilities	1,766,114,037	738,688,175	697,621,491
Provisions	(11,197,205)	(17,837,907)	(13,878,455)
Accrued benefit cost	(43,086,088)	153,388,629	56,405,890
Operating lease payable	5,008,518	(37,023,197)	177,466,757
Cash generated from operations	5,336,151,498	5,082,829,880	5,311,606,762
Income taxes paid	(830,898,036)	(778,501,594)	(614,031,740)
Net cash provided by operating activities	4,505,253,462	4,304,328,286	4,697,575,022

(Forward)



	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 13)	(P2,921,797,606)	(P2,055,998,382)	(P1,920,244,179)
Acquisition of a subsidiary - net of cash acquired (Note 10)	(1,584,746,810)	-	25,617,679
Proceeds from disposals of property and equipment	311,707,055	7,375,429	57,418,024
Increase in other noncurrent assets	(295,445,514)	(332,749,634)	(61,062,648)
Interest received	203,340,056	128,571,500	110,853,954
Acquisition of stock	(41,866,500)		
Acquisition of minority interest (Note 10)	-	(413,657,153)	(384,000,000)
Advances to a joint venture (Note 11)	-	-	(37,002,202)
Net cash used in investing activities	(4,328,809,319)	(2,666,458,240)	(2,208,419,372)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	(1,212,783,181)	(364,548,699)	(659,641,177)
Long-term debt	(49,747,319)	(96,180,410)	(78,484,848)
Liability for acquisition of a business	-	(251,404,641)	(172,303,733)
Proceeds from:			
Long-term debt	2,388,856,231	132,499,138	-
Re-issuances of treasury shares	75,907,397	109,107,230	58,512,778
Issuances of and subscriptions to capital stock	5,866,255	202,236,470	21,039,468
Increase (decrease) in:			
Other noncurrent liabilities	(8,819,817)	(9,803,904)	(21,071,021)
Minority interests	-	20,234,407	7,846,639
Interest paid	(92,817,746)	(24,541,469)	(25,758,710)
Net cash provided by (used in) financing activities	1,106,461,820	(282,401,878)	(869,860,604)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-	(1,035,909)	(12,732,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,282,905,963	1,354,432,259	1,606,562,053
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,575,943,093	4,221,510,834	2,614,948,781
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	P6,858,849,056	P5,575,943,093	P4,221,510,834

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) 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," "Red Ribbon," "Delifrance," "Yonghe King," and "Hongzhuangyuan." 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 10th 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, 2009.

2. Basis of Preparation

The consolidated financial statements of the Jollibee Group have been prepared on the historical cost basis, except for available-for-sale (AFS) financial assets, 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) issued by the Financial Reporting Standards Council, and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

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 stockholders' 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 amended PAS and Philippine Interpretations from IFRIC, which the Jollibee Group has adopted starting January 1, 2008:

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*, provide guidance on reclassification from held for trading investments to either loans and receivables, AFS financial assets and held-to-maturity (HTM) investments.
- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions*, 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*, 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 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, 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 amendments and interpretations did not have an impact on the Jollibee Group's financial position or performance as of December 31, 2008.



Future Changes in Accounting Policies

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

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, and PAS 27, *Consolidated and Separate Financial Statements*, become effective for financial years beginning on or after January 1, 2009. The amendment to PFRS 1 allows an entity to determine the “cost” of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27 or using a deemed cost. The amendment to PAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statements of income in the separate financial statements. The adoption of this standard will have no impact on the Jollibee Group’s consolidated financial statements.
- Revised PFRS 2, *Share-based Payment*, becomes effective for financial years beginning on or after January 1, 2009. It restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In case the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The revised standard will have no impact on the Jollibee Group’s consolidated financial statements.
- PFRS 3R, *Business Combinations*, and PAS 27R, *Consolidated and Separate Financial Statements*, become effective for financial years beginning on or after July 1, 2009. PFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27R requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary, as well as the loss of control of a subsidiary. The changes introduced by the revised standards must be applied prospectively and will affect future acquisitions and transactions with minority interests. The Jollibee Group is currently assessing the impact of the revised standards on its consolidated financial statements when it adopts the standards on January 1, 2010.
- PFRS 8, *Operating Segments*, becomes effective for financial years beginning on or after January 1, 2009, and will replace PAS 14, *Segment Reporting*. It adopts a full 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 balance sheets and statements of income and companies will need to provide explanations and reconciliations of the differences. The Jollibee Group is currently assessing the impact of the standard on its consolidated financial statements when it adopts the standards on January 1, 2010.



- Revised PAS 1, *Presentation of Financial Statements*, becomes effective for financial years beginning on or after January 1, 2009. It separates owner and non-owner changes in equity. The consolidated statements of changes in stockholders' 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 Jollibee Group is currently assessing the impact of the revised standard on its consolidated financial statements when it adopts the standard on January 1, 2009.
- Revised PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs 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. The Jollibee Group is currently assessing the impact of the revised standard on its consolidated financial statements when it adopts the standard on January 1, 2010.
- Amendments to PAS 32, *Financial Instrument: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, become effective for financial years beginning on or after January 1, 2009. The amendment to PAS 32 requires certain puttable financial statements and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to PAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The amendment will have no impact on the financial statements.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, becomes effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Jollibee Group assessed that the amendment will have no impact on its financial position or performance as it has not entered into any such hedges.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, became effective for financial years beginning on or after July 1, 2008. It 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. The Jollibee Group expects that this interpretation will have no impact on its financial statements as no such schemes currently exist.



- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, becomes effective for financial years beginning on or after January 1, 2012. The interpretation is to be applied retroactively. It clarifies when and how receipts and related expenses from the sale of real estate should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*. The interpretation will have no significant impact on the financial position or performance of the Jollibee Group.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in Foreign Operations*, became effective for financial years beginning on or before October 1, 2008. It provides guidance in identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Jollibee Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The interpretation will have no impact on the consolidated financial statements of the Jollibee Group.

Improvements to Existing Accounting Standards

The Jollibee Group did not early adopt the following improvements to existing accounting standards that have been approved but are not yet effective. The Jollibee Group is currently assessing the impact of the following improvements to existing standards but anticipates that the changes will have no material effect on the consolidated financial statements.

- PFRS 7 removes the reference to “total interest income” as a component of finance costs.
- Revised PAS 1 provides that assets and liabilities classified as held for trading in accordance with PAS 39 are not automatically classified as current in the balance sheets.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifies that only the implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.
- PAS 10, *Events after the Balance Sheet Date*, clarifies that dividends declared after the end of the reporting period are not obligations.
- PAS 16, *Property, Plant and Equipment*, replaces the term “net selling price” with “fair value less costs to sell.” It further clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.
- PAS 18 replaces the term “direct costs” with “transaction costs” as defined in PAS 39.



- PAS 19 revises the definition of past service costs, return on plan assets and short-term and long-term employee benefits. Amendments to plans that result in reduction in benefits related to future services are accounted for as curtailment. It deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*, provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Various terms were revised to be consistent with other PFRS.
- Revised PAS 23 revises the definition of borrowing costs to consolidate the types of items that are considered components of borrowing costs- the components interest expense calculated using the effective interest rate method in accordance with PAS 39.
- PAS 27 states that when a parent entity accounts for a subsidiary in accordance with PAS 39 in its financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- PAS 28, *Investments in Associates*, establishes that if an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loan applies.
- PAS 31, *Interests in Joint Ventures*, provides that if a joint venture is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 31 to disclose the commitments of the venturer and the joint venture as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 34, *Interim Financial Reporting*, requires that earnings per share be disclosed in interim financial reports if an entity is within the scope of PAS 33, *Earnings per Share*.
- PAS 36, *Impairment of Assets*, provides that if discounted cash flows are used to estimate "fair value less costs to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use."
- PAS 38, *Intangible Assets*, requires that expenditure on advertising and promotional activities be recognized as an expense when the Jollibee Group has either the right to access the goods or has received the services.



