

SEC Number AS094-001656

File Number _____

PHILEQUITY FUND, INC.

(AN OPEN-END MUTUAL FUND COMPANY)

(Company's Full Name)

**20th Floor, Philippine Stock Exchange Centre
East Tower, Exchange Road
Ortigas Center, Pasig City**

(Company's Address)

635-6963

(Telephone Number)

December 31

(Fiscal Year Ending
(month & day)

Annual Audited Financial Statements

Form Type

Amendment Designation (If applicable)

December 31, 1999

Period Ended Date

(Secondary License Type and File Number)

PHILEQUITY FUND, INC.
(AN OPEN-END MUTUAL FUND COMPANY)

FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

SGV & Co

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co
An Arthur Andersen Member Firm

The Stockholders and the Board of Directors
Philequity Fund, Inc.
20th Floor, Philippine Stock Exchange Centre
East Tower, Exchange Road
Ortigas Center, Pasig City

6760 Ayala Avenue
1226 Makati City Philippines
632 891 0307
632 819 0872 Fax

We have audited the accompanying statements of assets and liabilities of Philequity Fund, Inc. (an open-end mutual fund company) as of December 31, 1999 and 1998, and the related statements of operations and changes in net assets for the years then ended. 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 generally accepted auditing standards. 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 Fund, Inc. as of December 31, 1999 and 1998, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

B. C. SIY-YAP
Partner
CPA Certificate No. 57794
PTR No. 1874145
January 3, 2000
Makati City

March 16, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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PTR No. 1874145
January 3, 2000
Makati City

March 16, 2000

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	1999	1998
ASSETS		
Investments in Shares of Stock (Note 2)	₱150,164,470	₱140,322,360
Cash and Cash Equivalents (Note 3)	226,458,527	131,972,286
Receivables	2,080,162	4,142,812
Organization Costs - net	—	53,505
	378,703,159	276,490,963
LIABILITIES		
Accounts Payable and Accrued Expenses (Note 5)	23,601,297	378,534
NET ASSETS (Note 4)	₱355,101,862	₱276,112,429

See accompanying Notes to Financial Statements.

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)
STATEMENTS OF OPERATIONS

	Years Ended December 31	
	1999	1998
INVESTMENT INCOME		
Proceeds from sale of investments in listed securities	₱630,826,352	₱154,260,505
Cost of listed securities sold	533,561,312	158,646,538
Net realized gain (loss) from sale of investments in listed securities	97,265,040	(4,386,033)
Interest	15,773,886	27,995,451
Dividend	2,468,765	769,876
Foreign exchange gain	909	8,117
	115,508,600	24,387,411
OPERATING EXPENSES		
Management fee (Note 5)	3,379,666	2,594,222
Commission	660,157	46,965
Taxes and licenses	387,303	2,372,294
Professional fees	232,000	232,000
Amortization of organization costs	53,505	424,044
Custodian fees	48,000	48,000
Miscellaneous	254,651	51,274
	5,015,282	5,768,799
INVESTMENT INCOME BEFORE INCOME TAX	110,493,318	18,618,612
PROVISION FOR INCOME TAX (Note 6)	54,086	—
NET INVESTMENT INCOME (Note 4)	₱110,439,232	₱18,618,612
CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS IN LISTED SECURITIES (Note 2)		
Balance at beginning of year	₱28,277,302	(₱22,515,728)
Balance at end of year	13,082,862	28,277,302
	(₱15,194,440)	₱50,793,030

See accompanying Notes to Financial Statements.

