

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

(Year Ending)
(month & day)

Form Type

SEC Form 17-A Annual Report

Amendment Designation (If applicable)

December 31, 2000

Period Ended Date

(Secondary License Type and File Number)

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

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2000

PHILEQUITY FUND, INC.

(AN OPEN-END MUTUAL FUND COMPANY)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2000 AND 1999
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2000

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co
A member firm of Arthur Andersen

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

We have audited the accompanying statements of assets and liabilities of Philequity Fund, Inc. (an open-end mutual fund company) as of December 31, 2000 and 1999, and the related statements of operations and changes in net assets for each of the three years in the period ended December 31, 2000. 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 Fund, Inc. as of December 31, 2000 and 1999, and the results of its operations and the changes in its net assets for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the Philippines.

B. C. SIY-YAP
Partner
CPA Certificate No. 57794
PTR No. 7738120
January 6, 2001
Makati City

February 16, 2001

Report of Independent Public Accountants

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

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PTR No. 7738120
January 6, 2001
Makati City

February 16, 2001

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2000	1999
ASSETS		
Investments in Shares of Stock (Note 2)	₱91,161,034	₱150,164,470
Cash and Cash Equivalents	151,358,700	226,458,527
Receivables	2,291,493	2,080,162
	244,811,227	378,703,159
LIABILITIES		
Accounts Payable and Accrued Expenses (Note 4)	509,516	23,601,297
NET ASSETS (Note 3)	₱244,301,711	₱355,101,862

See accompanying Notes to Financial Statements.

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

STATEMENTS OF OPERATIONS

	Years Ended December 31		
	2000	1999	1998
INVESTMENT INCOME			
Proceeds from sale of investments in listed securities	₱184,902,297	₱630,826,352	₱154,260,505
Cost of listed securities sold	179,538,104	533,561,312	158,646,538
Net realized gain (loss) from sale of investments in listed securities	5,364,193	97,265,040	(4,386,033)
Interest	14,999,509	15,773,886	27,995,451
Dividend	4,442,166	2,468,765	769,876
Foreign exchange gain	52,167	909	8,117
	24,858,035	115,508,600	24,387,411
OPERATING EXPENSES			
Management fee (Note 4)	3,448,876	3,379,666	2,594,222
Taxes and licenses	1,021,663	387,303	2,372,294
Professional fees	370,000	232,000	232,000
Commission (Note 4)	168,265	660,157	46,965
Custodian fees	48,000	48,000	48,000
Amortization of organization costs	—	53,505	424,044
Miscellaneous	147,078	254,651	51,274
	5,203,882	5,015,282	5,768,799
INVESTMENT INCOME BEFORE INCOME TAX	19,654,153	110,493,318	18,618,612
PROVISION FOR INCOME TAX (Note 5)	34,609	54,086	—
NET INVESTMENT INCOME (Note 3)	₱19,619,544	₱110,439,232	₱18,618,612
CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS IN LISTED SECURITIES (Note 2)			
Balance at beginning of year	₱13,082,862	₱28,277,302	(₱22,515,728)
Balance at end of year	4,487,016	13,082,862	28,277,302
	(₱8,595,846)	(₱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		
	2000	1999	1998
FROM OPERATING ACTIVITIES			
Net investment income	₱19,619,544	₱110,439,232	₱18,618,612
Change in unrealized appreciation (depreciation) of investments in listed securities	(8,595,846)	(15,194,440)	50,793,030
Net increase in net assets from operating activities	11,023,698	95,244,792	69,411,642
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from sale of capital stock - amount received for 19,465,678 shares in 2000, 20,271,344 shares in 1999 and 452,277,925 shares in 1998	71,872,576	58,716,105	448,137,090
Capital stock redeemed - amount paid for 55,085,029 shares in 2000, 25,905,551 shares in 1999 and 412,342,854 shares in 1998	(193,696,425)	(74,971,464)	(498,965,678)
Net decrease in net assets from capital stock transactions	(121,823,849)	(16,255,359)	(50,828,588)
NET INCREASE (DECREASE) IN NET ASSETS	(110,800,151)	78,989,433	18,583,054
NET ASSETS AT BEGINNING OF YEAR	355,101,862	276,112,429	257,529,375
NET ASSETS AT END OF YEAR	₱244,301,711	₱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

Investments in listed securities are stated based on the 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. 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

All highly liquid debt instruments purchased with maturities of three months or less from date of acquisition are considered to be cash equivalents.

Organization Costs

Expenses incurred prior to the start of operations were deferred and amortized over five years from the 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: (a) future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carryforward benefit of the minimum corporate income tax (MCIT); and, (c) 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, and MCIT and NOLCO are expected to be applied. 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.