- PAS 39 clarifies that changes in circumstances relating to derivatives are not reclassification and therefore may be either removed from, or included in, the fair value through profit or loss (FVPL) classification after initial recognition. It removes the reference to a segment when determining whether an instrument qualifies as a hedge. It further requires the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- PAS 40, *Investment Property*, revises the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. It revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8 and clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

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 from the date of acquisition and are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments are highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but not exceeding one year and are subject to an insignificant risk of change and value.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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 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.

Determination of Fair Value. The fair value of financial instruments traded in active markets at 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. Assets under this category are classified as current assets if expected to be realized within 12 months from balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date. 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, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Jollibee Group has no financial assets classified under this category as of December 31, 2008 and 2007.

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 collect 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 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. HTM investments 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, 2008 and 2007.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS financial assets in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the consolidated statements of income. Interest earned on holding AFS financial assets are recognized in the consolidated statements of income using the effective interest method. Assets under this category are classified as current assets if expected to be realized 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 Note 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, 2008 and 2007.

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 trade payables and other current liabilities and long-term debt (see Note 32).



Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Jollibee Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Jollibee Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Debt Issue Costs

Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

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 in relation to its acquisition of RRB Holdings, Inc. (RRBH) (see Note 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.

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.

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 period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Jollibee Group. If in subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Other revenue" account. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

AFS Financial Assets. The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS financial assets, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from equity and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded in the consolidated statements of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through 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.

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 20 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	5-20 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, *Segment Reporting*.

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

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

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.

Business Combinations Involving Entities under Common Control

The merger between Zenith and Vizmin was accounted for under pooling of interest method. Under this method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Parent Company. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities and historical retained earnings of the acquired companies is considered as "Excess of acquisition cost over the carrying value of minority interest" account in the stockholders equity section of the consolidated balance sheets.

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.



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 balance sheet date are dealt with as an event after balance sheet date.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Jollibee Group and the amount of revenue can be 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, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at net sales shown in the consolidated statements of income.
- 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 as a shareholder 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, 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.



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 People's 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, 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 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 and Development Costs

Research costs are expensed as incurred. Development cost incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

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).

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.

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 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 assets 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 accounts "Other current assets" or "Trade payables and other current liabilities" in the consolidated balance sheets.

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.

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 Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

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



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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but disclosed 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 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 revenue, 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.

Judgments

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

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.

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.

Operating Lease Commitments - 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 ₱83.0 million, ₱96.3 million and ₱88.1 million in 2008, 2007 and 2006, respectively (see Note 30).

Operating Lease Commitments - 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 ₱2,723.7 million, ₱2,391.0 million and ₱2,137.2 million in 2008, 2007 and 2006, respectively (see Note 30).

Impairment of AFS Financial Assets - 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.

Estimates and Assumptions

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, 2008 and 2007 amounted to ₱77.1 million and ₱82.6 million, respectively. The carrying value of receivables amounted to ₱1,940.7 million and ₱1,942.4 million as of December 31, 2008 and 2007, respectively (see Note 7).



Impairment of AFS Financial Assets - Calculation of Impairment Losses. The computation for the impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, 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 Jollibee Group's investments.

The carrying values of AFS investments, included under "Other noncurrent assets" account in the consolidated balance sheets, amounted to ₱34.9 million and ₱46.2 million as of December 31, 2008 and 2007, 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.

The Jollibee Group assessed that the net realizable value of inventories is lower than cost, hence it recognized accumulated impairment losses on inventories amounting to ₱39.9 million and ₱14.1 million as of December 31, 2008 and 2007, respectively. The carrying values of inventories amounted to ₱2,727.5 million and ₱1,629.4 million as of December 31, 2008 and 2007, respectively (see Note 8).

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 was no change in the estimated useful lives of property, plant and equipment and investment properties in 2008 and 2007. The carrying values of property, plant and equipment amounted to ₱8,274.9 million and ₱7,491.1 million as of December 31, 2008 and 2007, respectively (see Note 13). The carrying values of investment properties were ₱306.4 million and ₱214.1 million as of December 31, 2008 and 2007, 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, 2008 and 2007 amounted to ₱3,186.4 million and ₱1,601.6 million, respectively (see Note 14).

Impairment of Other 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 consolidated 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 ₱117.8 million and ₱116.0 million as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the aggregate carrying amounts of property, plant and equipment and investment properties amounted to ₱8,581.3 million and ₱7,705.2 million, respectively (see Notes 12 and 13).

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 liability as of December 31, 2008 and 2007 amounted to ₱400.5 million and ₱443.6 million, respectively. The unrecognized net actuarial losses amounted to ₱53.3 million and ₱20.0 million as of December 31, 2008 and 2007, 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 revenue and expenses.

Deferred tax assets amounted to ₱760.1 million and ₱874.2 million as of December 31, 2008 and 2007, 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 ₱46.3 million and ₱57.5 million (including current portion) as of December 31, 2008 and 2007, respectively (see Note 17).

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 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 revenue, expenses, assets and liabilities of the different business segments as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008:

	2008				
	Food Service	Franchising	Leasing	Eliminations	Total
	(In Thousands)				
Revenue from external customers	₱41,558,956	₱2,220,839	₱111,764	₱-	₱43,891,559
Inter-segment revenue	5,770,314	302,665	232,087	(6,305,066)	-
Segment revenue	47,329,270	2,523,504	343,851	(6,305,066)	43,891,559
Segment expenses	(41,002,154)	-	(201,642)	-	(41,203,796)
Other segment income	419,918	-	-	-	419,918
Segment result	₱6,747,034	₱2,523,504	₱142,209	(₱6,305,066)	3,107,681
Interest income					208,464
Interest expense					(105,080)
Income before income tax					3,211,065
Provision for income tax					(889,248)
Net income					₱2,321,817
Assets and Liabilities					
Segment assets	₱26,015,000	₱-	₱350,577	₱-	₱26,365,577
Deferred tax assets	722,031	-	38,093	-	760,124
Total assets	₱26,737,031	₱-	₱388,670	₱-	₱27,125,701
Segment Liabilities	₱10,070,347	₱-	₱238,511	₱-	₱10,308,858
Deferred tax liabilities	-	-	-	-	72,370
Long-term debt - including current portion	-	-	-	-	2,522,158
Income tax payable	-	-	-	-	82,483
Total liabilities	₱10,070,347	₱-	₱238,511	₱-	₱12,985,869
Other segment information					
Capital expenditures	₱2,910,776	₱-	₱7,498	₱-	₱2,918,274
Depreciation and amortization	1,714,549	-	8,796	-	1,723,345



2007					
	Food Service	Franchising	Leasing	Eliminations	Total
	(In Thousands)				
Revenue from external customers	P36,338,859	P2,024,652	P333,420	P-	P38,696,931
Inter-segment revenue	4,178,741	257,865	305,210	(4,745,085)	(3,269)
Segment revenue	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	P5,036,287	P2,282,517	P473,776	(P4,745,085)	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					P2,388,358

Assets and Liabilities					
Segment assets	P20,764,336	P-	P306,499	P-	P21,070,835
Deferred tax assets	793,594	-	80,573	-	874,167
Total assets	P21,557,930	P-	P387,072	P-	P21,945,002

Segment Liabilities	P8,807,187	P-	P135,524	P-	P8,942,711
Deferred tax liabilities	-	-	-	-	126,821
Long-term debt - including current portion	-	-	-	-	143,408
Provision for income tax	-	-	-	-	83,725
Total liabilities	P8,807,187	P-	P135,524	P-	P9,296,665

Other segment information					
Capital expenditures	P2,050,911	P-	P5,088	P-	P2,055,999
Depreciation and amortization	1,572,591	-	6,968	-	1,579,559

2006					
	Food Service	Franchising	Leasing	Eliminations	Total
	(In Thousands)				
Revenue from external customers	P32,015,218	P1,807,557	P94,388	P-	P33,917,163
Inter-segment revenue	4,391,401	240,729	132,332	(4,770,407)	(5,945)
Segment revenue	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	P664,635	P2,048,286	P48,596	P40,846	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
Provision for income tax					(742,796)
Net income					P2,160,158

Assets and Liabilities					
Segment assets	P26,913,967	P-	P335,654	(P8,831,654)	P18,417,967
Deferred tax assets	898,179	-	56,465	(104,257)	850,387
Total assets	P27,812,146	P-	P392,119	(P8,935,911)	P19,268,354



