PHILEQUITY DOLLAR INCOME FUND, INC.
(An Open-End Mutual Fund Company)

Financial Statements
December 31, 2005 and 2004 and
Years Ended December 31, 2005, 2004 and 2003

and

Report of Independent Auditors

COVER SHEET

A1998-16216
SEC Registration Number

PHILEQUITY DOLLAR INCOME FUND, INC. (An Open-End Mutual Fund Company)
(Company's Full Name)

2103-B, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City
(Business Address: No. Street City/Town/Province)

Ms. Violeta O. Luym
(Contact Person)

635-6963
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

AAFS
(Form Type)

06
Month *Day*
(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

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

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

Report of Independent Auditors

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.
2103-B, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the accompanying statements of assets and liabilities of Philequity Dollar Income Fund, Inc. (an open-end mutual fund company) as of December 31, 2005 and 2004, and the related statements of operations, changes in net assets attributable to unitholders and cash flows for the years then ended, expressed in United States dollars. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also reviewed the translation of these statements into Philippines pesos on the basis described in Note 2 to the financial statements.

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 financial statements referred to above, expressed in United States dollars, present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

In our opinion, the financial statements expressed in Philippines pesos have been properly translated on the basis described in Note 2 to the financial statements.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-A
Tax Identification No. 102-086-897
PTR No. 4180839, January 2, 2006, Makati City

April 25, 2006

Report of Independent Auditors

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.

We have audited the accompanying statements of assets and liabilities of Philequity Dollar Income Fund, Inc. (an open-end mutual fund company) as of December 31, 2005 and 2004, and the related statements of operations, changes in net assets attributable to unitholders and cash flows for the years then ended, expressed in United States dollars. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also reviewed the translation of these statements into Philippines pesos on the basis described in Note 2 to the financial statements.

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 financial statements referred to above, expressed in United States dollars, present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

In our opinion, the financial statements expressed in Philippines pesos have been properly translated on the basis described in Note 2 to the financial statements.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-A
Tax Identification No. 102-086-897
PTR No. 4180839, January 2, 2006, Makati City

April 25, 2006

PHILEQUITY DOLLAR INCOME FUND, INC.
(An Open-End Mutual Fund Company)
STATEMENTS OF ASSETS AND LIABILITIES

	December 31			
	2005		2004	
	Functional Currency *(In U.S. Dollars)*	**Presentation Currency** *(In Philippine Pesos)*	Functional Currency (As restated - Note 3) *(In U.S. Dollars)*	Presentation Currency *(In Philippine Pesos)*
ASSETS				
Cash and Cash Equivalents (Notes 4, 9 and 10)	**$29,571**	**₱1,569,945**	$81,999	₱4,614,886
Financial Asset at Fair Value Through Profit or Loss (FVPL) (Notes 5, 9 and 10)	**2,531,850**	**134,415,904**	–	–
Investments in Dollar Bonds (Notes 5, 9 and 10)	–	–	870,068	48,967,394
Receivables (Notes 9 and 10)	**182,303**	**9,678,488**	21,283	1,197,835
Creditable Withholding Tax	**5,027**	**266,881**	–	–
Total Assets	**2,748,751**	**145,931,218**	973,350	54,780,115
LIABILITIES				
Accrued Expenses and Other Liabilities (Note 9)	**16,435**	**872,510**	18,229	1,025,956
NET ASSETS (Note 6)	**$2,732,316**	**₱145,058,708**	$955,121	₱53,754,159
Net Asset Value Per Share (Note 6)	**$0.033**	**₱1.761**	$0.030	₱1.672

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-end Mutual Fund Company)

STATEMENTS OF OPERATIONS

	Years Ended December 31			
	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - Note 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
REVENUES				
Interest	**$161,272**	**₱8,883,692**	$47,438	₱2,658,620
Gain on market valuation of financial asset at FVPL (Note 5)	**41,254**	**2,190,195**	–	–
Others	**24,431**	**653,102**	–	–
	226,957	**11,726,989**	47,438	2,658,620
EXPENSES				
Professional fees	**7,510**	**413,697**	856	48,000
Taxes and licenses	**5,726**	**315,440**	1,126	63,106
Commission (Note 8)	**4,572**	**251,835**	1,075	60,246
Printing and reproduction costs	**412**	**22,694**	477	26,755
Advertising and promotions	**93**	**5,148**	442	24,750
Others	**111**	**6,125**	1,868	11,347
	18,424	**1,014,939**	5,844	234,204
INVESTMENT INCOME BEFORE INCOME TAX	**208,533**	**10,712,050**	41,594	2,424,416
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 7)				
Current	**1,117**	**59,289**	–	–
Deferred	**(17,973)**	**(954,202)**	15,887	890,367
	(16,856)	**(894,913)**	15,887	890,367
NET INVESTMENT INCOME (Note 6)	**$225,389**	**₱11,606,963**	$25,707	₱1,534,049

