

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

Financial Statements
December 31, 2006 and 2005 and
Years Ended December 31, 2006, 2005 and 2004

and

Independent Auditors' Report

COVER SHEET

A	1	9	9	8	-	1	6	2	1	6
---	---	---	---	---	---	---	---	---	---	---

SEC Registration Number

P	H	I	L	E	Q	U	I	T	Y		D	O	L	L	A	R		I	N	C	O	M	E		F	U	N	D	,		I	N
C	.		(A	n		O	p	e	n	-	E	n	d		M	u	t	u	a	l		F	u	n	d		C	o	m	p	a
n	y)																														

(Company's Full Name)

2	7	0	3	-	A	,		E	a	s	t		T	o	w	e	r	,		P	h	i	l	i	p	p	i	n	e		S	t
o	c	k		E	x	c	h	a	n	g	e		C	e	n	t	r	e	,		E	x	c	h	a	n	g	e		R	o	a
d	,		O	r	t	i	g	a	s		C	e	n	t	e	r	,		P	a	s	i	g		C	i	t	y				

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

Mr. Edmundo Bunyi, Jr.

(Contact Person)

635-6963

(Company Telephone Number)

1	2
---	---

Month

3	1
---	---

Day

(Fiscal Year)

A	A	F	S	
---	---	---	---	--

(Form Type)

0	6
---	---

Month

--	--

Day

(Annual Meeting)

NA

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

NA

Amended Articles Number/Section

37

Total No. of Stockholders

\$-

Domestic

\$-

Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

File Number

LCU

--	--	--	--	--	--	--	--	--	--

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN**

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.
2703-A, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the financial statements of Philequity Dollar Income Fund, Inc. for the year ended December 31, 2006, on which we have rendered the attached report dated March 21, 2007.

In compliance with Revenue Regulations V-20, we are stating the following:

1. The taxes paid or accrued by the above Company for the year ended December 31, 2006 are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.
2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-AR-1
Tax Identification No. 102-086-897
PTR No. 0267355, January 2, 2007, Makati City

March 21, 2007

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.
2703-A, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the financial statements of Philequity Dollar Income Fund, Inc. for the year ended December 31, 2006, on which we have rendered the attached report dated March 21, 2007.

In compliance with SRC Rule 68, we are stating that the above Company has a total number of thirty (30) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-AR-1
Tax Identification No. 102-086-897
PTR No. 0267355, January 2, 2007, Makati City

March 21, 2007

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity Dollar Income Fund, Inc.
2703-A, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the accompanying financial statements of Philequity Dollar Income Fund, Inc., which comprise the statements of assets and liabilities as at December 31, 2006 and 2005, and the statements of operations, statements of changes in net assets attributable to unitholders and statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

We have reviewed the translation of the financial statements mentioned above to Philippine peso on the basis described in Note 2 to the financial statements. In our opinion, such financial statements have been properly translated on such basis.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-AR-1
Tax Identification No. 102-086-897
PTR No. 0267355, January 2, 2007, Makati City

March 21, 2007

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Philequity Dollar Income Fund, Inc., which comprise the statements of assets and liabilities as at December 31, 2006 and 2005, and the statements of operations, statements of changes in net assets attributable to unitholders and statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

We have reviewed the translation of the financial statements mentioned above to Philippine peso on the basis described in Note 2 to the financial statements. In our opinion, such financial statements have been properly translated on such basis.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
Partner
CPA Certificate No. 25543
SEC Accreditation No. 0080-AR-1
Tax Identification No. 102-086-897
PTR No. 0267355, January 2, 2007, Makati City

March 21, 2007

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31			
	2006		2005	
	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)
ASSETS				
Cash and Cash Equivalents (Notes 6, 11 and 12)	\$1,444,156	₱70,806,992	\$29,571	₱1,569,945
Financial Assets at Fair Value Through Profit or Loss (FVPL) (Notes 7, 11 and 12)	2,340,393	114,749,490	2,531,850	134,415,904
Receivables (Notes 11 and 12)	78,923	3,869,581	182,303	9,678,488
Creditable Withholding Tax	11,388	558,345	5,027	266,881
Total Assets	3,874,860	189,984,408	2,748,751	145,931,218
LIABILITIES				
Accrued Expenses and Other Liabilities	894	43,865	16,435	872,510
Deposit for Future Stock Subscriptions	347,788	17,052,063	—	—
	348,682	17,095,928	16,435	872,510
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 8)	\$3,526,178	₱172,888,480	\$2,732,316	₱145,058,708
Net Asset Value Per Share (Note 8)	\$0.035	₱1.729	\$0.033	₱1.761

See accompanying Notes to Financial Statements.