2. Investments in Shares of Stock

This account consists of:

	2000	1999
Investments in listed securities - at market value	₱71,161,034	₱130,164,470
Other investment - at cost	20,000,000	20,000,000
	₱91,161,034	₱150,164,470

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

	2000			1999		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
DMCI Holdings, Inc. - Preferred	24,040	₱15,099,708	₱13,943,200	24,040	₱15,099,708	₱22,357,200
Sun Life Financial Service	10,091	4,635,551	12,916,480	—	—	—
San Miguel Corporation "B"	218,800	12,461,848	12,143,400	218,800	12,461,848	12,471,600
SM Prime Holdings, Inc. - Preferred	887,000	4,181,705	5,144,600	1,022,000	7,665,881	7,767,200
SPI Technologies, Inc.	595,000	6,008,286	4,581,500	250,000	2,770,874	3,125,000
First Philippine Holdings Corporation	194,600	4,487,855	4,037,950	—	—	—
La Tondena Distillers, Inc.	108,000	2,841,793	3,294,000	98,000	2,523,123	3,136,000
Globe Telecom. Holdings Corp.	3,696	2,445,610	2,587,200	—	—	—
Ayala Corporation - Preferred	2,140,000	1,708,515	2,396,800	2,140,000	1,708,515	2,225,600
Ionics, Inc.	140,000	2,139,201	2,205,000	—	—	—
Manulife Financial Corporation	1,349	859,983	2,063,970	—	—	—
ABS-CBN Holdings Corporation	33,600	1,581,768	1,646,400	33,600	1,581,768	1,680,000
Manila Mining Corporation "B"	215,000,000	2,031,848	1,290,000	261,000,000	2,319,593	2,218,500
Digital Telecommunications Phils., Inc.	2,743,000	2,746,798	1,261,780	—	—	—
Manila Mining Corporation "A"	97,000,000	870,871	533,500	155,000,000	1,354,430	1,317,500
Uniwide Holdings, Inc.	1,000,000	658,459	510,000	—	—	—
Solid Group, Inc.	800,000	1,638,760	416,000	—	—	—
Bank of Philippine Islands	3,110	266,578	180,380	160,800	12,203,378	12,060,000
Ayala Corporation "A"	620	3,926	4,774	849,000	8,588,937	9,975,750
Central Azucarera Don Pedro	5,000	4,955	4,100	2,483,000	3,214,450	2,259,530
Metro Pacific Corporation	—	—	—	9,509,000	10,546,559	11,030,440
International Container Terminal Services, Inc.	—	—	—	516,000	1,734,405	1,883,400
Globe Telecom., Inc.	—	—	—	205,000	2,776,902	2,255,000
Filinvest Land, Inc.	—	—	—	414,000	1,713,914	1,697,400
Ayala Land, Inc.	—	—	—	3,114,700	28,817,323	32,704,350
		₱66,674,018	₱71,161,034		₱117,081,608	₱130,164,470

As of February 16, 2001, the unrealized appreciation of investments in listed securities held as of December 31, 2000, based on the market quotations of PSE, is ₱3,292,105.

3. Net Assets

The Fund's net assets consist of:

	2000		1999	
	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	100,118,893	₱100,118,893	105,753,100	₱105,753,100
Subscriptions	19,465,678	19,465,678	20,271,344	20,271,344
Redemptions	(55,085,029)	(55,085,029)	(25,905,551)	(25,905,551)
Balance at end of year	64,499,542	64,499,542	100,118,893	100,118,893
Additional paid-in capital				
Balance at beginning of year		74,866,361		68,258,648
Premium on new issuances		52,406,898		38,444,761
Redemptions of shares		(25,423,041)		(31,837,048)
Balance at end of year		101,850,218		74,866,361
Retained earnings				
Balance at beginning of year		167,033,746		73,823,379
Net investment income		19,619,544		110,439,232
Redemptions of shares		(113,188,355)		(17,228,865)
Balance at end of year		73,464,935		167,033,746
Unrealized appreciation of investments in listed securities		4,487,016		13,082,862
		₱244,301,711		₱355,101,862
Net asset value per share (computed by dividing net assets by the total capital stock issued of 64,499,542 shares in 2000 and 100,118,893 shares in 1999)		₱3.788		₱3.547

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.

4. 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:

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

5. Income Tax

Provision for income tax in 2000 and 1999 represents the MCIT. There was no provision for income tax in 1998 since gain from sale of investments in listed securities and interest income have already been subjected to final tax while dividend income is exempt from tax.

The carryforward benefit of the MCIT amounting to ₱34,609 in 2000 and ₱54,086 in 1999 and the NOLCO of ₱6,056,384 in 2000 and ₱2,582,939 in 1999 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.

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)
Schedule A. Cash and Cash Equivalents
December 31, 2000

Name of Issuing Entity and Description of Each Issue		Amount Shown in the Balance Sheet
Cash in Bank		₱1,177,137
Cash Equivalents		
Rizal Commercial Banking Corporation	FXTN	74,782,636
International Exchange Bank	CP-ALI	33,786,092
International Exchange Bank	TNOTES	27,141,445
International Exchange Bank	SSA	7,353,620
International Exchange Bank	TNOTES	7,117,770
		150,181,563
		₱151,358,700