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Years Ended December 31			
	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - Note 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
NET ASSETS AT BEGINNING OF YEAR	**$955,121**	**₱53,754,159**	$711,412	₱37,020,553
NET INVESTMENT INCOME	**225,389**	**11,606,963**	25,707	1,534,049
FROM CAPITAL STOCK TRANSACTIONS (Note 5)				
Proceeds from subscriptions of capital stock - 50,711,127 shares in 2005 and 7,156,190 in 2004	**1,567,344**	**86,337,366**	218,002	12,217,677
Payments for redemptions of capital stock 485,432 shares	**(15,538)**	**(855,832)**	–	–
Net change in net assets from capital stock transactions	**1,551,806**	**85,481,534**	218,002	12,217,677
Cumulative translation adjustments	**–**	**(5,783,948)**	–	2,981,880
NET INCREASE IN NET ASSETS	**1,777,195**	**91,304,549**	243,709	16,733,606
NET ASSETS AT END OF YEAR (Note 5)	**$2,732,316**	**₱145,058,708**	$955,121	₱53,754,159

See accompanying Notes to Financial Statements

PHILEQUITY DOLLAR INCOME FUND, INC.
(An Open-End Mutual Fund Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31			
	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - Note 3)	Presentation Currency
	(In U.S. Dollars)	*(In Philippine Pesos)*	*(In U.S. Dollars)*	*(In Philippine Pesos)*
CASH FLOWS FROM OPERATING ACTIVITIES				
Investment income before income tax	**$208,533**	**₱10,712,050**	$41,594	₱2,424,416
Adjustment for:				
Gain on market valuation of financial asset at FVPL (Note 5)	**(41,254)**	**(2,190,195)**	–	–
Interest income	**(161,272)**	**(8,883,692)**	(47,438)	(2,658,620)
Effect of change in foreign exchange rate	**–**	**152,631**	–	(2,742,890)
Operating income before working capital charges (loss)	**6,007**	**(209,206)**	(5,844)	(2,977,094)
Increase in:				
Financial assets at FVPL	**(1,620,528)**	**(86,033,832)**	(289,918)	(16,334,270)
Interest receivable	**(119,145)**	**(6,325,408)**	(1,786)	(100,625)
Increase (decrease) in accrued expenses and other liabilities	**16,178**	**858,890**	16,539	931,824
Income tax paid	**(6,144)**	**(326,185)**	–	–
Net cash used in operating activities	**(1,723,632)**	**(92,035,741)**	(281,009)	(18,480,165)
CASH FLOWS FROM FINANCING ACTIVITY				
Proceeds from subscription of capital stock	**1,567,344**	**83,210,293**	218,002	12,282,451
Payment for redemption of stock	**(15,538)**	**(824,912)**	–	–
Net cash provided by financing activities	**1,551,806**	**82,385,381**	218,002	12,282,451
CASH FLOWS FROM INVESTING ACTIVITY				
Interest received	**119,398**	**6,338,840**	81,010	4,564,184
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATE IN CASH AND CASH EQUIVALENTS	–	**266,579**	–	(48,317)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(52,428)**	**(3,044,941)**	18,003	(1,681,847)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**81,999**	**4,614,886**	63,996	6,296,733
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$29,571**	**₱1,569,945**	$81,999	₱4,614,886

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.
(An Open-End Mutual Fund Company)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Dollar Income Fund, Inc. (the Fund) is incorporated in the Philippines. It was registered with the Securities and Exchange Commission (SEC) on March 4, 1999 as an open-end mutual fund company, the purposes of which are to, among others, engage in the sale of its capital stock and to invest such proceeds in dollar-denominated bonds and debt securities. As an open-end mutual dollar fund company, its outstanding shares of stock are redeemable anytime based on the net asset value (NAV) per share at the time of redemption.

