

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

Financial Statements
December 31, 2004 and 2003 and
Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

COVER SHEET

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SEC Registration Number

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

Ms. Violeta O. Luym

(Contact Person)

635-6963

(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)

SEC

Dept. Requiring this Doc.

Amended Articles Number/Section

8

Total No. of Stockholders

Domestic

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, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Jose Joel M. Sebastian
Partner
CPA Certificate No. 61687
SEC Accreditation No. 0097-A
Tax Identification No. 104-597-500
PTR No. 9404031, January 3, 2005, Makati City

April 1, 2005

Report of Independent Auditors

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

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

	December 31	
	2004	2003
ASSETS		
Investments in Dollar Bonds (Note 3)	₱48,967,394	₱29,735,550
Cash and Cash Equivalents (Notes 4 and 8)	4,614,886	6,296,733
Interest Receivable (Notes 4 and 8)	1,197,835	1,082,105
	54,780,115	37,114,388
LIABILITIES		
Accrued Expenses and Other Liabilities (Notes 6 and 8)	1,025,956	93,835
NET ASSETS (Note 5)	₱53,754,159	₱37,020,553
Net Asset Value Per Share (Note 5)	₱1.672	₱1.481

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2004	2003	2002
REVENUES			
Foreign exchange gain	₱2,981,880	₱199,485	₱—
Interest (Note 3)	2,658,620	2,485,837	2,182,088
Others	—	—	33,454
	5,640,500	2,685,322	2,215,542
EXPENSES			
Taxes and licenses	63,106	111,001	27,667
Commission (Note 7)	60,246	—	—
Professional fees	48,000	30,000	30,000
Printing and reproduction costs	26,755	—	10,750
Advertising and promotions	24,750	—	—
Foreign exchange loss	—	—	190,796
Others	11,347	7,609	130
	234,204	148,610	259,343
INVESTMENT INCOME BEFORE INCOME TAX	5,406,296	2,536,712	1,956,199
PROVISION FOR DEFERRED INCOME TAX			
(Note 6)	890,367	63,835	—
NET INVESTMENT INCOME (Note 5)	₱4,515,929	₱2,472,877	₱1,956,199

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		
	2004	2003	2002
FROM INVESTING ACTIVITY			
Net investment income (Note 5)	₱4,515,929	₱2,472,877	₱1,956,199
FROM CAPITAL STOCK TRANSACTIONS (Note 5)			
Proceeds from subscriptions of capital stock - 7,156,190 shares in 2004 and 8,749,998 shares in 2003	12,217,677	13,246,622	—
Payments for redemptions of capital stock - 8,749,998 shares in 2003	—	(13,246,622)	—
Net change in net assets from capital stock transactions	12,217,677	—	—
NET INCREASE IN NET ASSETS	16,733,606	2,472,877	1,956,199
NET ASSETS AT BEGINNING OF YEAR	37,020,553	34,547,676	32,591,477
NET ASSETS AT END OF YEAR (Note 5)	₱53,754,159	₱37,020,553	₱34,547,676

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		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	₱5,406,296	₱2,536,712	₱1,956,199
Adjustment for unrealized foreign exchange loss (gain)	(2,981,880)	(199,485)	190,796
Operating income before working capital changes	2,424,416	2,337,227	2,146,995
Decrease (increase) in:			
Investments in dollar bonds	(16,301,273)	629,541	(30,356,402)
Interest receivable	(115,730)	(51,042)	(953,746)
Increase (decrease) in accrued expenses and other liabilities	41,754	(30,000)	(75,101)
Net cash provided by (used in) operating activities	(13,950,833)	2,885,726	(29,238,254)
CASH FLOW FROM FINANCING ACTIVITY			
Proceeds from subscription of capital stock	12,217,677	—	—
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	51,309	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,681,847)	2,885,726	(29,238,254)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,296,733	3,411,007	32,649,261
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱4,614,886	₱6,296,733	₱3,411,007

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-end Mutual Fund Company)

NOTES TO FINANCIAL STATEMENTS

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 (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.

The Fund did not employ any personnel in 2004 and 2003. 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 accompanying financial statements of the Fund were authorized for issue by the Board of Directors on April 1, 2005.

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 using the historical cost basis.

Adoption of New Accounting Standard

Effective January 1, 2004, the Fund adopted Statement of Financial Accounting Standards (SFAS) 12/International Accounting Standards (IAS) 12, "Income Taxes," which requires deferred income tax to be determined using the balance sheet liability method. Adoption of this standard has no material impact on the Fund's financial position and results of operations.

