# JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

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

and

Report of Independent Auditors

# COVER SHEET

77487

SEC Registration Number

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

9th Floor, Jollibee Plaza Building, No. 10 Emerald Avenue, Ortigas Centre, Pasig City

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

| | |
|---|---|
| **Mr. Ysmael Baysa** | **634-1111** |
| (Contact Person) | (Company Telephone Number) |

| | | |
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| 12 31 | AACFS | 06 18 |
| *Month* *Day* | (Form Type) | *Month* *Day* |
| (Fiscal Year) | | (Annual Meeting) |

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

| Total No. of Stockholders | Domestic | Foreign |
|---|---|---|
| | ₱510,000,000 | |

To be accomplished by SEC Personnel concerned

File Number

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

**Report of Independent Auditors**

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

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

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

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

SyCip Gorres Velayo & Co.

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

March 22, 2004

# JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
# CONSOLIDATED BALANCE SHEETS

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

*See accompanying Notes to Consolidated Financial Statements.*

## JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME

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

*See accompanying Notes to Consolidated Financial Statements.*

## JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

*See accompanying Notes to Consolidated Financial Statements.*

## JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Forward)

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

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

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

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

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

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

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

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

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

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the consolidated financial statements, principally the date of authorization for release of the consolidated financial statements.

- SFAS 22/IAS 22 "Business Combinations," requires that an acquisition where an acquirer can be identified should be accounted for by the purchase method. Any goodwill arising from the acquisition should be amortized generally over 20 years. The adoption of the standard did not result in restatement of prior years' consolidated financial statements.

- SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. The adoption of the standard has no effect on the Group's recorded provisions. Additional disclosures required by the standard, principally the change in the provisions for the year, were included in the consolidated financial statements.

New Accounting Standards Effective Subsequent to 2003

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

- SFAS 12/IAS 12, "Income Taxes," prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.

- SFAS 17/IAS 17, "Leases," prescribes the accounting policies and disclosures to apply to finance and operating leases. It requires the recognition of operating lease expense on a straight-line basis.

- SFAS 21/IAS 21, "The Effects of Changes in Foreign Exchange Rates," provides restrictions on the capitalization of foreign exchange losses.

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

Basis of Consolidation

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

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

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

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

Cash and Cash Equivalents

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

Receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury Shares
Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated balance sheets as a deduction from stockholders' equity. Upon issuance or resale of the treasury shares, treasury shares account is credited for the cost of the treasury shares. Cost is determined using the simple average method. Gains on sale are credited to additional paid-in

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

Provisions

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

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

Revenue

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

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

Income Tax

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

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

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

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

Borrowing Costs
Borrowing costs are expensed as incurred.

Research Costs
Research costs are expensed as incurred.

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

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

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

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

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

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

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

## 3. Segment Information

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

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

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

Business Segments

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

| | As of and for the Year Ended December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | **Food Service** | **Franchising** | **Real Estate** | **Eliminations** | **Total** |
| | | | *(In Thousands)* | | |
| **Results of Operations** | | | | | |
| Revenues from external customers | **₱19,968,134** | **₱1,601,173** | **₱80,084** | **₱–** | **₱21,649,391** |
| Inter-segment revenues | **1,359,453** | **97,702** | **88,688** | **(1,545,843)** | **–** |
| Segment revenue | **21,327,587** | **1,698,875** | **168,772** | **(1,545,843)** | **21,649,391** |
| Segment expense | **(21,563,240)** | **(5,847)** | **(166,428)** | **1,607,870** | **(20,127,645)** |
| Impairment losses | **(110,928)** | **–** | **(19,000)** | **–** | **(129,928)** |
| Provision for legal claims and restructuring costs | **(87,433)** | **–** | **–** | **–** | **(87,433)** |
| Other segment income | **149,980** | **–** | **1,417** | **(63,130)** | **88,267** |
| Segment result | **(₱284,034)** | **₱1,693,028** | **(₱15,239))** | **(₱1,103)** | **1,392,652** |
| Interest income | | | | | **129,510** |
| Interest expense | | | | | **(56,814)** |
| Equity in net loss of a joint venture | **(₱23,005)** | **–** | **–** | **–** | **(23,005)** |
| Income before income tax and minority interests | | | | | **1,442,343** |
| Income tax expense | | | | | **(178,306)** |
| Minority interests | | | | | **(7,840)** |
| Net income | | | | | **₱1,256,197** |
| **Assets and liabilities** | | | | | |
| Segment assets | **₱16,545,262** | **₱98,334** | **₱883,112** | **(₱5,321,481)** | **₱12,205,227** |
| Deferred tax assets | | | | | **391,851** |
| Interest in and advances to a joint venture | **54,180** | **–** | **–** | **–** | **54,180** |
| Total assets | | | | | **₱12,651,258** |
| Segment liabilities | **₱6,866,660** | **₱167,097** | **₱432,425** | **(₱3,201,394)** | **₱4,257,021** |
| Long-term debt | | | | | **510,000** |
| Total liabilities | | | | | **₱4,774,788** |
| **Other segment information** | | | | | |
| Capital expenditures | **₱2,006,863** | **₱–** | **₱4,239** | **₱–** | **₱2,011,102** |
| Depreciation and amortization | **969,919** | **–** | **10,089** | **–** | **980,008** |
| Impairment losses | **110,928** | **–** | **19,000** | **–** | **129,928** |
| Other non-cash expenses: | | | | | |
| Provision for legal claims and restructuring costs | **87,433** | **–** | **–** | **–** | **87,433** |