The registered office address of the Fund is 2103-B, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors on April 25, 2006.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The Fund's financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP) using the historical cost basis, except for financial assets at fair value through profit or loss, which are stated at market value.

Statement of Compliance
The Fund prepares its financial statements following the Philippine GAAP. The December 31, 2005 financial statements have been adjusted for the new Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) that became effective January 1, 2005. This is the Fund's first financial statements prepared in compliance with PFRS.

The Fund prepared its financial statements until December 31, 2004 in compliance with Statements of Financial Accounting Standards (SFAS) and SFAS/International Accounting Standards (IAS).

The Fund applied PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards," in preparing its financial statements, with January 1, 2004 as the date of transition. The Fund applied the accounting policies to all the years presented except those relating to financial instruments. The Fund availed of the exemption under PFRS 1 and applied PAS 32 and PAS 39, the standards on financial instruments, from January 1, 2005.

Reporting Currency
The accompanying financial statements have been prepared in U.S. dollars (the Fund's functional currency), as well as in Philippine pesos (the Fund's presentation currency) following the translation procedures specified in PAS 21, "The Effects of Changes in Foreign Exchange Rates," and all values are rounded to the nearest U.S. dollar and Philippine peso units. The financial statements were presented in Philippine pesos in 2004 and prior years.

The 2004 financial statements, previously presented in Philippine pesos, were restated to U.S. dollars. An explanation of the effects of PAS 21 is disclosed in Note 3.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except that the Fund has adopted the following new and revised standards mandatory for financial year beginning on January 1, 2005:

- PAS 21, “The Effects of Changes in Foreign Exchange Rates,” requires the Fund to determine its functional currency and measure its financial position and results of operations in that currency. Translation procedures are specified when the presentation currency used for reporting differs from the Fund’s functional currency. Based on the economic substance of the underlying circumstances relevant to the Fund, the functional currency of the Fund has been determined to be the U.S. dollars. As such, the Fund remeasured its financial position and results of operations, previously in Philippine pesos in 2004 and prior years, into U.S. dollars (see Note 3).

  In accordance with PAS 21, the U.S. dollars financial statements were translated to Philippine pesos, for presentation purposes as follows:

  a. assets and liabilities for each statement of assets and liabilities presented (i.e., including comparatives) were translated at the closing rate at the date of that statement of assets and liabilities;

  b. income and expenses for each statement of operations presented (i.e., including comparatives) were translated at average exchange rates; and,

  c. all resulting exchange differences were recognized as a separate component of equity.

- PAS 32, “Financial Instruments: Disclosure and Presentation,” covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Fund’s financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Fund, type of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the Fund’s financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

  Under PAS 32, open-end mutual funds and unit trusts, which provide their unitholders with a right to redeem their interests in the issuer at any time for cash equal to their proportionate share of the asset value of the issuer are considered as liabilities in substance although they take the legal form of equity. As such, the adoption of PAS 32 resulted in the Fund’s statements of assets and liabilities distinguishing between (a) liabilities other than those attributable to the unitholders and (b) net assets attributable to unitholders.

- PAS 39, "Financial Instruments: Recognition and Measurement," establishes the accounting and reporting standards for recognizing and measuring the Fund's financial assets and financial liabilities. The standard requires a financial asset or a financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Fund should continue to measure the financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified at "fair value through profit or loss" and derivatives, which are subsequently to be measured at fair value.

  PAS 39 also covers the accounting for derivative instruments. The definition of a derivative instrument includes derivatives (and derivative-like provisions) embedded in nonderivative contracts. Under the standard, every derivative instrument is recorded in the statements of assets and liabilities as either an asset or liability measured at its fair value.

  As permitted by the SEC, in its Resolution No. 331, series of 2005, mutual funds are allowed to (a) increase their authorized capital stock using the accrual valuation for their securities and sell up to September 30, 2005 said additional securities and all unissued/unsold securities and (b) use accrual valuation up to September 30, 2006 at which time such funds shall shift to mark-to-market valuation per PAS 39.

  The Fund elected to adopt the provisions of PAS 39 on September 30, 2005. Fixed income securities held at September 30, 2005 were designated as fair value through profit or loss (FVPL). Changes in the fair values of FVPL financial assets are recorded in the statements of operations. Previously, fixed income securities held by the Fund were carried at amortized cost less any impairment in value. In addition, interest income as of December 31, 2005 is accrued using the effective interest method. Previously, interest income is accrued on a straight-line basis. The change in accounting policy has no significant impact on the Fund's financial position and results of operations.