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

STATEMENTS OF OPERATIONS

	Years Ended December 31					
	2006		2005		2004	
	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>
REVENUES						
Interest	\$199,513	₱10,241,023	\$161,272	₱8,883,692	\$47,438	₱2,658,620
Gain (loss) on changes in fair value of financial assets at FVPL (Note 7)	(86,598)	(4,445,077)	41,254	2,190,195	—	—
Gain on sale of financial assets at FVPL	1,764	90,543	—	—	—	—
Others	65,655	3,370,080	24,431	653,102	—	—
	180,334	9,256,569	226,957	11,726,989	47,438	2,658,620
EXPENSES						
Commission (Note 10)	4,220	216,620	4,572	251,835	1,075	60,246
Taxes and licenses	4,127	211,833	5,726	315,440	1,126	63,106
Professional fees	3,385	173,735	7,510	413,697	856	48,000
Printing and reproduction costs	490	25,160	412	22,694	477	26,755
Advertising and promotions	—	—	93	5,148	442	24,750
Others	614	31,548	111	6,125	1,868	11,347
	12,836	658,896	18,424	1,014,939	5,844	234,204
INVESTMENT INCOME BEFORE INCOME TAX	167,498	8,597,673	208,533	10,712,050	41,594	2,424,416
PROVISION FOR (BENEFIT FROM)						
INCOME TAX (Note 9)						
Current	248	12,160	1,117	59,289	—	—
Deferred	(19,710)	(966,365)	(17,973)	(954,202)	15,887	890,367
	(19,462)	(954,205)	(16,856)	(894,913)	15,887	890,367
NET INVESTMENT INCOME (Note 8)	\$186,960	₱9,551,878	\$225,389	₱11,606,963	\$25,707	₱1,534,049

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN NET ASSETS
ATTRIBUTABLE TO UNITHOLDERS

	Years Ended December 31					
	2006		2005		2004	
	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>	Functional Currency <i>(In U.S. Dollar)</i>	Presentation Currency <i>(In Philippine Peso)</i>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT BEGINNING OF YEAR	\$2,732,316	₱145,058,708	\$955,121	₱53,754,159	\$711,412	₱37,020,553
NET INVESTMENT INCOME	186,960	9,551,878	225,389	11,606,963	25,707	1,534,049
CAPITAL STOCK TRANSACTIONS (Note 8)						
Proceeds from subscriptions of capital stock - 24,747,451 shares in 2006, 50,711,127 shares in 2005 and 7,156,190 shares in 2004	846,817	43,467,083	1,567,344	86,337,366	218,002	12,217,677
Payments for redemptions of capital stock - 7,128,856 shares in 2006 and 485,432 shares in 2005	(239,915)	(12,314,821)	(15,538)	(855,832)	—	—
Net change in net assets from capital stock transactions	606,902	31,152,262	1,551,806	85,481,534	218,002	12,217,677
Cumulative translation adjustments	—	(12,874,368)	—	(5,783,948)	—	2,981,880
NET INCREASE IN NET ASSETS	793,862	27,829,772	1,777,195	91,304,549	243,709	16,733,606
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT END OF YEAR (Note 8)	\$3,526,178	₱172,888,480	\$2,732,316	₱145,058,708	\$955,121	₱53,754,159