New Accounting Standards Effective in 2005

The Fund will adopt the following new standards based on IAS, referred to as Philippine Accounting Standards (PAS), effective January 1, 2005:

- PAS 1, "Presentation of Financial Statements," which provides a framework within which an entity 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 the statements of operations; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies.
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," which removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 10, “Events After the Balance Sheet Date,” which provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 21, “The Effects of Changes in Foreign Exchange Rates,” which prescribes the elimination of the capitalization of foreign exchange losses. This standard further requires the Fund to determine its functional currency and measure its financial position and results of operations in that currency.
- PAS 24, “Related Party Disclosures,” which provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties.
- PAS 32, “Financial Statements: Disclosures and Presentation,” which covers the disclosure and presentation of all financial statements. 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, types 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 objective. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.
- PAS 39, “Financial Instruments: Recognition and Measurement,” which establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about the Fund’s financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Fund should continue to measure financial assets at their 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 rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as “at fair value through profit and loss” and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative 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. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in the net assets until the hedged item is recognized in earnings. The Fund must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Adoption of PAS 39 is expected to have operational and financial statement impact to the Fund which is not presently quantifiable. Volatility in the financial statements is anticipated because of the requirement to fair value most financial instruments, including derivative financial instruments, if any. The Fund plans to undertake certain detailed activities in 2005, which include, among others, the following:

1. Review of contracts for the purpose of identifying and, where required, bifurcating derivatives that are embedded in both financial and non-financial contracts;
2. Development of a financial instruments policy that will cover accounting for financial instruments, to include the preparation of hedge accounting guidelines and requirements for derivatives that are designated and qualify as hedges;
3. Evaluation of the proper classification of financial instruments, including determining whether a financial instrument should be accounted for as debt or equity; and,
4. Assessment of required process and systems changes.

In 2005, the impact of adopting PAS 39 will be retroactively computed, as applicable, and adjusted to January 1, 2005 retained earnings. Prior years' financial statements presented will not be restated, as allowed by the SEC.

Except for PAS 39, adoption of the above standards will have no material impact on the Fund's financial position and results of operations.

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 Bonds

Investments in dollar bonds are carried at amortized cost, using the effective interest rate method.

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.

Provisions

Provisions, if any, 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.

Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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 balance sheet 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefit of net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward benefit of NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. 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.

3. Investments in Dollar Bonds

Investments in dollar bonds bear interest rates of 9.875% and 8.623% and mature on March 16, 2010 and October 21, 2024. Unamortized bond premium amounted to ₱4,337,355 and ₱263,925 as of December 31, 2004 and 2003, respectively. Amortization of bond premium recognized as a reduction of interest income amounted to ₱549,686 in 2004, ₱455,967 in 2003 and ₱411,205 in 2002.

The carrying value of investments in dollar bonds exceeded its market value by ₱127,541 as of December 31, 2004 and its market value exceeded its carrying value by ₱3,191,768 as of December 31, 2003.

4. Cash and Cash Equivalents

This account consists of:

	2004	2003
Cash in banks	₱381,207	₱104,109
Short-term deposits	4,233,679	6,192,624
	₱4,614,886	₱6,296,733

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. Net Assets

This account consists of:

	2004		2003		2002	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Capital stock - ₱1 par value						
Authorized	100,000,000	₱100,000,000	100,000,000	₱100,000,000	100,000,000	₱100,000,000
Issued:						
Balance at beginning of year	25,000,000	₱25,000,000	25,000,000	₱25,000,000	25,000,000	₱25,000,000
Issuance	7,156,190	7,156,190	8,749,998	8,749,998	—	—
Redemption	—	—	(8,749,998)	(8,749,998)	—	—
Balance at end of year	32,156,190	32,156,190	25,000,000	25,000,000	25,000,000	25,000,000
Additional paid-in capital:						
Balance at beginning of year		4,496,624		—		—
Issuance in excess of par value		5,061,487		4,496,624		—
Balance at end of year		9,558,111		4,496,624		—
Retained earnings:						
Balance at beginning of year		7,523,929		9,547,676		7,591,477

(Forward)

	2004		2003		2002	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Net investment income		₱4,515,929		₱2,472,877		₱1,956,199
Excess of the redemption cost over the original selling price		—		(4,496,624)		—
Balance at end of year		12,039,858		7,523,929		9,547,676
		₱53,754,159		₱37,020,553		₱34,547,676
Net asset value per share		₱1.672		₱1.481		₱1.382

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.

6. Income Tax

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 ₱954,202 and ₱63,835 as of December 31, 2004 and 2003, respectively.

Carryforward benefit of NOLCO 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 amounted to ₱183,329 and ₱148,610 as of December 31, 2004 and 2003, respectively.

As of December 31, 2004, the NOLCO that can be claimed as deduction from normal taxable income are as follows:

Year Incurred	Year of Expiry	Amount
2003	2005	₱148,610
2004	2007	34,719
		₱183,329

A reconciliation between the Fund's provision for income tax computed at statutory income tax rate to provision for deferred income tax as shown in the statements of operations is summarized as follows:

	2004	2003	2002
Income tax computed at statutory income tax rate	₱1,730,014	₱811,748	₱625,984
Income tax effects of:			
Interest income already subjected to final tax	(850,758)	(795,468)	(698,268)
Change in unrecognized deferred tax assets	11,111	47,555	72,284
	₱890,367	₱63,835	₱—

7. Management and Distribution Agreement (Agreement)

The Fund has an existing Agreement with 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 net asset value of the Fund's assets. The net asset value shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2004, 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 stocks. Sales commission amounted to ₱60,246 in 2004.

8. Classification of Assets and Liabilities

The current portions of assets and liabilities are as follows:

	2004	2003
Assets		
Cash and cash equivalents	₱4,614,886	₱6,296,733
Interest receivable	1,197,835	1,082,105
Liabilities		
Accrued expenses and other liabilities	71,754	30,000

9. Supplemental Disclosure of Cash Flow Information

	2004	2003	2002
Cash received during the year for interest	₱2,542,890	₱2,434,795	₱1,228,342