The Fund also adopted the following PAS based on revised IAS that are relevant to the Fund, beginning January 1, 2005:

- PAS 1, "Presentation of Financial Statements," provides a framework within which the Fund assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statements of operations. It also requires disclosure of key sources of estimation, uncertainty and judgments management has made in the process of applying the Fund's accounting policies.

- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," removes the concept of fundamental errors and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines the material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, "Events After the Balance Sheet Date," provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 24, "Related Party Disclosures," provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel by benefit type.

Adoption of the foregoing standards did not have any material effect on the financial statements. The required additional disclosures by these new standards were included in the financial statements and comparative figures have been amended as required.

Standards Not Yet Effective
The Fund did not early adopt PFRS 7, "Financial Instruments - Disclosures." The revised disclosures on financial instruments provided by this standard will be included in the financial statements when the standard is adopted in 2007.

Use of Estimates and Judgments
The Fund makes estimates and judgments that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Fund carries its FVPL financial assets at fair value, which requires the use of accounting estimates and judgments.

Fair value of financial assets. Fair value determinations for the FVPL financial assets are based generally on quoted prices.

While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in the fair value of these financial assets would affect net assets.

Impairment of financial assets. In determining the fair values, management evaluates the financial health of the issuer and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value.

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

Financial Assets

Accounting Policies Effective September 30, 2005
The Fund classifies its financial assets in the following categories: loans and receivables, FVPL and held-to-maturity financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition, and where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial instruments are recognized initially at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The fair values of the consideration given or received are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. Investments are initially recognized at fair value plus transactions costs that are directly attributable to their acquisition in the case of all financial assets not carried at FVPL.

Financial instruments are recognized in the statements of assets and liabilities when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognized either when the Fund has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards of ownership but it no longer has control over the financial assets.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits. Financial instruments are offset, when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The subsequent measurement bases for financial assets depend on classification.

Held-to-Maturity Investments. Held-to-maturity financial assets comprises fixed or determinable income securities that the Fund has the ability and intent to hold until maturity. Premiums and discounts are amortized over the life of the instrument using the effective interest method. The amortization of premiums and discounts is taken to the statement of operations.

Loans and Receivables. Loan and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Fund intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. Loans and receivables financial assets are carried at amortized cost using the effective interest method.

FVPL. Financial assets at FVPL consists of government debt securities and equity securities purchased and held principally with the intention of selling them in the near term or are designated as FVPL at initial recognition. These securities and debt instruments are carried at fair market value, based primarily on quoted market prices. Realized and unrealized gains and losses on these securities and debt instruments are recognized in the statement of operations. Interest earned on debt instruments is reported as interest income.

Impairment of Financial Assets

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is a process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Fund's long-term investment strategy.

Assets Carried at Amortized Cost. For loans and receivables, carried at amortized cost, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate. If a variable interest rate was used, the discounted rate for measuring the impairment loss is the current effective interest rate. Impairment loss is recorded in the statement of operations.

The Fund 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 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. Any subsequent reversal of an impairment loss is recognized in the statement of operation, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

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 when:

- the rights to receive cash flows from the asset have expired;

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

- the Fund has transferred its right 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 Fund has transferred its right to receive cash flows from an asset and has 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 Fund'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 consideration that the Fund could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another form from the same lender on substantially different terms, or the terms of the 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 Fund's statements of operations.

Accounting Policies Prior to September 30, 2005
Investments are initially recorded at cost at the time of acquisition, which is generally measured by the purchase price of the security or debt instruments, or the fair value of the asset given up or the security received in the exchange and other costs directly related to the acquisition. Subsequent to acquisition, the carrying values of the investments in bonds and government securities are carried at cost adjusted for amortization of premium or accretion of discount on a straight-line basis.

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

a. Interest income, on a time proportion basis taking into account the effective yield on the assets;

b. Dividend, when the Fund's right to receive payment is established; and

c. Gain on sale of investments are determined at the time of sale transaction calculated as the difference between the net sales proceeds and the net book value.