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

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

(Forward)

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

Geographical Segments

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

## 4. Cash and Cash Equivalents

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

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

## 5. Receivables

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

## 6. Inventories

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

## 7. Prepaid Expenses and Other Current Assets

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

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

## 8. Investments in Subsidiaries

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

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

(Forward)

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

*(a) In liquidation*
*(b) Indirectly owned through Honeybee in 2003 and Superior in 2002*
*(c) Indirectly owned through JIBL*
*(d) Merged with the Parent Company in 2003*

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

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

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

## 9. Interest in and Advances to a Joint Venture

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

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

| | 2003 | 2002 |
|---|---|---|
| Acquisition cost: | | |
| Balance at beginning of year | **₱89,846,774** | ₱88,322,000 |
| Additional investment (see Note 27) | **–** | 1,524,774 |
| Balance at end of year | **89,846,774** | 89,846,774 |
| Accumulated equity in net losses: | | |
| Balance at beginning of year | **(53,322,924)** | (38,327,971) |
| Equity in net losses during the year | **(23,004,509)** | (14,994,953) |
| Balance at end of year | **(76,327,433)** | (53,322,924) |
| | **13,519,341** | 36,523,850 |
| Advances (see Note 24) | **40,660,342** | 32,526,290 |
| | **₱54,179,683** | ₱69,050,140 |

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

| | 2003 | 2002 |
|---|---|---|
| Current assets | **₱17,556,463** | ₱21,801,138 |
| Noncurrent assets | **45,969,891** | 57,411,758 |
| Current liabilities | **(29,676,842)** | (26,425,901) |
| Noncurrent liabilities | **(20,330,171)** | (16,263,145) |
| | **₱13,519,341** | ₱36,523,850 |

| | | |
|---|---|---|
| Revenues | **₱118,190,773** | ₱113,690,971 |
| Cost of sales | **(112,117,558)** | (102,157,390) |
| Operating expenses | **(27,232,102)** | (25,189,921) |
| Other charges | **(1,466,022)** | (855,249) |
| Loss before income tax | **(22,624,909)** | (14,511,589) |
| Provision for income tax | **(379,600)** | (483,364) |
| Net loss | **(₱23,004,509)** | (₱14,994,953) |

## 10. **Investment Properties**

| | 2003 | 2002 |
|---|---|---|
| Investment properties at cost | **₱141,943,077** | ₱141,943,077 |
| Less allowance for impairment in value of investment properties | **69,500,000** | 50,500,000 |
| Investment properties at recoverable value | **₱72,443,077** | ₱91,443,077 |

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

## 11. Property, Plant and Equipment

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

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

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

12. **Other Noncurrent Assets**

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

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

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

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

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

13. **Provisions**

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

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

A summary of restructuring provisions and impairment losses follow:

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

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

## 14. **Accrued Expenses**

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

15. **Other Current Liabilities**

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

16. **Long-term Debt**

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

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

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

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

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

## 17. **Stockholders' Equity**

a. Capital stock

The details of this account are shown below:

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

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

b. Retained earnings

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

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

## 18. Royalty and Franchise Fees

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

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

## 19. Expenses

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

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

Staff costs included in the consolidated statements of income follow:

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

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

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

## 20. **Income Tax**

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

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

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

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

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

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

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

## 21. Registration with the Board of Investments (BOI)

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

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

## 22. Retirement Benefits

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

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

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

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

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

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

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

## 23. Tandem Stock Purchase and Option Plan (Plan)

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

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

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

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

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

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

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

## 24. **Related Party Transactions**

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

## 25. **Earnings Per Share Computation**

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

## 26. **Commitments and Contingencies**

a. Operating lease commitments - Group as lessee

The Group has various operating lease commitments for QSR outlets and offices. Most of the leases contain renewal options. Some of the leases contain escalation clauses. The lease contracts on certain sales outlets provide for the payment of additional rentals based on certain percentages of sales of the outlets. Future minimum rentals payable for the non-cancellable periods of the operating leases follow:

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

b. Operating lease commitments - Group as lessor

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

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

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

c. Contingencies

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

d. Refund from Manila Electric Company (Meralco)

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

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

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

## 27. Notes to Consolidated Statements of Cash Flows

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

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

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

## 28. Subsequent Events

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

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

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

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

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

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

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