

PHILEQUITY 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

AS094-001656

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)

12

Month

31

Day

(Fiscal Year)

A A F S

(Form Type)

05

Month

18

Day

(Annual Meeting)

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

Amended Articles Number/Section

20

Total No. of Stockholders

-

Domestic

-

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

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Report of Independent Auditors

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

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April 1, 2005

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2004	2003
ASSETS		
Investments (Notes 3 and 8)	₱302,243,454	₱201,480,548
Cash and Cash Equivalents (Notes 4 and 8)	89,381,234	27,976,007
Receivables (Note 8)	2,136,782	62,944
	393,761,470	229,519,499
LIABILITIES		
Accrued Expenses and Other Liabilities (Notes 6, 7 and 8)	2,886,933	501,563
NET ASSETS (Note 5)	₱390,874,537	₱229,017,936
Net Asset Value Per Share (Note 5)	₱6.446	₱5.009

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2004	2003	2002
INVESTMENT INCOME			
Net realized gain on sale of investments (Note 3)	₱36,750,180	₱5,362,113	₱1,966,127
Interest	4,958,965	3,096,728	2,844,755
Dividends	4,675,780	4,853,013	5,176,251
Foreign exchange gain	81,329	7,155	6,397
Recovery from decline in value of other investment	—	—	2,500,000
	46,466,254	13,319,009	12,493,530
OPERATING EXPENSES			
Management fee (Note 7)	4,463,934	3,205,123	2,859,700
Sales commission (Note 7)	405,814	54,398	16,358
Professional fees	395,700	375,800	312,000
Directors' fees	286,365	92,000	78,000
Taxes and licenses	195,130	105,611	252,451
Advertising	33,534	—	—
Others	100,701	99,917	89,489
	5,881,178	3,932,849	3,607,998
INVESTMENT INCOME BEFORE INCOME TAX	40,585,076	9,386,160	8,885,532
PROVISION FOR DEFERRED INCOME TAX (Note 6)	23,736	243	2,047
NET INVESTMENT INCOME (Note 5)	40,561,340	9,385,917	8,883,485
CHANGES IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS (Note 5)			
Balance at end of year	57,030,798	28,501,392	(21,108,640)
Balance at beginning of year	28,501,392	(21,108,640)	(7,743,489)
UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS (Note 5)	28,529,406	49,610,032	(13,365,151)
NET INCREASE (DECREASE) IN NET ASSETS	₱69,090,746	₱58,995,949	(₱4,481,666)

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		
	2004	2003	2002
FROM INVESTING ACTIVITIES			
Net investment income (Note 5)	₱40,561,340	₱9,385,917	₱8,883,485
Unrealized appreciation (depreciation) of investments (Note 5)	28,529,406	49,610,032	(13,365,151)
Net increase (decrease) in net assets from investing activities	69,090,746	58,995,949	(4,481,666)
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from subscriptions of capital stock - 20,848,661 shares in 2004, 2,560,444 shares in 2003 and 7,122,854 shares in 2002	127,877,307	11,598,919	30,569,753
Payments for redemptions of capital stock - 5,931,083 shares in 2004, 1,152,537 shares in 2003 and 21,069,345 shares in 2002	(35,111,452)	(5,306,213)	(86,922,708)
Net increase (decrease) in net assets from capital stock transactions	92,765,855	6,292,706	(56,352,955)
NET INCREASE (DECREASE) IN NET ASSETS	161,856,601	65,288,655	(60,834,621)
NET ASSETS AT BEGINNING OF YEAR	229,017,936	163,729,281	224,563,902
NET ASSETS AT END OF YEAR (Note 5)	₱390,874,537	₱229,017,936	₱163,729,281

See accompanying Notes to Financial Statements.