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					
	2006		2005		2004	
	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)
CASH FLOWS FROM OPERATING ACTIVITIES						
Investment income before income tax	\$167,498	₱8,597,673	\$208,533	₱10,712,050	\$41,594	₱2,424,416
Adjustment for:						
Loss (gain) on changes in fair value of financial assets at FVPL (Note 5)	86,598	4,445,077	(41,254)	(2,190,195)	—	—
Gain on sale of financial assets at FVPL	(1,764)	(90,543)	—	—	—	—
Interest income	(199,513)	(10,241,023)	(161,272)	(8,883,692)	(47,438)	(2,658,620)
Effect of change in foreign exchange rate	—	(1,632,266)	—	152,631	—	(2,742,890)
Income before working capital changes	52,819	1,078,918	6,007	(209,206)	(5,844)	(2,977,094)
Decrease (increase) in:						
Financial assets at FVPL	104,859	5,141,237	(1,620,528)	(86,033,832)	(289,918)	(16,334,270)
Receivables	99,298	4,868,581	(119,145)	(6,325,408)	(1,786)	(100,625)
Increase in:						
Accrued expenses and other liabilities	6,181	303,054	16,178	858,890	16,539	931,824
Deposit for future stock subscription	347,788	17,052,063	—	—	—	—
Income tax paid	(248)	(12,160)	(6,144)	(326,185)	—	—
Net cash provided by (used in) operating activities	610,697	28,431,693	(1,723,632)	(92,035,741)	(281,009)	(18,480,165)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from subscription of capital stock	846,817	43,467,083	1,567,344	83,210,293	218,002	12,282,451
Payment for redemption of stock	(239,915)	(12,314,821)	(15,538)	(824,912)	—	—
Net cash provided by financing activities	606,902	31,152,262	1,551,806	82,385,381	218,002	12,282,451
CASH FLOWS FROM INVESTING ACTIVITY						
Interest received	196,986	9,658,224	119,398	6,338,840	81,010	4,564,184
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATE IN CASH AND CASH EQUIVALENTS	—	(5,132)	—	266,579	—	(48,317)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,414,585	69,237,047	(52,428)	(3,044,941)	18,003	(1,681,847)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,571	1,569,945	81,999	4,614,886	63,996	6,296,733
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$1,444,156	₱70,806,992	\$29,571	₱1,569,945	\$81,999	₱4,614,886

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-End Mutual Fund Company)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Dollar Income Fund, Inc. (the Fund) was incorporated in the Philippines and 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. As an open-end mutual dollar fund company, its outstanding shares of stock are redeemable anytime based on the net asset value (NAV) per share at the time of redemption.

Effective February 7, 2007, the registered address of the Fund is 2703-A (previously 2103-B), East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors on March 21, 2007.

2. Basis of Preparation

The financial statements of the Fund have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), which are measured at fair value.

Reporting Currency

The financial statements are presented in U.S. dollar (the Fund's functional currency), as well as in Philippine peso (the Fund's presentation currency).

The amounts in U.S. dollar were translated to Philippine peso following the translation procedures specified in Philippine Accounting Standards (PAS) 21, "The Effects of Changes in Foreign Exchange Rates" as follows:

- a. Assets and liabilities for each statement of assets and liabilities presented (i.e., including comparatives) were translated using the closing rate at each date of that statement of assets and liabilities;
- b. Income and expenses for each statement of operations presented (i.e., including comparatives) were translated at average exchange rates; and,
- c. All resulting exchange differences were recognized as a separate component of equity.

All values are rounded to the nearest U.S. dollar and Philippine peso, units unless otherwise stated

Statement of Compliance

The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) which include Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- Amendment to PAS 21, “The Effects of Changes in Foreign Exchange Rates” and
- Amendment to PAS 39, “Financial Instruments: Recognition and Measurement”

The effects of these changes are described below:

- Amendment to PAS 21, “The Effects of Changes in Foreign Exchange Rates,” requires all exchange differences arising from a monetary item that forms part of the Fund’s net investment in a foreign operation to be recognized in a separate component of equity in the financial statements regardless of the currency in which monetary item is denominated.
- Amendments to PAS 39, “Financial Instruments: Recognition and Measurement”

Amendment for Financial Guarantee Contract (August 2005) – amended the scope of PAS 39 to require financial guarantee contracts that are considered to be insurance contracts to be recognized initially at fair value and to be measured at the higher of the amount determined in accordance with PAS 37, “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, “Revenue.”

Amendment for Hedges of Forecast Intragroup Transactions (April 2005) – amended PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of operations.

Amendment for the Fair Value Option (June 2005) – amended PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the statement of operations.

Changes in accounting policies did not have any material effect on the Fund’s financial statements.