	2006				
	Food Service	Franchising	Leasing	Eliminations	Total
	(In Thousands)				
Segment Liabilities	P9,786,158	P-	P354,656	(P1,950,188)	P8,190,626
Long-term debt - including current portion	-	-	-	-	107,090
Income tax payable	-	-	-	-	8,850
Total liabilities	P9,786,158	P-	P354,656	(P1,950,188)	P8,306,566
Other segment information					
Capital expenditures	P1,920,244	P-	P-	P-	P1,920,244
Depreciation and amortization	1,568,320	-	5,525	-	1,573,845

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)			
2008:				
Revenue	P38,152,337	P5,739,222	P-	P43,891,559
Segment assets	20,168,588	6,957,113	-	27,125,701
Capital expenditures	1,429,459	1,488,815	-	2,918,274
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

6. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash on hand and in banks	P3,114,145,957	P2,627,756,883
Short-term deposits	3,744,703,099	2,948,186,210
	P6,858,849,056	P5,575,943,093



Cash in banks earn 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:

	2008	2007
Trade	₱1,882,203,843	₱1,900,987,648
Less allowance for impairment loss	77,063,380	82,641,005
	1,805,140,463	1,818,346,643
Advances to employees	73,547,173	66,854,998
Current portion of:		
Employee car plan	44,266,499	36,942,306
Receivable from Meralco (Note 15)	10,135,536	10,963,731
Others	7,610,728	9,343,040
	₱1,940,700,399	₱1,942,450,718

Trade receivables are non interest-bearing and are generally on 7-14 days term.

Advances to employees and the current portion of employee car plan and receivable from Meralco are expected to be collectible within the next financial year.

The movements in the allowance for impairment loss for trade receivables as of December 31 are as follows:

	2008	2007
Beginning	₱82,641,005	₱57,252,238
Provision	34,876,434	25,388,767
Reversal	(38,273,611)	—
Write-off	(2,180,448)	—
	₱77,063,380	₱82,641,005

The provisions in 2008 and 2007 resulted from specific impairment assessments performed by the Parent Company and its subsidiaries.



8. Inventories

This account consists of:

	2008	2007
At cost:		
Food supplies and processed inventories	₱2,353,512,815	₱1,318,587,677
Packaging, store and other supplies	176,028,890	103,310,224
Novelty items	14,075,001	7,269,053
	2,543,616,706	1,429,166,954
At net realizable value:		
Novelty items	183,847,706	100,241,215
Packaging, store and other supplies	—	100,019,852
	183,847,706	200,261,067
Total inventories at lower of cost and net realizable value	₱2,727,464,412	₱1,629,428,021

The cost of inventories carried at net realizable value amounted to ₱223.7 million and ₱214.4 million as of December 31, 2008 and 2007, respectively.

9. Other Current Assets

This account consists of:

	2008	2007
Deposits to suppliers	₱417,005,344	₱349,922,843
Prepaid expenses	395,817,649	222,275,983
Refundable deposits	196,989,193	83,381,117
Others - net of allowance for impairment loss of ₱2.2 million in 2008 and 2007	487,908,274	605,678,678
	₱1,497,720,460	₱1,261,258,621

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		
			2008	2007	2006
Fresh N' Famous Foods, Inc. (Fresh N' Famous) ^(a)	Philippines	Food service	100	100	100
▪ Chowking Food Corporation USA ^(a)	United States of America (USA)	Holding company	100	100	100
Freemont Foods Corporation	Philippines	Food service	100	100	100
RRBH	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) ^(c)	Philippines	Food service	—	100	100
Zenith Foods Corporation (Zenith) ^(c)	Philippines	Food service	100	100	100



	Country of Incorporation	Principal Activities	Percentage of Ownership		
			2008	2007	2006
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
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	100	90
Jollibee Worldwide Pte. Ltd. (Jollibee Worldwide)	Singapore	Holding company	100	100	100
▪ Jollibee Worldwide Pte. Ltd. - Regional Headquarters					
▪ Beijing New Hongzhuangyuan F&B Management Co., Ltd. (Hongzhuangyuan) ^(h)	Peoples' Republic of China (PRC)	Food service	100	-	-
▪ Hangzhou Yong He Doujiang Foods and Beverage Co., Ltd. (Hangzhou Yong He) ^(h)	PRC	Food service	100	-	-
▪ Tianjin Yong He King Foods and Beverage Co., Ltd.	PRC	Food service	100	-	-
▪ Kuai Le Feng Food & Beverage (Shenzhen) Co. Ltd. ^(h)	PRC	Food service	100	100	-
▪ Beijing Yong He King Foods and Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ Shenzhen Yong He King Foods and Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ Hangzhou Yongtong Dinner - Service Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ Hangzhou Yonghong Foods & Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ Shanghai Yong He King Co., Ltd. (Shanghai Yong He) ^(h)	PRC	Food service	100	100	85
▪ Wuhan Yongchang Food and Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ 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)	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	100	85
▪ Yonghe Holdings Co., Ltd. ^(h)	BVI	Holding company	100	100	85
▪ Centenary Ventures Limited ^(h)	BVI	Holding company	100	100	85
▪ Colossus Global Limited ^(h)	BVI	Holding company	100	100	85
▪ Granite Management Limited ^(h)	BVI	Holding company	100	100	85
▪ Cosmic Resources Limited ^(h)	BVI	Holding company	100	100	85
▪ Shanghai Belmont Enterprises Management and Adviser Co., Ltd. ^(h)	PRC	Business management service	100	100	85
▪ All Great Resources Limited ^(h)	BVI	Holding company	100	100	85
▪ Eastpower Resources Limited ^(h)	BVI	Holding company	100	100	85
▪ Shanghai Yongjue Foods & Beverage Co., Ltd. ^(h)	PRC	Food service	100	100	85
▪ Eaglerock Development Limited ^(h)	BVI	Holding company	100	100	85
▪ Gladstone Company Limited ^(h)	BVI	Dormant	100	100	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, 2008.

(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 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

Hongzhuangyuan

On August 23, 2008, Jollibee Worldwide, a wholly-owned subsidiary of the Parent Company, acquired 100% of the issued and outstanding shares of Hongzhuangyuan, which operates the Hongzhuangyuan system in PRC, for a total acquisition cost of ₱1,706.1 million.

The acquisition cost of ₱1,706.1 million was provisionally allocated to the identifiable assets and liabilities of Hongzhuangyuan are as follows:

	Fair Market Value	Carrying Amount
Cash and cash equivalents	₱182,049,407	₱182,049,407
Inventories	3,103,119	3,103,119
Receivables	483,296	483,296
Prepaid and other current assets	57,747,358	57,747,358
Property, plant and equipment - net	185,401,252	172,884,268
Noncurrent assets	11,451,012	11,451,012
Total identifiable assets	440,235,444	427,718,460
Less:		
Accounts payable	29,335,714	29,335,714
Accrued liabilities	59,446,880	59,446,880
Other liabilities	196,821,790	196,821,790
Total identifiable liabilities	285,604,384	285,604,384
Net assets	154,631,060	₱142,114,076
Goodwill arising from acquisition (see Note 14)	1,551,465,536	
Total consideration	₱1,706,096,596	

The net cash outflow on the acquisition are as follows:

	Amount
Cash paid	₱1,706,096,596
Less cash acquired from subsidiary	182,049,407
Net cash outflow	₱1,524,047,189

Hangzhou Yong He

On August 12, 2008, the Shanghai Yong He entered into an Asset Purchase Agreement with — Hangzhou Yong He, a third party PRC company operating a fast food business, to purchase the latter's lease right, trade name and other intellectual properties of its eight existing stores in the province of Hangzhou, except for the equipment used in the stores which are owned by another company. The purchase consideration amounted to RMB1.0 million or ₱6.9 million.