PHILEQUITY 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	₱40,585,076	₱9,386,160	₱8,885,532
Adjustments for:			
Net realized gain on sale of investments	(36,750,180)	(5,362,113)	(1,966,127)
Unrealized foreign exchange gain	(81,329)	(7,155)	(6,397)
Recovery from decline in value of other investment	—	—	(2,500,000)
Operating income before working capital changes	3,753,567	4,016,892	4,413,008
Proceeds from sale of investments	244,397,328	21,281,883	132,263,967
Decrease (increase) in:			
Investments	(279,880,648)	(76,972,926)	(75,451,362)
Receivables	(2,073,838)	725,984	640,706
Increase (decrease) in accrued expenses and other liabilities	2,361,634	(317,255)	(507,773)
Net cash provided by (used in) operating activities	(31,441,957)	(51,265,422)	61,358,546
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of capital stock	127,877,307	11,598,919	30,569,753
Payments for redemptions of capital stock	(35,111,452)	(5,306,213)	(86,922,708)
Net cash provided by (used in) financing activities	92,765,855	6,292,706	(56,352,955)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	81,329	7,155	6,397
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	61,405,227	(44,965,561)	5,011,988
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,976,007	72,941,568	67,929,580
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱89,381,234	₱27,976,007	₱72,941,568

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Fund, Inc. (the Fund) is incorporated in the Philippines. It was registered with the Securities and Exchange Commission (SEC) as an open-end mutual fund company to engage in the sale of its capital stock and invest such proceeds in a well selected portfolio of securities, both debt and equity.

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, fund manager), an affiliate. 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, except for investments which are stated at market value.

Adoption of New Accounting Standard

Effective January 1, 2004, the Fund adopted Statement of Financial Accounting Standards 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 Instruments: Disclosure and Presentation,” which 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, 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 objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. Required disclosures, as applicable, will be included in the 2005 financial statements.
- 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 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 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 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. 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 also 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 quantified 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.

Investments

Investments in listed securities and others are stated at market values. Market value of listed securities is based on current market quotations of the Philippine Stock Exchange at balance sheet date. The difference between the aggregate cost of investments and the market value at balance sheet date is shown as "Unrealized appreciation (depreciation) of investments" account in the statements of operations. The net difference between the selling price and the cost of investments sold, which is computed based on the moving average cost of all the shares of each investment held at the time of sale, is shown as "Net realized gain on sale of investments" account in the statements of operations.

Cash and Cash Equivalents

Cash includes cash 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.

Receivables

Receivables are stated at face value, after allowance for doubtful accounts, if any. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenues are recognized on the following bases:

- a. Gain on sale of investments, 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.

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.

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 tax liabilities are recognized for all taxable temporary differences. Deferred 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.

Contingencies

Contingent liabilities are not recognized in the financial statements. 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.

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 taken to the statements of operations.

3. Investments

This account consists of:

	2004	2003
Investments in:		
Listed securities	₱295,273,540	₱200,030,357
Others	6,969,914	1,450,191
	₱302,243,454	₱201,480,548

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

	2004			2003		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
DMCI Holdings, Inc.	12,399,000	₱28,541,690	₱47,116,200	—	₱—	₱—
International Container Terminal Services, Inc.	7,190,000	31,838,505	42,421,000	4,632,000	13,850,912	15,285,600
International Exchange Bank	2,466,500	40,248,383	41,313,875	—	—	—
Petron Corporation	9,473,000	24,921,263	30,787,250	7,012,000	13,710,420	15,847,120
First Philippine Holdings Corporation	967,980	27,139,125	29,039,400	561,480	12,171,857	10,527,750
Digital Telecommunications Philippines, Inc.	9,652,000	15,187,911	16,794,480	2,743,000	2,746,798	1,920,100
Manulife Financial Corporation	4,441	5,773,126	11,013,680	4,441	5,773,126	7,771,750
Sun Life Financial, Inc.	5,808	5,879,303	10,628,640	5,808	5,879,303	7,927,920
Ayala Land, Inc.	1,300,000	9,154,285	9,490,000	323,000	2,065,510	1,970,300
Filinvest Land, Inc.	7,500,000	8,388,559	8,400,000	4,100,000	4,234,701	4,182,000
JG Summit Holdings, Inc.	3,000,000	11,013,810	8,100,000	—	—	—
Equitable PCI Bank, Inc.	134,500	5,695,978	6,456,000	—	—	—
Alaska Milk Corporation	2,144,000	6,031,396	6,324,800	2,044,000	5,723,179	6,336,400
Highlands Prime, Inc.	2,766,000	5,891,592	6,195,840	3,700,000	7,881,016	8,140,000
Aboitiz Equity Ventures, Inc.	1,196,000	4,080,932	3,827,200	—	—	—
Manila Mining Corporation "B"	137,000,000	1,924,182	3,562,000	75,000,000	708,784	637,500
Belle Corporation	5,020,000	2,513,335	2,961,800	5,020,000	2,513,335	2,761,000