Receivables
Receivables are stated at face value, after allowance for any doubtful accounts. Provision is made when there is objective evidence that the Fund will not be able to collect the debts. Bad debts are written off when identified.

Net Asset Value (NAV) Per Share
NAV per share is computed by dividing net assets (total assets less total liabilities) by the number of shares issued and outstanding.

Transactions with Unitholders
Sales of units are recorded by crediting net assets attributable to unitholders for the amount received; redemptions are recorded by debiting this account.

Foreign Currency-denominated Transactions
The Fund's consolidated financial statements are presented in U.S. dollars, which is the Fund's functional currency, and also in Philippine pesos for presentation purposes only. Transactions in foreign currencies (either in Philippine peso or currencies other than the Fund's functional currency) are translated at the functional currency rate of exchange at the balance sheet date. Exchange rate differences arising from the restatement or settlement of monetary items at rates different from those at which they were initially recorded are recognized in the statements of operations in the period in which they arise.

Income Taxes
Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Tax. Deferred tax is provided using the liability method on all temporary differences at the 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. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefit of unused tax losses [such as 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 the carryforward benefit of unused NOLCO 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 income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Related Parties
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Fund; (b) associates; and, (c) individuals

owning, directly or indirectly, an interest in the voting power of the Fund that gives them significant influence over the Fund and close members of the family of any such individual.

Provisions

Provisions are recognized when the Fund 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.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Post balance sheet events that provide additional information about the Fund's financial position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Change in Reporting Currency

The Company adopted PAS 21, "The Effects of Changes in Foreign Exchange Rates," which became effective January 1, 2005.

Based on the economic substance of the underlying circumstances relevant to the Fund, the functional currency of the Fund has been determined to be U.S. dollars. As such, the Fund changed its reporting currency from Philippine pesos to U.S. dollars. Philippine pesos and currencies other than the functional currency (U.S. dollars) are considered foreign currencies. The SEC acknowledged the change in reporting currency on March 1, 2006 pursuant to SEC Memorandum Circular No. 1, Series of 2006, "Guidelines on the Filing of Functional Currency Financial Statements."

The change in reporting currency was applied retroactively and the comparative statements for 2004 have been restated. The change in reporting currency involved the following:

a. U.S. dollar-denominated amounts (for both balance sheet and income statement items, including capital accounts) were specifically identified and reflected in the functional currency financial statements in their U.S. dollar amounts.

b. Peso-denominated monetary assets (such as cash and cash equivalents, financial statements at FVPL and receivables) and peso-denominated liabilities (such as accrued expenses and other liabilities) were translated using the closing exchange rates.

c. Peso-denominated income and expense items for each year presented were translated based on the monthly average exchange rates.

Exchange gains and losses arising from the above remeasurements are credited or charged to income in the respective years. The Fund prepared the reconciliation as required by PFRS 1. The Fund prepared the reconciliation between the December 31, 2004 financial statements reported under Philippine peso and the January 1, 2005 financial statements under the functional currency before effects of retroactive application for new PAS effective 2005.

The comparative amounts as of and for the year ended December 31, 2004 follow:

Statements of Assets and Liabilities

	As Previously Presented	Restated for Change in Reporting Currency
Statement of Assets and Liabilities:		
Cash and cash equivalents	₱4,614,886	$81,999
Investments in dollar bonds	48,967,394	870,068
Receivables	1,197,835	21,283
Accrued expenses and other liabilities	1,025,956	18,229
Net assets	53,754,159	955,121
Statement of Operations:		
Revenues	2,658,620	47,438
Expenses	234,204	5,844
Provision for income tax	890,367	15,887
Net investment income	1,534,049	25,707

4. Cash and Cash Equivalents

This account consists of:

	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - see Note 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Cash on hand and in banks	**$3,535**	**₱187,663**	$6,773	₱381,207
Short-term deposits	**26,036**	**1,382,282**	75,226	4,233,679
	$29,571	**₱1,569,945**	$81,999	₱4,614,886

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

5. **Financial Asset at FVPL/ Investments in Dollar Bonds**

In 2004, investments in dollar bonds are carried at amortized cost. These investments bear interest rates of 9.875% and 8.623% and mature on March 16, 2010 and October 21, 2024. Unamortized bond premium amounted to $77,067 (₱4.3 million) as of December 31, 2004 and amortization of bond premium recognized as a reduction of interest amounted to $9,808 (₱0.5 million) in 2004.