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31	
	1999	1998
FROM OPERATING ACTIVITIES		
Net investment income	₱110,439,232	₱18,618,612
Change in unrealized appreciation (depreciation) of investments in listed securities	(15,194,440)	50,793,030
Net increase in net assets from operating activities	95,244,792	69,411,642
FROM CAPITAL STOCK TRANSACTIONS		
Proceeds from sale of capital stock - amount received for 20,271,344 shares in 1999 and 452,277,925 shares in 1998	58,716,105	448,137,090
Capital stock redeemed - amount paid for 25,905,551 shares in 1999 and 412,342,854 shares in 1998	(74,971,464)	(498,965,678)
Net decrease in net assets from capital stock transactions	(16,255,359)	(50,828,588)
NET INCREASE IN NET ASSETS	78,989,433	18,583,054
NET ASSETS AT BEGINNING OF YEAR	276,112,429	257,529,375
NET ASSETS AT END OF YEAR	₱355,101,862	₱276,112,429

See accompanying Notes to Financial Statements.

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Investments in Shares of Stock

The market value of investments in listed securities is stated based on the single average of current market quotations of the Philippine Stock Exchange. The difference between the aggregate cost of investments in listed securities and the market value at balance sheet date is shown as unrealized appreciation or depreciation of investments in listed securities as of last business day of the year. The net difference between the selling price and the cost of listed securities sold, which is computed based on the moving average cost of all the shares of each security held at the time of sale, is shown as net realized gain or loss from sale of investments in listed securities in the statements of operations.

Other investment is stated at cost.

Cash Equivalents

The Fund considers all highly liquid debt instruments purchased with maturities of three months or less from date of acquisition to be cash equivalents.

Organization Costs

Organization costs were deferred and are being amortized over five years from start of operations until 1999.

Revenue Recognition

Revenues are recognized on the following bases: (a) gain or loss from sale of investments in listed securities as determined at the time of sale of such investments; (b) interest, on a time proportion basis taking into account the effective yield on the asset; and, (c) dividend, when the Fund's right to receive payment is established.

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 the amount of any redemption losses.

Income Tax

Deferred tax assets and liabilities are recognized for the: (1) future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (2) carryforward benefit of the minimum corporate income tax (MCIT); and, (3) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Foreign Currency-Denominated Transactions

Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

Gains and losses on hedges of existing foreign-currency denominated assets or liabilities are recognized as assets or liabilities based upon changes in spot rates. Forward premium or discounts are amortized over the life of the contracts. Any contracts held or issued that do not meet the requirements of a hedge are recorded at fair value in the balance sheet and any changes in that fair value are credited or charged to current operations.

2. Investments in Shares of Stock

This account consists of:

	1999	1998
Investment in listed securities - at market value	₱130,164,470	₱140,322,360
Other investment - at cost	20,000,000	—
	₱150,164,470	₱140,322,360

The details of the investments in listed securities are shown below:

	1999			1998		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
Ayala Land, Inc.	3,114,700	₱28,817,323	₱32,704,350	—	₱—	₱—
DMCI Holdings, Inc. - Preferred	24,040	15,099,708	22,357,200	13,100	6,539,527	9,825,000
San Miguel Corporation "B"	218,800	12,461,848	12,471,600	200,000	12,225,394	15,000,000
Far East Bank and Trust Company	160,800	12,203,378	12,060,000	—	—	—
Metro Pacific Corporation	9,509,000	10,546,559	11,030,440	—	—	—
Ayala Corporation "A"	849,000	8,588,937	9,975,750	—	—	—
SM Prime Holdings, Inc. - Preferred	1,022,000	7,665,881	7,767,200	—	—	—
La Tondeña Distillers, Inc.	98,000	2,523,123	3,136,000	576,700	12,686,816	17,877,700
SPI Technologies, Inc.	250,000	2,770,874	3,125,000	1,311,080	13,980,320	25,238,290
Central Azucarera Don Pedro	2,483,000	3,214,450	2,259,530	—	—	—
Globe Telecom, Inc.	205,000	2,776,902	2,255,000	—	—	—
Ayala Corporation - Preferred	2,140,00	1,708,515	2,225,600	2,640,000	2,107,701	2,323,200
Manila Mining Corporation "B"	261,000,000	2,319,593	2,218,500	—	—	—
International Container Terminal Services, Inc.	516,000	1,734,405	1,883,400	—	—	—
Filinvest Land, Inc.	414,000	1,713,914	1,697,400	—	—	—
ABS-CBN Holdings Corporation	33,600	1,581,768	1,680,000	—	—	—
Manila Mining Corporation "A"	155,000,000	1,354,430	1,317,500	—	—	—
Belle Corporation	—	—	—	11,990,000	22,616,704	25,658,600
Jollibee Foods Corporation - Warrants	—	—	—	1,120,000	19,673,568	21,280,000
Equitable Banking Corporation (EBC)	—	—	—	229,700	13,485,753	13,437,450
San Miguel Corporation "A"	—	—	—	70,000	2,876,834	3,850,000
Bank of Philippine Islands	—	—	—	39,000	3,246,874	3,217,500
EEI Corporation	—	—	—	1,991,000	2,444,057	2,429,020
EBC - Warrants	—	—	—	64,000	161,510	185,600
		₱	₱		₱	₱
		117,081,608	130,164,470		112,045,058	140,322,360