	2004			2003		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
Ginebra San Miguel, Inc.	77,700	₱2,169,176	₱2,369,850	143,000	₱3,992,177	₱4,576,000
Union Bank of the Philippines	94,700	2,677,110	2,249,125	172,900	4,887,776	4,495,400
Ayala Corporation "A"	184,344	1,030,991	1,216,670	978,620	5,324,061	5,088,824
Security Bank Corporation	37,100	815,252	1,075,900	—	—	—
A. Soriano Corporation	488,000	678,831	771,040	—	—	—
Manila Mining Corporation "A"	37,000,000	332,188	703,000	37,000,000	332,188	277,500
Universal Robina Corporation	70,000	543,545	672,000	—	—	—
Philex Mining Corporation "B"	620,000	296,044	496,000	620,000	296,044	260,400
Robinsons Land Corporation	151,000	311,947	362,400	—	—	—
Solid Group, Inc.	800,000	1,638,760	296,000	800,000	1,638,760	232,000
Bank of the Philippine Islands	4,590	165,213	240,975	438,092	18,761,655	20,371,278
Philex Mining Corporation "A"	250,000	114,838	187,500	500,000	229,676	205,000
Ionics, Inc.	93,000	154,046	137,640	—	—	—
San Miguel Corporation "B"	780	40,674	58,500	117,780	6,141,707	7,537,920
Globe Telecom, Inc.	5	4,576	4,775	24,935	17,375,738	21,444,100
Philippine Long Distance Telephone Company	—	—	—	27,700	15,042,402	26,869,000
SPI Technologies, Inc.	—	—	—	1,107,115	12,170,890	14,392,495
SM Prime Holdings, Inc.	—	—	—	1,087,000	5,366,569	7,065,500
San Miguel Corporation "A"	—	—	—	40,000	1,643,859	2,180,000
Banco de Oro Universal Bank	—	—	—	50,000	918,851	887,500
ABS-CBN Holdings Corporation	—	—	—	33,600	1,581,768	840,000
		₱245,196,566	₱295,273,540		₱172,963,062	₱200,030,357

As of April 1, 2005, the market value of investments in listed securities held as of December 31, 2004 amounted to ₱336,906,249.

Details of sold investments in listed securities are as follows:

	2004	2003	2002
Proceeds from sale of investments	₱244,397,328	₱21,281,883	₱132,263,967
Less cost of investments sold	207,647,148	15,919,770	130,297,840
Net realized gain on sale of investments	₱36,750,180	₱5,362,113	₱1,966,127

4. Cash and Cash Equivalents

This account consists of:

	2004	2003
Cash in banks	₱1,296,912	₱1,205,301
Short-term deposits	88,084,322	26,770,706
	₱89,381,234	₱27,976,007