The equipment used in the eight stores are owned by Hangzhou Huadong Xianzhi Equipment Marketing Yunbin Machine Equipment Operation Department (Hangzhou Huadong). Accordingly, in relation to the Asset Purchase Agreement, the Shanghai Yong He entered into an Equipment Purchase Agreement with Hangzhou Huadong to purchase the store equipment for a total consideration of RMB16.0 million or P110.9 million. Pursuant to the Equipment Purchase Agreement, ownership of the store equipment will be transferred to and will be accepted by Shanghai Yong He only upon fulfillment by Hangzhou Yonghe of the following conditions for each store:

- a. Assignment of the lease contracts to the Shanghai Yong He, renewed for at least another five years based on the agreed rent fees; and
- b. Transfer of all related business licenses and certificates to the Shanghai Yong He.

As of December 31, 2008, lease contracts and store equipment of three stores have been transferred to the Shanghai Yong He for a consideration of RMB4.8 million. The Shanghai Yong He also made a deposit of RMB1.6 million which will be applied as payment for the last store to be transferred.

Pursuant to the agreements, the Shanghai Yong He, however, will allow Hangzhou Yonghe to continue the operations of its existing franchise contracts with third parties until the termination of the contracts in 2013. The terms and conditions to continue the operations of the franchise contracts, however, are still under negotiation.

The purchase agreements are accounted for as business combinations. The total consideration paid of RMB4.8 million or P33.3 million, was initially recorded as goodwill pending the completion of the valuation of the identified assets at the date of acquisition.

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 P141.1 million into additional paid-in capital of Baker Fresh. Of the total receivables converted to additional paid-in capital of Baker Fresh, P84.7 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	P84,699,123
Cash paid (SG\$1)	32
Total consideration	P84,699,155



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

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.

11. Investment in Shares of Stock

On July 18, 2008, the Parent Company, through its international subsidiary Jollibee Worldwide, acquired 12% equity share in Chow Fun Holdings, LLC for \$0.9 million or ₱41.9 million.

12. Investment Properties

The movements in this account follow:

	2008		
	Land and Land Improvements	Buildings and Building Improvements	Total
	(In Thousands)		
Cost:			
Beginning balance	₱252,501	₱208,860	₱461,361
Disposals	(21,535)	(2,645)	(24,180)
Reclassifications/Transfers (Note 13)	61,264	70,139	131,403
Ending balance	₱292,230	₱276,354	₱568,584
Accumulated depreciation:			
Beginning balance	—	201,790	201,790
Depreciation	—	5,535	5,535
Disposals	—	(2,645)	(2,645)
Reclassifications/Transfers (Note 13)	—	14,028	14,028
Ending balance	—	218,708	218,708
Accumulated impairment losses:			
Beginning balance	45,455	—	45,455
Reversal of impairment	(1,951)	—	(1,951)
Ending balance	43,504	—	43,504
Net book value	₱248,726	₱57,646	₱306,372



	2007		
	Land and Land Improvements	Buildings and Building Improvements	Total
	(In Thousands)		
Cost:			
Beginning and ending balance	P252,501	P208,860	P461,361
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	P207,046	P7,070	P214,116

The allowance for impairment in value of land amounting to P43.5 million and P45.5 million as of December 31, 2008 and 2007, respectively, 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 P176.21 million and P172.52 million as of December 31, 2008 and 2007, respectively.

The parcels of land have aggregate fair values of P1,194.69 million as of December 31, 2008 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 P68.56 million, P58.35 million and P52.51 million for the years ended December 31, 2008, 2007 and 2006, 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 P42.07 million, P41.87 million and P46.66 million for the years ended December 31, 2008, 2007 and 2006, 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 P4.8 million, P1.3 million and P1.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.



13. Property, Plant and Equipment

The details of property and equipment are as follows:

2008								
	Land and Land Improvements	Plant and Buildings, Commercial 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	P732,072	P894,607	P6,063,437	P6,376,953	P430,496	P277,457	P174,999	P14,950,021
Additions	-	31,819	1,110,515	1,125,117	87,712	40,155	522,956	2,918,274
Retirements and disposals	-	(171)	(274,022)	(305,448)	(36,055)	(18,802)	(2,052)	(636,550)
Reclassifications	(61,157)	(15,489)	212,667	165,942	21,578	19,195	(487,054)	(144,318)
Ending balance	670,915	910,766	7,112,597	7,362,564	503,731	318,005	208,849	17,087,427
Accumulated depreciation:								
Beginning balance	-	540,455	2,698,145	3,662,225	307,956	179,682	-	7,388,463
Depreciation and amortization	-	52,906	770,537	793,885	60,259	45,758	-	1,723,345
Retirements and disposals	-	(171)	(208,786)	(96,228)	(22,791)	(15,162)	-	(343,138)
Reclassifications	-	(8,014)	(111,905)	66,818	13,841	8,793	-	(30,467)
Ending balance	-	585,176	3,147,991	4,426,700	359,265	219,071	-	8,738,203
Accumulated impairment loss								
Beginning balance	-	-	49,740	-	-	-	20,773	70,513
Impairment loss	-	-	-	-	-	-	3,793	3,793
Ending balance	-	-	49,740	-	-	-	24,566	74,306
Net book value	P670,915	P325,590	P3,914,566	P2,935,864	P144,466	P98,934	P184,283	P8,274,918

2007								
	Land and Land Improvements	Plant and Buildings, Commercial 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	P724,703	P795,597	P5,750,717	P5,754,887	P501,799	P259,196	P299,426	P14,086,325
Additions	200	53,770	368,014	938,634	28,484	52,883	614,014	2,055,999
Retirements and disposals	-	(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 and disposals	-	(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 (Note 22)	-	-	-	-	-	-	5,088	5,088
Ending balance	-	-	49,740	-	-	-	20,773	70,513
Net book value	P732,072	P354,152	P3,315,552	P2,714,728	P122,540	P97,775	P154,226	P7,491,045

The cost of fully depreciated assets still in use by the Jollibee Group amounted to P4,086.9 million and P3,871.4 million as of December 31, 2008 and 2007, respectively.

14. Goodwill

Goodwill acquired through business combinations are allocated as follows:

	Red Ribbon	Belmont	Hongzhuangyuan	Hangzhou Yonghe	Total
Balance at December 31, 2007	P1,172,590,156	P429,016,116	P-	P-	P1,601,606,272
Additions (see Note 10)	-	-	1,551,465,536	33,281,274	1,584,746,810
Balance at December 31, 2008	P1,172,590,156	P429,016,116	P1,551,465,536	P33,281,274	P3,186,353,082



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.

15. Other Noncurrent Assets

This account consists of:

	2008	2007
Refundable deposits	₱648,899,059	₱504,555,973
Deposit for acquisition of real property	375,250,000	375,250,000
Deferred rent expense	59,427,921	61,167,252
Noncurrent portion of:		
Employee car plan	74,464,709	70,993,342
Receivable from Meralco	8,769,643	17,134,633
AFS financial assets	34,890,714	46,164,343
Deferred compensation - employee car plan	17,249,918	15,765,087
Others - net of allowance for impairment loss of ₱144.7 million in 2008 and 2007	248,755,743	226,166,454
	₱1,467,707,707	₱1,317,197,084

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. The discount rates used range from 5% to 22% in 2008 and 6% to 21% in 2007. 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.

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 5% to 8% in 2008 and 4% to 17% in 2007.

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:

	2008		
	Refundable Deposits	Employee Car Plan	Receivable from Meralco
Beginning	₱98,465,525	₱15,765,087	₱4,889,197
Additions	10,778,615	12,168,989	—
Interest accretion	(12,695,120)	(9,541,921)	(2,584,289)
Disposals/pre-terminations	(3,534,465)	(1,142,237)	—
	₱93,014,555	₱17,249,918	₱2,304,908

	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

As of December 31, 2008 and 2007, other noncurrent assets include AFS financial assets representing investments in shares of stock and club shares amounting to ₱28.3 million and ₱6.6 million, and ₱39.6 million and ₱6.6 million, respectively. The Jollibee Group recognized ₱11.0 million unrealized loss and ₱22.4 million unrealized gain from fair value adjustments in investments for the years 2008 and 2007, respectively. As there were no disposals in 2008 and 2007, no amount was taken out of stockholders' equity in both years.