As of March 16, 2000, the unrealized appreciation of investments in listed securities held as of December 31, 1999, based on the market quotations of PSE is ₱28,220,450.

3. Forward Exchange Contracts

The Fund entered into forward exchange contracts with various banks in 1999 to hedge a portion of the Fund's foreign currency assets.

As of December 31, 1999, the Fund had the following outstanding forward exchange sell contracts with local banks:

Notional Amount	Contracted Forward Rate
US\$502,304	₱40.81902 per US\$1
JP¥100,177,307	₱0.38690053 per JP¥1

Both contracts matured in January 2000 with a realized gain of ₱542,507.

4. Net Assets

The Fund's net assets consist of:

	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Capital stock - ₱1 par value				
Authorized	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued				
Balance at beginning of year	105,753,100	₱105,753,100	65,818,029	₱65,818,029
Subscriptions	20,271,344	20,271,344	452,277,925	452,277,925
Redemption	(25,905,551)	(25,905,551)	(412,342,854)	(412,342,854)
Balance at end of year	100,118,893	100,118,893	105,753,100	105,753,100
Subscribed				
Balance at beginning of year	—	—	250,000,000	62,500,000
Collection of subscriptions receivable	—	—	—	187,500,000
Issuances	—	—	(250,000,000)	(250,000,000)
Balance at end of year	—	—	—	—
	100,118,893	100,118,893	105,753,100	105,753,100
Additional paid-in capital				
Balance at beginning of year		68,258,648		87,344,984
Premium on new issuances		38,444,761		474,065,415
Redemption		(31,837,048)		(493,151,751)
Balance at end of year		74,866,361		68,258,648
Retained earnings				
Balance at beginning of year		73,823,379		64,382,090
Net investment income		110,439,232		18,618,612
Redemption of shares		(17,228,865)		(9,177,323)
Balance at end of year		167,033,746		73,823,379
Unrealized appreciation of investments in listed securities		13,082,862		28,277,302
		₱355,101,862		₱276,112,429

Net asset value per share (computed by dividing
net assets by the total capital stock issued
of 100,118,893 shares in 1999
and 105,753,100 shares in 1998)

₱3.547

₱2.611

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

5. Management and Distribution Agreement (Agreement)

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

- a. Management fee computed at one and a half percent per annum of the monthly average net asset value of the Fund's assets; and,
- b. Sales load charge of three and a half percent for every sale of the Fund's shares of stocks.

6. Income Tax

Provision for income tax in 1999 represents the MCIT. There was no provision for income tax in 1998 due mainly to gain from sale of investments in listed securities, interest income already subjected to final tax and dividend income exempt from income tax.

The carryforward benefit of the MCIT amounting to ₱54,086 in 1999 and the NOLCO of ₱2,582,939 in 1999 and ₱1,843,418 in 1998 were set up as deferred tax assets. A corresponding valuation allowance has been established since management believes that it is more likely than not that the carryforward benefit of MCIT and NOLCO will not be realized prior to its expiration.