Cash in banks earns interest at the prevailing 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 prevailing 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	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued:						
Balance at beginning of year	45,718,297	₱45,718,297	44,310,390	₱44,310,390	58,256,881	₱58,256,881
Issuances	20,848,661	20,848,661	2,560,444	2,560,444	7,122,854	7,122,854
Redemptions	(5,931,083)	(5,931,083)	(1,152,537)	(1,152,537)	(21,069,345)	(21,069,345)
Balance at end of year	60,635,875	60,635,875	45,718,297	45,718,297	44,310,390	44,310,390
Additional paid-in capital:						
Balance at beginning of year		69,477,434		62,272,000		91,191,282
Issuances in excess of par value		107,028,646		9,038,475		23,446,899
Cost of redemptions in excess of par value		(18,751,333)		(1,833,041)		(52,366,181)
Balance at end of year		157,754,747		69,477,434		62,272,000
Retained earnings:						
Balance at beginning of year		85,320,813		78,255,531		82,859,228
Net investment income		40,561,340		9,385,917		8,883,485
Excess of the redemption cost over the original selling price		(10,429,036)		(2,320,635)		(13,487,182)
Balance at end of year		115,453,117		85,320,813		78,255,531
Unrealized appreciation (depreciation)						
of investments:						
Balance at beginning of year		28,501,392		(21,108,640)		(7,743,489)
Unrealized appreciation (depreciation) of investments		28,529,406		49,610,032		(13,365,151)
Balance at end of year		57,030,798		28,501,392		(21,108,640)
		₱390,874,537		₱229,017,936		₱163,729,281
Net asset value per share		₱6.446		₱5.009		₱3.695

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 as of December 31, 2004 and 2003, included as part of "Accrued expenses and other liabilities" account in the statements of assets and liabilities, represents unrealized foreign exchange gain amounting to ₱26,026 and ₱2,290, respectively.

Carryforward benefit of NOLCO for which no deferred tax assets 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 ₱13,399,418 and ₱11,458,601 as of December 31, 2004 and 2003, respectively.

NOLCO in 2001 amounting to ₱3,933,206 expired in 2004.

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

Year Incurred	Expiry Year	NOLCO
2002	2005	₱3,598,943
2003	2006	3,926,452
2004	2007	5,874,023
		₱13,399,418

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	₱12,987,224	₱3,003,571	₱2,843,370
Income tax effects of:			
Net realized gain on sale of investments	(11,760,057)	(1,715,876)	(629,161)
Dividend income exempt from tax	(1,496,250)	(1,552,964)	(1,656,400)
Interest income already subjected to final tax	(1,586,869)	(990,953)	(910,322)
Expired NOLCO	1,258,626	1,111,503	826,541
Others	—	—	(797,102)
Change in unrecognized deferred tax assets	621,062	110,353	271,035
Expired MCIT	—	34,609	54,086
	₱23,736	₱243	₱2,047

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:

- Annual management fee of a 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.
- Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock.

Related party accounts and balances with PMI as of and for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Management Fee	Sales Commission	Amount Owed to PMI
2004	₱4,463,934	₱405,814	₱748,692
2003	3,205,123	54,398	280,804
2002	2,859,700	16,358	205,368

Amount owed to PMI is included as part of "Accrued expenses and other liabilities" account in the statements of assets and liabilities.

8. **Classification of Assets and Liabilities**

The current portions of assets and liabilities are as follows:

	2004	2003
Assets		
Investments	₱302,243,454	₱201,480,548
Cash and cash equivalents	89,381,234	27,976,007
Receivables	2,136,782	62,944
Liabilities		
Accrued expenses and other liabilities	2,860,907	499,273

9. **Supplemental Disclosure of Cash Flow Information**

	2004	2003	2002
Cash received during the year for:			
Dividends	₱4,717,714	₱3,397,039	₱2,860,353
Interest	2,843,285	5,278,336	5,801,869

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)
Schedule A. Cash and Cash Equivalents
December 31, 2004

Name of Issuing Entity and Description of Each Issue		Amount Shown in the Statement of Assets and Liabilities
Cash in Banks		₱1,296,912
Short-term Deposits		
Philippine Bank of Communications	PSA	40,796,254
East West Bank	PSA	47,288,068
		88,084,322
		₱89,381,234

Legend:

PSA - Peso Saving Account