16. Trade Payables and Other Current Liabilities

This account consists of:

	2008	2007
Trade	₱3,508,731,554	₱2,257,255,629
Accruals for:		
Salaries, wages and allowances	874,531,272	902,638,625
Local and other taxes	764,422,261	596,270,170
Advertising and promotions	435,456,652	364,343,928
Rent	222,682,237	164,150,137
Retention payable	46,893,647	112,288,700
Short-term loans	407,197,154	157,461,779
Dividends payable	339,160,893	693,296,023
Output VAT	194,610,969	266,842,771
Deposits	186,157,262	186,893,865
Others	1,849,122,150	1,703,282,843
	₱8,828,966,051	₱7,404,724,470

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.

In 2008, secured bank loans amounting to RMB25.03 million, equivalent to ₱173.5 million, are fully guaranteed by the Parent Company.

In 2007, the secured bank loan was collateralized by a pledge of Belmont's bank deposits of US\$500,000, equivalent to ₱20.6 million. The secured bank loans matured on January 16, 2008. The pledged bank deposits earned interest at the average bank deposit rates of 2.9%. Interest on the secured bank loans was charged on the outstanding balance at a rate of 7.3% per annum in 2008 and 5.4% per annum in 2007.

The unsecured bank loans are short-term loans availed from banks with maturity of one year or less. The interest rate on unsecured bank loans is 6.4% and 5.8% in 2008 and 2007, respectively.

Accruals, 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

	2008			2007	
	Legal Claims	Restructuring Costs	Others	Total	
Balance at beginning of year	₱32,112,104	₱6,156,799	₱19,237,291	₱57,506,194	₱75,344,101
Additions during the year	18,259,410	-	2,212,310	20,471,720	-
Payments during the year	(21,102,210)	(4,925,464)	(5,641,251)	(31,668,925)	(17,837,907)
Balance at end of year	29,269,304	1,231,335	15,808,350	46,308,989	57,506,194
Less current portion	-	1,231,335	15,808,350	17,039,685	25,394,090
	₱29,269,304	₱-	₱-	₱29,269,304	₱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

	2008	2007
Peso-denominated:		
Loan 1	P-	P8,181,819
Loan 2	-	2,727,270
US dollar-denominated:		
Loan 3	44,029,133	55,728,000
Loan 4	74,242,207	76,771,138
CNY-denominated -		
Loan 5	2,403,886,894	
	2,522,158,234	143,408,227
Less current portion	37,769,129	40,549,919
	P2,484,389,105	P102,858,308

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 P15.0 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 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 4 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.

CNY-denominated loan of the Parent Company:

On September 8, 2008, the Parent Company entered into a Synthetic Credit Facility Agreement with several financial institutions to finance its investments in the People's Republic of China. The agreement covers a three-year loan denominated in RMB amounting to CNY700 million at fixed interest rates for the Parent Company and at 2.25% above Libor floating rate for the lenders. The difference between the rates is covered by a notional swap subject to the same 2002 ISDA Master Agreement.

Loan 5 consists of Tranches A and B for CNY350 million each. On September 26, 2008, the Parent Company drew the full amount of Tranche A at 6.85% fixed interest rate using CNY6.82:1USD as initial exchange rate.

The loan is payable in full in US dollar using the spot rate five business days before September 8, 2011.



As of December 31, 2008, the long-term debt amounted to ₱2,522.2 million as follows:

Principal	₱2,546,768,666
Less unamortized debt issue cost	24,610,432
	<u>₱2,522,158,234</u>

The repayment schedule of the outstanding long-term debt as of December 31, 2008 follows:

Year	Loan 3	Loan 4	Loan 5	Total
2009	₱21,361,618	₱16,407,511	₱—	₱37,769,129
2010	22,667,515	17,506,325	—	40,173,840
2011	—	18,678,781	2,428,497,326	2,447,176,107
2012	—	19,929,745	—	19,929,745
2013	—	1,719,845	—	1,719,845
	<u>₱44,029,133</u>	<u>₱74,242,207</u>	<u>₱2,428,497,326</u>	<u>₱2,546,768,666</u>

19. Stockholders' Equity

a. Capital Stock

The movements in the number of shares in 2008 and 2007 follows:

	Number of Shares	
	2008	2007
Authorized - ₱1 par value	<u>1,450,000,000</u>	<u>1,450,000,000</u>
Issued:		
Balance at beginning of year	1,032,129,882	1,022,173,029
Issuances	5,866,309	9,956,853
Balance at end of year	<u>1,037,996,191</u>	<u>1,032,129,882</u>
Subscribed:		
Balance at beginning of year	2,009,297	2,009,297
Subscriptions	5,866,309	9,956,853
Issuances	(5,866,309)	(9,956,853)
Balance at end of year	<u>2,009,297</u>	<u>2,009,297</u>
	<u>1,040,005,488</u>	<u>1,034,139,179</u>

b. Treasury Shares

	Number of Shares	
	2008	2007
Common stock held in treasury (Note 27):		
Balance at beginning of year	16,692,150	22,734,028
Re-issuances for stock purchase exercised	(244,810)	(6,041,878)
Balance at end of year	<u>16,447,340</u>	<u>16,692,150</u>



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, 2008, the BOD approved the declaration of cash dividends of ₱0.48 a share in favor of the stockholders of record as of November 28, 2008, payable on December 18, 2008. The BOD also approved on April 14, 2008 the declaration of cash dividends of ₱0.30 a share in favor of stockholders of record as of May 2, 2008. This was paid on May 28, 2008.

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.

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 ₱1,652.2 million and ₱1,132.61 million as of December 31, 2008 and 2007, respectively; and (b) cost of common shares held in treasury amounting to ₱180.5 million and ₱183.3 million as of December 31, 2008 and 2007, 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:

	2008	2007	2006
Cost of inventories	₱20,867,044,942	₱17,878,964,134	₱15,287,365,939
Personnel costs:			
Salaries, wages and benefits	5,428,599,202	4,588,476,833	3,724,283,110
Retirement benefits (Note 26)	85,298,371	108,281,404	47,287,480
Rent (Note 30)	2,751,207,602	2,192,579,879	2,005,199,365
Electricity and water	1,862,476,746	1,746,714,091	1,616,880,563
Depreciation and amortization (see Notes 12 and 13)	1,570,869,765	1,376,155,592	1,364,645,995
Supplies	1,053,362,489	935,052,357	700,409,592

(Forward)



	2008	2007	2006
Freight	P576,891,935	P432,547,827	P977,050,733
Repairs and maintenance	399,622,914	437,468,866	358,305,578
Security and janitorial	217,615,854	195,509,983	139,120,211
Communication	107,192,628	92,885,415	54,324,887
Professional fees	90,893,405	69,296,351	58,202,996
Entertainment, amusement and recreation (EAR)	19,059,695	17,434,361	12,293,301
Others	750,038,576	525,245,352	573,362,297
	P35,780,174,124	P30,596,612,445	P26,918,732,047

22. Expenses

This account consists of:

	2008	2007	2006
General and administrative expenses	P4,295,692,017	P3,985,019,306	P3,743,488,260
Advertising and promotions (see Note 20)	1,062,410,392	1,106,308,347	829,241,413
Provisions	65,519,274	71,815,450	7,008,773
	P5,423,621,683	P5,163,143,103	P4,579,738,446

The general and administrative expenses consist of:

	2008	2007	2006
Personnel costs:			
Salaries, wages and benefits	P1,976,108,533	P1,894,832,515	P1,940,051,486
Stock options expense	85,654,300	84,895,128	32,008,199
Retirement benefits (Note 26)	60,393,611	72,537,479	49,834,864
Professional fee	429,327,973	203,740,268	62,542,529
Taxes and licenses	538,841,273	303,222,981	292,386,861
Transportation and travel	347,142,269	155,562,358	127,084,481
Depreciation and amortization	158,009,998	203,403,281	209,198,762
Rent (see Note 30)	151,548,685	198,424,514	131,980,154
Communication	68,528,787	58,939,755	53,435,433
Supplies	57,711,424	73,551,598	54,229,829
Electricity and water	53,597,374	69,884,621	73,428,361
EAR	47,234,312	42,493,374	28,835,754
Training	45,269,836	26,814,833	35,700,145
Security and janitorial	43,695,410	34,400,596	32,543,982
Donation	42,457,680	30,000,000	—
Repairs and maintenance	34,754,003	60,345,187	57,688,153
Insurance	10,243,369	22,961,799	26,160,455
Others	145,173,180	449,009,019	536,378,812
	P4,295,692,017	P3,985,019,306	P3,743,488,260



