

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

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

and

Report of Independent Auditors

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Violeta O. Luym
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(Contact Person)

635-6963
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(Company Telephone Number)

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Month Day  
(Fiscal Year)

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(Form Type)

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Month Day  
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

8
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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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**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, 2003 and 2002, and the related statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2003. 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 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 present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2003 and 2002, and the results of its operations and its 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.

J. J. M. SEBASTIAN

Partner

CPA Certificate No. 61687

SEC Accreditation No. 0097-A

Tax Identification No. 104-597-500

PTR No. 7012885

January 5, 2004

Makati City

February 4, 2004

## **Report of Independent Auditors**

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

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PTR No. 7012885  
January 5, 2004  
Makati City

February 4, 2004

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

	<b>December 31</b>	
	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
<b>Investments in Dollar Bond</b> (Note 3)	<b>₱29,735,550</b>	<b>₱30,165,606</b>
<b>Cash and Cash Equivalents</b> (Note 4)	<b>6,296,733</b>	<b>3,411,007</b>
<b>Interest Receivable</b>	<b>1,082,105</b>	<b>1,031,063</b>
	<b>37,114,388</b>	<b>34,607,676</b>
<b>LIABILITIES</b>		
<b>Accrued Expenses and Other Current Liabilities</b> (Note 6)	<b>93,835</b>	<b>60,000</b>
<b>NET ASSETS</b> (Note 5)	<b>₱37,020,553</b>	<b>₱34,547,676</b>

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>REVENUES</b>			
Interest	<b>₱2,485,837</b>	₱2,182,088	₱2,801,316
Foreign exchange gain	<b>199,485</b>	—	—
Others	—	33,454	—
	<b>2,685,322</b>	2,215,542	2,801,316
<b>EXPENSES</b>			
Taxes and licenses	<b>111,001</b>	27,667	—
Professional fees	<b>30,000</b>	30,000	185,487
Foreign exchange loss	—	190,796	229,275
Printing and reproduction costs	—	10,750	—
Preoperating and organization costs	—	—	520,711
Others	<b>7,609</b>	130	3,685
	<b>148,610</b>	259,343	939,158
<b>INVESTMENT INCOME BEFORE INCOME TAX</b>	<b>2,536,712</b>	1,956,199	1,862,158
<b>PROVISION FOR DEFERRED INCOME TAX</b>			
(Note 6)	<b>63,835</b>	—	—
<b>NET INVESTMENT INCOME (Note 5)</b>	<b>₱2,472,877</b>	₱1,956,199	₱1,862,158

*See accompanying Notes to Financial Statements.*

**PHILEQUITY DOLLAR INCOME FUND, INC.****(An Open-End Mutual Fund Company)****STATEMENTS OF CHANGES IN NET ASSETS**

	Years Ended December 31		
	2003	2002	2001
<b>FROM INVESTING ACTIVITY</b>			
Net investment income (Note 5)	<b>₱2,472,877</b>	₱1,956,199	₱1,862,158
<b>FROM CAPITAL STOCK TRANSACTIONS</b>			
Proceeds from subscriptions of capital stock - 8,749,998 shares in 2003	<b>13,246,622</b>	—	—
Payments for redemptions of capital stock - 8,749,998 shares in 2003	<b>(13,246,622)</b>	—	—
Net change in net assets from capital stock transactions	—	—	—
<b>NET INCREASE IN NET ASSETS</b>	<b>2,472,877</b>	1,956,199	1,862,158
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>34,547,676</b>	32,591,477	30,729,319
<b>NET ASSETS AT END OF YEAR (Note 5)</b>	<b>₱37,020,553</b>	₱34,547,676	₱32,591,477

*See accompanying Notes to Financial Statements.*



**PHILEQUITY DOLLAR INCOME FUND, INC.****(An Open-End Mutual Fund Company)****STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income before income tax	<b>₱2,536,712</b>	₱1,956,199	₱1,862,158
Adjustments for unrealized foreign exchange loss (gain)	<b>(199,485)</b>	190,796	229,275
Decrease (increase) in:			
Investments in dollar bond	<b>629,541</b>	(30,356,402)	—
Interest receivable	<b>(51,042)</b>	(953,746)	175,314
Other assets	—	—	580,711
Decrease in accrued expenses and other current liabilities	<b>(30,000)</b>	(75,101)	75,101
Net cash provided by (used in) investing activities	<b>2,885,726</b>	(29,238,254)	2,922,559
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	—	—	(229,275)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,885,726</b>	(29,238,254)	2,693,284
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,411,007</b>	32,649,261	29,955,977
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱6,296,733</b>	₱3,411,007	₱32,649,261

*See accompanying Notes to Financial Statements.*

## **PHILEQUITY DOLLAR INCOME FUND, INC.**

**(An Open-End Mutual Fund Company)**

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### **NOTES TO FINANCIAL STATEMENTS**

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#### **1. Corporate Information and Status of Operations**

Philequity Dollar Income Fund, Inc. (the Fund) is incorporated in the Philippines. It was registered with the Securities and Exchange Commission on March 4, 1999 as an open-end mutual fund company, the purposes of which are, among others, to engage in the sale of its capital stock and to invest such proceeds in dollar-denominated bonds and debt securities.