In 2005, upon adoption of PAS 39, investments in dollar bonds are designated as Financial assets at FVPL or loss and are carried at fair value. Gain on market valuation of these investments amounted to $41,254 (₱2.2 million) in 2005.

6. **Net Assets**

As discussed in Note 2, under PAS 32, the units issued to shareholders are liabilities in substance. Accordingly, the accounting treatment and presentation of the units issued to shareholders are in accordance with PAS 32 for purposes of Philippine GAAP financial statements. However, under Republic Act (RA) No. 2629, Rules and Regulations Governing Investment Companies, investment companies including mutual funds shall be organized in the form of a stock corporation. Therefore, units issued to shareholders are legally considered as equity instruments.

Capital Stock Transactions
Sales of fund shares are recorded by crediting capital stock at par value and additional paid-in capital (APIC) for the amount received in excess of the par value; redemptions are recorded by debiting those accounts. In the event that the APIC balance is exhausted as a result of redemptions, the retained earnings account is reduced by redemptions in excess of par.

The details of the net assets are as follows:

	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - see Note 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Capital Stock - ₱1 par value				
Authorized - 100,000,000 shares				
Issued and subscribed - 82,381,405 in 2005 and 32,156,190 in 2004:				
Balance at beginning of year	**$766,652**	**₱32,156,190**	$638,962	₱25,000,000
Issuance	**920,587**	**50,710,647**	127,690	7,156,190
Redemption	**(8,813)**	**(485,432)**	–	–
Balance at end of year	**1,678,426**	**82,381,405**	766,652	32,156,190
Additional paid-in capital:				
Balance at beginning of year	**173,257**	**9,558,111**	82,945	4,496,624
Issuance	**646,757**	**35,626,719**	90,312	5,061,487
Redemption	**(5,925)**	**(326,368)**	–	–
Balance at end of year (Carried Forward)	**814,089**	**44,858,462**	173,257	9,558,111

	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - see Note 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Balance at end of year (Brought Forward)	**$814,089**	**₱44,858,462**	$173,257	₱9,558,111
Retained earnings:				
Balance at beginning of year	**15,212**	**965,074**	(10,495)	(568,975)
Net investment income	**225,389**	**11,606,963**	25,707	1,534,049
Excess of redemption cost over original selling price	**(800)**	**(44,032)**	–	–
Balance at end of year	**239,801**	**12,528,005**	15,212	965,074
Cumulative translation adjustments:				
Balance at beginning of year	**–**	**11,074,784**	–	8,092,904
Additions (deductions)	**–**	**(5,783,948)**	–	2,981,880
Balance at end of year	**–**	**5,290,836**	–	11,074,784
	$2,732,316	**₱145,058,708**	$955,121	₱53,754,159
NAV per share	**$0.033**	**₱1.761**	$0.030	₱1.672

NAV per share is computed as follows:

	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - see Notes 2 and 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Net assets	**$2,732,316**	**₱145,058,708**	$955,121	₱53,754,159
Number of shares outstanding	**82,381,405**	**82,381,405**	32,156,190	32,156,190
	$0.033	**₱1.761**	$0.030	₱1.672

As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at net asset value per share.

7. Income Taxes

The Fund's deferred tax liability, included as part of "Accrued expenses and other liabilities" account in the statements of assets and liabilities represents unrealized foreign exchange gain amounting to $17,973 (₱954,202) as of December 31, 2004.

The following deductible differences for which no deferred tax asset is recognized in the statements of assets and liabilities as management believes that future taxable profits will not be sufficient against which it can be utilized represents the following:

	2005		2004	
	Functional Currency	**Presentation Currency**	Functional Currency (As restated - see Notes 2 and 3)	Presentation Currency
	(In U.S. Dollars)	***(In Philippine Pesos)***	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Unrealized foreign exchange loss	**$23,270**	**₱1,235,381**	$–	₱–
NOLCO	–	–	3,257	183,329
	$23,270	**₱1,235,381**	$3,257	₱183,329

Deferred tax asset on the above deductible differences amounted to $8,145 (₱0.4 million) in 2005 and $1,042 (₱0.1 million) in 2004. The carryforward benefit of NOLCO in 2005 was applied against taxable income in 2005.