The provisions consist of:

	2008	2007	2006
Impairment in value of:			
Receivables and inventories (Notes 7 and 8)	₱61,726,457	₱39,507,137	₱7,008,773
Property, plant and equipment and investment properties (Notes 12 and 13)	3,792,817	32,308,313	-
	₱65,519,274	₱71,815,450	₱7,008,773

23. Finance Income (Charges)

These accounts consist of:

	2008	2007	2006
Interest income:			
Money market placements	₱127,765,395	₱104,285,248	₱71,860,068
Cash in banks	23,518,116	16,953,116	22,303,143
Accretion of interest on financial assets (Note 15)	24,092,552	14,417,480	27,794,598
Loan and advances	33,088,018	7,333,136	13,533,003
	₱208,464,081	₱142,988,980	₱135,490,812
Interest expense:			
Accretion of interest on financial liabilities (Notes 10 and 18)	₱1,411,233	₱30,927,819	₱54,648,804
Long-term loans	103,669,187	24,491,469	4,977,009
Short-term loans	-	50,000	20,781,701
	₱105,080,420	₱55,469,288	₱80,407,514

24. Income Tax

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

	2008	2007
Regular income tax	₱344,359,514	₱450,068,940
Final tax withheld on royalty and interest income	485,296,600	403,307,393
	₱829,656,114	₱853,376,333



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

	2008	2007
Deferred tax assets:		
Operating lease payable	₱337,807,069	₱353,129,197
Accrued retirement and other benefits	162,797,707	154,648,221
MCIT	73,596,216	33,549,526
Provision for impairment in value of property, plant and equipment, investment properties, and other non-financial assets	56,916,096	46,014,199
NOLCO	29,565,610	88,420,281
Allowance for inventory losses	16,788,061	8,488,671
Allowance for impairment losses	13,979,836	16,776,321
Provisions for legal claims and restructuring costs	9,593,198	19,405,647
Unamortized past service costs	6,356,627	3,912,692
Others	52,723,998	149,822,117
	₱760,124,418	₱874,166,872
Deferred tax liabilities:		
Operating lease receivable	₱45,845,271	₱47,063,623
Income from Meralco refund	5,671,553	10,514,094
Excess of fair value over book value of property, plant and equipment of acquired businesses	—	837,205
Others	20,853,274	68,405,670
	₱72,370,098	₱126,820,592

As of December 31, 2008, 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, 2008	December 31, 2011	₱—	₱40,046,689
December 31, 2007	December 31, 2010	—	4,905,086
December 31, 2006	December 31, 2009	189,742,363	28,644,441
December 31, 2005	December 31, 2008	49,921,668	17,002,487
		239,664,031	90,598,703
Less:			
Applied against regular taxable income in 2008		141,111,998	—
Expired in 2008		—	17,002,487
Balance at year end		₱98,552,033	₱73,596,216



As of December 31, 2008, the following tax losses 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, 2008	December 31, 2013	84,769,818
December 31, 2007	December 31, 2012	34,892,190
December 31, 2006	December 31, 2011	15,420,379
December 31, 2005	December 31, 2010	6,400,222
December 31, 2004	December 31, 2009	7,737,296
		¥149,219,905
Less expired in 2008		2,312,569
Balance at year end		¥146,907,336

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:

	2008	2007	2006
Provision for income tax at statutory	¥1,123,872,818	¥1,097,255,056	¥1,016,033,954
Income tax effects of:			
Effect of different tax rate for royalty fees and interest	(371,579,442)	(333,250,076)	(298,888,559)
Incentives availed by Zenith (Note 25)	—	(105,910,147)	(83,704,389)
Effects of changes in tax rates	46,286,375	29,096,536	22,502,898
Nondeductible expenses	40,828,955	31,366,946	18,596,686
Expired/applied NOLCO and MCIT	—	13,272,704	2,193,039
Others	49,839,368	14,825,778	66,062,603
	¥889,248,074	¥746,656,797	¥742,796,232

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.

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.



Zenith's registration with the BOI expired in November 2007.

Incentives availed of by the subsidiary amounted to ₱105.9 million and ₱83.7 million in 2007 and 2006, 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:

	2008	2007	2006
Current service cost	₱91,054,355	₱111,560,548	₱64,264,487
Interest cost on benefit obligation	88,432,474	94,272,700	63,029,401
Expected return on plan assets	(34,803,756)	(43,777,679)	(29,272,369)
Net actuarial loss	1,008,909	18,763,314	269,400
Effect of consolidation of Baker Fresh (Note 10)	—	—	(1,168,575)
	₱145,691,982	₱180,818,883	₱97,122,344

Accrued benefit cost:

	2008	2007
Present value of defined benefit obligation	₱985,573,966	₱896,922,683
Fair value of plan assets	(531,760,226)	433,325,653
Present value of unfunded obligation	453,813,740	463,597,030
Unrecognized net actuarial losses	(53,286,762)	(19,983,964)
	₱400,526,978	₱443,613,066

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

	2008	2007
At January 1	₱896,922,683	₱1,208,554,155
Current service cost	91,054,355	111,560,548
Interest cost on benefit obligation	88,432,474	94,272,700
Actual benefits paid	(90,835,546)	(70,412,849)
Actuarial loss on benefit obligation	—	(447,051,871)
At December 31	₱985,573,966	₱896,922,683



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

	2008	2007
At January 1	₱433,325,653	₱430,319,438
Contributions	155,752,809	6,621,695
Expected return on plan assets	34,803,756	43,777,679
Actual benefits paid	(57,810,284)	(4,920,700)
Benefits payable to Parent Company and Jollibee Worldwide Services (reimbursement)	—	(44,683,589)
Actuarial gain (loss) on plan assets	(34,311,708)	2,211,130
At December 31	₱531,760,226	₱433,325,653
Actual return on plan assets	₱492,048	₱41,490,051

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

	2008	2007
Government securities	39.04%	26.94%
Special savings deposits	30.79	5.19
Investments in shares of stock	22.99	32.80
Investments in debt securities	4.26	—
Loans/notes receivable	1.88	2.28
Cash and cash equivalents	—	30.69
Other receivables	1.04	2.10
	100.00%	100.00%

The Jollibee Group will contribute a substantial part of the unfunded defined benefit obligation in 2009.

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, 2008 and 2007, the principal actuarial assumptions used to determine retirement benefits obligations follow:

	2008	2007
Discount rate	10.15%	10.15%
Salary increase rate	8.00%	8.00%
Rate of return on plan assets	8.00%	8.00%



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

	2008	2007	2006
Defined benefit obligation	P985,573,966	P896,922,683	P1,208,554,155
Plan assets	531,760,226	433,325,653	430,319,438
Deficit	P453,813,740	P463,597,030	P778,234,717
Experience adjustments on:			
Plan obligation	P-	(P220,551,925)	P28,704,737
Plan assets	(34,311,708)	2,211,130	103,583,944

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 P2.93 million, P1.94 million and P57.3 million in 2008, 2007 and 2006, 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 P24.8 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 2008 and 2007 follow:

	Number of Shares	
	2008	2007
Balance at beginning of year	6,072,004	13,469,891
Options exercised during the year	(4,389,786)	(7,394,604)
Options of resigned employees	—	(3,283)
Forfeited shares	(1,682,218)	—
	—	6,072,004

As of December 31, 2008, a total of 1,682,218 option shares were not exercised, consequently, forfeited. The number of option shares exercisable as of December 31, 2007 is 6,072,004. 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 2008 and 2007 are as follows:

	Tranche 1	Tranche 2	Tranche 3	Total
2008	4,184,358	155,291	50,137	4,389,786
2007	5,679,315	1,480,248	235,041	7,394,604

The weighted average share price of options exercised was ₱10.14.