The Fund did not employ any personnel in 2003 and 2002. The Fund's administrative and accounting functions are undertaken by Philequity Management, Inc. (PMI) without any charge. The registered office address of the Fund is 2103-B, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The financial statements of the Fund for the year ended December 31, 2003 were authorized for issue by the Board of Directors on February 4, 2004.

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#### **2. Summary of Significant Accounting Policies**

##### Basis of Preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines under the historical cost convention.

##### Changes in Accounting Policies

On January 1, 2003, the Fund adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS):

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for the release of the financial statements.
- SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosure that should be included with respect to these items. Adoption of the standard has no effect on the Fund's financial statements.

##### 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 that are subject to an insignificant risk of change in value.

#### Investments in Dollar Bond

Investments in dollar bond are stated at cost, gross of unamortized bond discount.

#### Interest Income

Interest income is recognized on a time proportion basis taking into account the effective yield of the asset.

#### Net Asset Value Per Share

Net asset value per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and outstanding.

#### Capital Stock Transactions

Sales of Fund shares are recorded by crediting capital stock at par and additional paid-in capital for the amount in excess of the par value. Redemptions are recorded by debiting those accounts and retained earnings for any excess of the redemption cost over the original selling price.

#### Subsequent Events

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

#### 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 temporary differences between the financial reporting bases of assets and liabilities and their related tax bases and carryforward benefit of the net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is 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.

#### Foreign Currency Transactions and Translations

Transactions in foreign currencies are recorded using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at the balance sheet date. Foreign exchange gains and losses are credited or charged to statements of operations.

#### New Accounting Standard Effective Subsequent to 2003

The Accounting Standards Council has approved SFAS 12/IAS 12, "Income Taxes," which prescribes the accounting treatment for current and deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, 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 deferred tax liability with respect to asset revaluations. The Fund will adopt the standard in 2004 and, based on current circumstances, believes that the effect of adoption will not be material.

### 3. Investments in Dollar Bond

Investments in dollar bond are gross of unamortized bond discount of ₱263,925. As of December 31, 2003 and 2002, its market value exceeded cost by ₱3.2 million and ₱2.6 million, respectively.

### 4. Cash and Cash Equivalents

This account consists of:

	2003	2002
Cash in banks	<b>₱104,109</b>	₱105,701
Short-term deposits	<b>6,192,624</b>	3,305,306
	<b>₱6,296,733</b>	₱3,411,007

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

### 5. Net Assets

This account consists of:

	2003		2002		2001	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Capital stock - ₱1 par value						
Authorized	<b>100,000,000</b>	<b>₱100,000,000</b>	100,000,000	₱100,000,000	100,000,000	₱100,000,000
Issued:						
Balance at beginning of year	<b>25,000,000</b>	<b>₱25,000,000</b>	25,000,000	₱25,000,000	25,000,000	₱25,000,000
Issuance	<b>8,749,998</b>	<b>8,749,998</b>	—	—	—	—
Redemption	<b>(8,749,998)</b>	<b>(8,749,998)</b>	—	—	—	—
Balance at end of year	<b>25,000,000</b>	<b>25,000,000</b>	25,000,000	25,000,000	25,000,000	25,000,000
Additional paid-in capital:						
Issuance in excess of par value		<b>4,496,624</b>		—		—
Retained earnings:						
Balance at beginning of year		<b>9,547,676</b>		7,591,477		5,729,319
Net investment income		<b>2,472,877</b>		1,956,199		1,862,158
Excess of the redemption cost over the original selling price		<b>(4,496,624)</b>		—		—
Balance at end of year		<b>7,523,929</b>		9,547,676		7,591,477
		<b>₱37,020,553</b>		₱34,547,676		₱32,591,477
Net asset value per share		<b>₱1.481</b>		₱1.382		₱1.304

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.

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**6. Income Tax**

The components of the Fund's net deferred tax liability included as part of "Accrued expenses and other current liabilities" account in the 2003 statement of assets and liabilities are as follows:

Deferred tax assets:	
NOLCO	₱47,555
Unrealized foreign exchange gain	(63,835)
	(16,280)
Less valuation allowance	47,555
	(₱63,835)

Full valuation allowance has been provided since management believes that it is more likely than not that the carryforward benefit of NOLCO will not be realized prior to its expiration.

NOLCO incurred in 2003 amounting to ₱148,610 can be claimed as deduction from future taxable income up to year 2006.

The provision for income tax differs from the amount computed by applying the statutory income tax rate to investment income before income tax mainly due to interest income which have been subjected to final tax and change in valuation allowance.