RA No. 9337 was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code of the Philippines. Among the reforms introduced by the said RA No. 9337 are as follows:

- Increase in the regular corporate income tax rate from 32% to 35% effective November 1, 2005; with a reduction thereof to 30% beginning January 1, 2009;
- Increase in the value-added tax (VAT) rate from 10% to 12% effective February 1, 2006;
- Revision of invoicing and reporting requirements for VAT; and
- Provision of thresholds and limitation on the amount of VAT credits that can be claimed.

The reconciliation between the statutory income tax rate and effective income tax rate under functional currency is as follows:

	2005	2004 (As restated - see Notes 2 and 3)
Statutory income tax rate	**32.50%**	32.00%
Income tax effects of:		
Interest income already subjected to final tax	**(25.13)**	(36.50)
Gain on market valuation of FVPL financial assets	**6.43**	
Others	**(21.88)**	42.69
Effective income tax rate	**(8.08%)**	38.19%

8. Management and Distribution Agreement (Agreement)

The Fund has an existing Agreement with Philequity Management, Inc. (PMI). Pursuant to the terms of the Agreement, the Fund shall pay the following for services rendered by PMI:

a. Annual management fee of maximum of 1.5% of the monthly average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2005, the payment of management fee has not been made effective by the Fund and PMI.

b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commission amounted to $4,572 (₱251,835) in 2005 and $1,075 (₱60,246) in 2004.

9. Financial Risk Management Objectives and Policies

<u>Governance Framework</u>
The Fund has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Fund's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

<u>Regulatory Framework</u>
The operations of the Fund are also subject to the regulatory requirements of the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. investment portfolios, capital requirements, etc.).

<u>Financial Risk</u>
The Fund is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, which are exposed to general and specific market movements. The risk that the Fund primarily faces due to the nature of its investments and liabilities is interest rate risk.

<u>Credit Risk</u>
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Fund; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Fund further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of balance sheet assets and liabilities, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the balance sheet date because the exposure is affected by transactions subject to the arrangement.

In respect of investment securities, if any, the Fund secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers. The Fund also transacts only with institutions with high credit worthiness.

The Fund sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties, which are set by reference to their long term ratings.

The credit risk exposure of the Fund as of December 31, 2005 represents the carrying amount of cash and cash equivalents, FVPL financial assets and receivables.

The Fund did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2005.

Liquidity Risk

Liquidity or funding risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of redeemable participating shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded in the market.

The Fund manages liquidity through a liquidity risk policy, which determines what constitutes liquidity risk for the Fund; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Fund into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

As of December 31, 2005	Up to a year	2-5 years	Over 5 years	Total
Cash and cash equivalents	$29,571	$–	$–	$29,571
FVPL financial assets	–	1,544,220	987,630	2,531,850
Receivables	182,303	–	–	182,303
Total financial assets	$211,874	$1,544,220	$987,630	$2,743,724
Accrued expenses and other liabilities	$16,435	$–	$–	$16,435
Total financial liabilities excluding net assets attributable to unitholders	$195,439	$1,544,220	$987,630	$2,727,289

Market Risk
Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Fund; basis used to fair value financial assets and liabilities; asset allocation and duration limit based on the Fund's chosen benchmark; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's fixed rate investments and receivables in particular are exposed to such risk.

The Fund's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

Price Risk
The Fund's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally FVPL debt instruments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

10. **Fair Value of Financial Instruments**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. The following table sets forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2005.

	Carrying Value		Fair Value	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollars)	*(In Philippine Pesos)*	*(In U.S. Dollars)*	*(In Philippine Pesos)*
Cash and cash equivalent	$29,571	₱1,569,945	$29,571	₱1,569,945
FVPL financial assets	2,531,850	134,415,904	2,531,850	134,415,904
Receivables	182,303	9,678,488	182,303	9,678,488
Assets recognized in statements of assets and liabilities	$2,743,724	₱145,664,337	$2,743,724	₱145,664,337

Fair values of financial assets are estimated as follows:

	Methods and Assumptions
Cash and cash equivalents	Due to the short-term nature of the instrument, the fair value approximates the carrying amount.
FVPL financial assets	Fair values are based on quoted prices.
Receivables	Due to the short-term nature of the instrument, the fair value approximates the carrying amount.

11. **Related Party Disclosures**

The total shares held by directors amounted to 2,147,908 and 120,854 as of December 31, 2005 and 2004, respectively.