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 is a yearly stock option grant program. Each 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. On July 1, 2007, 3,014,700 options under the 4th MSOP cycle were granted to eligible participants. Likewise, an additional 675,500 options under the 3rd MSOP cycle were granted. The options vest similar to the 1st MSOP cycle.

The movements in 2008 and 2007 in the number of stock options outstanding for the 1st, 2nd, 3rd and 4th MSOP cycles follow:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle	4th 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
Options exercised during the year	(130,765)	(268,330)	(255,418)	—	(654,513)
Options granted during the year	—	—	675,500	3,014,700	3,690,200
Balance at December 31, 2008	1,644,864	1,802,397	2,689,937	3,014,700	9,151,898

The weighted average share price of options exercised was ₱27.86.



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, July 1, 2006 for 3rd MSOP cycle and July 1, 2007 for 4th MSOP cycle are shown below:

	1st MSOP Cycle	2nd MSOP Cycle	3rd MSOP Cycle	4th MSOP Cycle
Dividend yield	1.7%	1.7%	1.7%	1.7%
Expected volatility	36.9%	36.9%	36.9%	30.4%
Risk-free interest rate	6.2%	6.0%	6.2%	3.8%
Expected life of the option	5-7 years	5-7 years	5-7 years	5-7 years
Stock price on grant date	P24.00	P29.00	P35.00	P52.50
Exercise price	P20.00	P27.50	P32.32	P50.77

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 2008 in the number of outstanding stock options follow:

Options granted in 2007	22,750,000
Options exercised in 2007	(1,479,168)
Balance at December 31, 2007	21,270,832
Options exercised in 2008	(3,500,001)
Balance at December 31, 2008	17,770,831

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	P24.00
Exercise price	P20.00



The cost of the stock options charged to operations under "General and administrative expenses - personnel costs" account amounted to ₱85.6 million, ₱85.9 million and ₱40.0 million in 2008, 2007 and 2006, respectively (see Note 22).

28. Related Party Transactions

The Jollibee Group has transactions within and among the consolidated entities and. 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.

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, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Salaries and short-term benefits	₱372,814,600	₱295,501,721	₱220,798,970
Retirement expense from defined benefit plan	22,636,807	33,765,090	13,246,147
Employee car plan and other long-term benefits	24,509,655	14,033,389	12,092,466
Stock options expense	85,654,300	84,895,128	32,008,199
	₱505,615,362	₱428,195,328	₱278,145,782

29. Earnings Per Share Computation

Basic and diluted EPS are computed as follows:

	2008	2007	2006
(a) Net income attributable to the equity holders of the Parent	₱2,319,087,864	₱2,386,722,219	₱2,156,618,463
(b) Weighted average number of shares - basic	1,022,431,961	1,009,526,325	997,857,977
Weighted average number of shares exercisable under the stock option plan	15,250,887	14,985,242	6,763,355
Weighted average number of shares that would have been purchased at fair market value	(8,551,814)	(5,113,222)	(2,593,210)
(c) Adjusted weighted average shares - diluted	1,029,131,034	1,019,398,345	1,002,028,122
Earnings per share:			
Basic (a/b)	₱2.268	₱2.364	₱2.161
Diluted (a/c)	2.253	2.341	2.152



30. Commitments and Contingencies

a. Operating lease commitments - 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 3 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 ₱2,723.7 million, ₱2,391.0 million and ₱2,137.2 million in 2008, 2007 and 2006, respectively.

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

	2008	2007
Within one year	₱848,088,729	₱638,552,582
After one year but not more than five years	3,706,473,909	2,942,218,031
More than five years	3,082,036,952	2,861,963,964
	₱7,636,599,590	₱6,442,734,577

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. Rent expense recognized on a straight-line basis amounted to ₱2,723.7 million, ₱2,391.0 million and ₱2,137.2 million in 2008, 2007 and 2006, respectively.

b. Operating lease commitments - Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units. Noncancellable periods of the lease range from 3 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 income in accordance with the terms of the lease agreements amounted to ₱89.8 million, ₱101.6 million and ₱38.7 million in 2008, 2007 and 2006, respectively.

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

	2008	2007
Within one year	₱51,911,745	₱30,203,165
After one year but not more than five years	102,659,383	71,791,612
More than five years	47,236,932	29,583,522
	₱201,808,060	₱131,578,299



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 included under "Operating lease receivable" account. Rental income recognized on a straight-line basis amounted to ₱83.0 million, ₱96.3 million and ₱88.1 million in 2008, 2007 and 2006, 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, short-term investments 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 financial assets 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 10.7% and 15.5% of the consolidated net assets of the Jollibee Group as of December 31, 2008 and 2007, respectively. 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 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 2008 and 2007.



The following table shows the Jollibee Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents:

December 31, 2008						
	Philippine Operations				Foreign Operations	
	USD	RMB	PHP	RMB	USD	PHP
Assets						
Cash and cash equivalents	11,373,730	—	540,479,650	113,757,148	9,855,203	1,256,656,272
Receivables	4,250,152	—	201,967,223	18,097,816	2,918,847	264,121,463
	15,623,882	—	742,446,873	131,854,964	12,774,050	1,520,777,735
Liabilities						
Payables	—	(350,000,000)	(2,425,500,000)	(109,151,414)	(10,063,669)	(1,234,644,833)
Loans	—	—	—	(58,728,100)	(2,504,796)	(526,013,651)
	15,623,882	(350,000,000)	(1,683,053,127)	(36,024,550)	205,585	(239,880,749)

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 included under "Other income" account in the consolidated statements of income of ₱71.6 million, ₱25.0 million and ₱12.7 million on its net foreign currency-denominated assets and liabilities for the years ended December 31, 2008, 2007 and 2006, 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, 2008	6.93	47.52
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 income before income tax (due to changes in the fair value of monetary assets and liabilities):

December 31, 2008		
	Increase (Decrease) in ₱ to	Effect on Income Before Income Tax
USD		
	₱1.50	₱23,435,823
	(1.50)	(23,435,823)
	1.00	15,623,882
	(1.00)	(15,623,882)
RMB		
	₱0.95	(₱332,500,000)
	(0.95)	332,500,000
	0.63	(220,500,000)
	(0.63)	220,500,000



December 31, 2007		
	Increase (Decrease) in ₱ to	Effect on Income Before Income Tax
USD		
	₱1.50	₱7,271,417
	(1.50)	(7,271,417)
	1.00	4,847,611
	(1.00)	(4,847,611)

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.

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

December 31, 2008					
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
(In Millions)					
Cash and cash equivalents	₱6,858.8	₱6,858.8	₱-	₱-	₱-
Short-term investments	20.0	20.0	-	-	-
Trade	1,882.2	588.0	287.0	27.0	980.2
Advances to officers and employees	73.5	73.5	-	-	-
Current portion of:					
Employee car plan	44.3	44.3	-	-	-
Receivable from Meralco	10.1	10.1	-	-	-
Others	7.6	7.6	-	-	-
Receivables	2,017.7	723.5	287.0	27.0	980.2
Noncurrent portion of:					
Refundable deposits	648.9	648.9	-	-	-
Employee car plan	74.5	74.5	-	-	-
Receivable from Meralco	8.8	8.8	-	-	-
Other noncurrent assets	732.2	732.2	-	-	-
	₱9,628.7	₱8,334.5	₱287.0	₱27.0	₱980.2



December 31, 2007					
	Total	Neither Past Due nor Impaired			Past Due or Impaired
		A	B	C	
(In Millions)					
Cash and cash equivalents	P5,576.9	P5,576.9	P-	P-	P-
Trade	1,901.0	940.2	118.1	10.7	832.0
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	-	-	-
Receivables	2,025.1	1,064.3	118.1	10.7	832.0
Noncurrent portion of:					
Refundable deposits	504.6	504.6	-	-	-
Employee car plan	71.0	71.0	-	-	-
Receivable from Meralco	17.1	17.1	-	-	-
Other noncurrent assets	592.7	592.7	-	-	-
	P8,194.7	P7,233.9	P118.1	P10.7	P832.0

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 analyses of receivables are as follows:

December 31, 2008							
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
(In Millions)							
Trade	₱1,882.2	₱902.0	₱204.4	₱68.7	₱77.0	₱553.0	₱77.1
Advances to officers and employees	73.5	73.5	—	—	—	—	—
Current portion of:							
Employee car plan	44.3	44.3	—	—	—	—	—
Receivable from Meralco	10.1	10.1	—	—	—	—	—
Others	7.6	7.6	—	—	—	—	—
Total	₱2,017.7	₱1,037.5	₱204.4	₱68.7	₱77.0	₱553.0	₱77.1



December 31, 2007							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
			(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, 2008 and 2007, without considering the effects of collaterals and other credit risk mitigation techniques.

	2008	2007
Cash and cash equivalents (exclude cash on hand)	P6,804,429,400	P5,562,133,723
Short-term investments	20,002,018	-
Receivables	1,940,700,399	1,942,450,718
Other noncurrent assets -		
Noncurrent portion of:		
Refundable deposits	648,899,059	504,555,973
Employee car plan	74,464,709	70,993,342
Receivable from Meralco	8,769,643	17,134,633
	P9,497,265,228	P8,097,268,389

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 and AFS financial assets, 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.



Interest Rate Risk

The Jollibee Group's exposure to changes in market interest rates relates primarily to the long-term debt obligations of the Parent Company and Red Ribbon, with fixed interest rates. Thus, the changes 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:

December 31, 2008					
	Fixed Interest Rate	Within 1 year	2-3 years	4-5 years	Total
US dollar-denominated:					
Loan 3	6.50%	P23,629,082	P23,496,596	P-	P47,125,678
Loan 4	6.50%	20,750,179	41,500,309	22,479,336	84,729,824
CNY-denominated -					
Loan 5	6.85%	166,355,973	2,761,209,319	-	2,927,565,292
		P210,735,234	P2,826,206,224	P22,479,336	P3,059,420,794
December 31, 2007					
	Fixed Interest Rate	Within 1 year	2-3 years	4-5 years	Total
Peso-denominated:					
Loan 1	9% and 11.75%	P3,181,819	P-	P-	P3,181,819
Loan 2	9.75%	2,727,270	-	-	2,727,270
US dollar-denominated:					
Loan 4	6.50%	17,362,938	38,365,092	-	55,728,000
Loan 5	6.50%	12,277,922	29,460,501	35,032,715	76,771,138
		P40,549,919	P67,825,593	P35,032,715	P143,408,227

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, 2008 and 2007.



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

	December 31, 2008				Total
	On demand	Within 1 year	2-3 years	4-5 years	
Trade payables and other current liabilities*	P7,394,861,649	P559,722,919	P5,137,910	P-	P7,959,722,478
Long-term debt (including current portion)	-	210,735,234	2,826,206,224	22,479,336	3,059,420,794
	P7,394,861,649	P770,458,153	P2,831,344,134	P22,479,336	P11,019,143,272

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

	December 31, 2007				Total
	On demand	Within 1 year	2-3 years	4-5 years	
Trade payables and other current liabilities*	P739,489,465	P5,796,449,584	P-	P-	P6,535,939,049
Long-term debt (including current portion)	-	49,697,910	77,103,321	37,552,891	164,354,122
	P739,489,465	P5,846,147,494	P77,103,321	P37,552,891	P6,700,293,171

*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.

As of December 31, 2008 and 2007, the Jollibee Group's ratio of debt to equity and ratio of net debt to total equity are as follows:

Debt to equity

	2008	2007
Total debt (a)	P12,985,869,085	P9,296,664,505
Total equity attributable to equity holders of the Parent	14,136,494,022	12,642,928,847
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	P27,122,363,107	P21,939,593,352
Debt to equity ratio (a/b)	48%	42%



Net debt to equity

	2008	2007
Total debt	₱12,985,869,085	₱9,296,664,505
Less cash and cash equivalents and short-term deposits	6,878,851,074	5,575,943,093
Net debt (a)	6,107,018,011	3,720,721,412
Total equity attributable to equity holders of the Parent	14,136,494,022	12,642,928,847
Total net debt and equity attributable to equity holders of the Parent (b)	₱20,243,512,033	₱16,363,650,259
Net debt to equity ratio (a/b)	30%	23%

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, 2008 and 2007. There are no material unrecognized financial assets and liabilities as of December 31, 2008.

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and Receivables:				
Cash and cash equivalents	₱6,858,849,056	₱6,858,849,056	₱5,575,943,093	₱5,575,943,093
Short-term investments	20,002,018	20,002,018	-	-
Receivables	1,940,700,399	1,940,700,399	1,942,450,718	1,942,450,718
Other noncurrent assets –				
Noncurrent portion of:				
Refundable deposits	648,899,059	656,566,215	504,555,973	512,967,595
Employee car plan	74,464,709	76,796,313	70,993,342	72,384,757
Receivable from Meralco	8,769,643	9,082,735	17,134,633	18,992,548
	9,551,684,884	9,561,996,736	8,111,077,759	8,122,738,711
AFS financial assets:				
Shares of stock	28,290,714	28,290,714	39,554,343	39,554,343
Club shares	6,600,000	6,600,000	6,610,000	6,610,000
	34,890,714	34,890,714	46,164,343	46,164,343
	₱9,586,575,598	₱9,596,887,450	₱8,157,242,102	₱8,168,903,054
Other Financial Liabilities				
Trade payables and other current liabilities*	₱3,590,914,485	₱3,590,914,485	₱6,535,939,049	₱6,535,939,049
Long-term debt (including current portion)	2,508,999,532	2,071,450,886	143,408,227	128,684,746
	₱6,099,914,017	₱5,662,365,371	₱6,679,347,276	₱6,664,623,795

*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, short-term investments, 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, and long-term debt are based on the discounted value of future cash flows using applicable rates, as follows:

	2008	2007
Receivable from Meralco	7%-8%	7%-8%
Employee car plan	5%-8%	4%-6%
Refundable deposits	7%-8%	5%-8%
Long-term debt	6%-7%	5%-6%

AFS financial assets. 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. Mark-to-market gain on embedded derivative, recognized under "Other income" account in the consolidated statements of income, amounted to ₱21.4 million in 2007.

33. Events After Balance Sheet Date

Dividend Declaration

The BOD of the Parent Company approved on April 28, 2009 a cash dividend of ₱0.37 a share of common stock to all stockholders of record as of May 14, 2009. This will be distributed on June 5, 2009. This cash dividend is 2.8% higher than that declared in the same period last year.

Acquisition of a Business

On January 1, 2009, Jollibee Worldwide, a wholly-owned subsidiary of the Company, acquired 70% of the issued and outstanding shares of Lao Dong Pte. Ltd. based in Taipei, Republic of China for a total acquisition cost of New Taiwan dollar (NT)42 million (₱61.1 million) and additional capital infusion of NT21 million (₱30.6 million).



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Jollibee Foods Corporation and Subsidiaries as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, included in this Form 17-A and have issued our report thereon dated April 28, 2009. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-1
Tax Identification No. 102-085-577
PTR No. 1566425, January 5, 2009, Makati City

April 28, 2009



JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES**SCHEDULE L - RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

Unappropriated consolidated retained earnings, beginning of year	₱8,884,408,730
Less: Accumulated earnings of subsidiaries	1,132,605,798
Deferred tax assets, beginning	334,030,461
	1,466,636,259
Unappropriated retained earnings of the Parent Company, as adjusted to available for dividend declaration, beginning	7,417,772,471
Consolidated net income actually earned during the year	2,319,087,864
Less: Net income of subsidiaries	522,307,095
Net income actually earned by the Parent Company during the year, as reported	1,796,780,769
Less unrealized income net of tax:	
Interest income from accretion	67,482,927
Unrealized foreign exchange gain - net	15,164,969
	82,647,896
Net income actually earned by the Parent Company during the year, as adjusted	1,714,132,873
Unappropriated retained earnings of the Parent Company before adjustments during the year	9,131,905,344
Less: Dividend declaration during the year	853,848,051
Treasury shares	180,511,490
Unappropriated retained earnings of the Parent Company as adjusted to available for dividend declaration, end	₱8,097,545,803