The following Philippine Interpretations are also effective for annual periods beginning on or after January 1, 2006 but are not relevant to the Fund:

- Philippine Interpretation IFRIC 4, “Determining Whether an Arrangement Contains a Lease”
- Philippine Interpretation IFRIC 5, “Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”
- Philippine Interpretation IFRIC 6, “Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment”

Future Changes in Accounting Policies

The Fund did not early adopt the following amendment, standards and interpretations that have been approved but are not yet effective:

- PAS 1, “Amendment – Presentation of Financial Statements: Capital Disclosure (effective for annual periods beginning on or after January 1, 2007).” This amendment requires the Fund to make new disclosures that enable users to evaluate the significance of the Fund’s objectives, policies and processes for managing capital. The new and revised disclosures provided by this standard will be included in the 2007 financial statements of the Fund.
- PFRS 7, “Financial Instruments – Disclosures (effective for annual periods beginning on or after January 1, 2007).” This standard requires disclosures that enable users to evaluate the significance of the Fund’s financial instruments and the nature and extent of risks arising from those financial instruments. The new and revised disclosures on financial instruments provided by this standard will be included in the 2007 financial statements of the Fund.
- PFRS 8, “Operating Segments (effective for annual periods beginning on or after January 1, 2009).” This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, “Segment Reporting,” and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Fund is not required to and will not adopt PFRS 8.
- Philippine Interpretation IFRIC 7, “Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006).” This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular, the accounting for deferred tax. The interpretation will have no impact on the Fund’s financial statements.
- Philippine Interpretation IFRIC 8, “Scope of PFRS 2 (effective for annual periods beginning on or after May 1, 2006).” This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As there are no equity instruments issued within the scope of PFRS 2, the interpretation will have no impact on the Fund’s financial statements.
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives (effective for financial years beginning June 1, 2006).” This interpretation establishes that the date to assess the existence of an embedded derivative is the date the Fund first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Fund believes that adoption of the interpretation will have no impact on the Fund’s financial statements when implemented in 2007.
- Philippine Interpretation IFRIC 10, “Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).” This interpretation prohibits the reversal of impairment losses on goodwill and available-for-sale equity investments recognized in the interim financial reports even if impairment is no longer present at the annual date of the statement of assets and liabilities. This interpretation has no significant impact on the Fund’s financial statements.

- Philippine Interpretation IFRIC 11, “PFRS 2 - Group and Treasury Share Transactions.” This Interpretation indicates how to account for circumstances where goods and services are received in return for a company’s own equity instruments and how to account circumstances when a parent company grants its own equity instruments to employee of a subsidiary. The Fund currently does not have any stock option plan and, therefore, does not expect this interpretation to have a significant impact to its financial statements.
- Philippine Interpretation IFRIC 12, “Service Concession Arrangements, (effective for annual periods beginning on or after January 1, 2008).” This interpretation covers contractual arrangements arising from private entities providing public services and is not relevant to the Fund’s current operations.

4. Summary of Significant Accounting Policies

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.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition of Financial Instruments. All financial assets are initially measured at fair value. Except for securities valued at fair value through profit or loss, the initial measurement of financial assets includes transaction costs. The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss (FVPL), held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in the active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

a. Financial asset at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;
- (ii) the assets are part of a group of financial assets managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy or investment strategy; or
- (iii) the financial instruments contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL are recorded in the statement of assets and liabilities at fair value. Changes in fair value are recognized directly in statement of operations. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

The Fund's financial assets at FVPL include investments in dollar bonds.

b. Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "FVPL," designated as "available-for-sale financial assets" or "held-to-maturity investments."

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective interest rate. The amortization is included in the interest income in the statement of operations. The losses arising from impairment are recognized in provision for impairment losses in the statement of operations.

Included under this classification are the Fund's receivables.

c. Held-to-maturity investments

Held-to-maturity investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Fund's management has the positive intention and ability to hold to maturity. Where the Fund sells other than an insignificant amount of held to maturity investments, the entire category would be tainted and reclassified as available-for-sale financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The

amortization is included in interest income in the statement of operations. Gains and losses are recognized in income when the held-to-maturity investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of operations. The effects of restatement on foreign currency denominated held-to-maturity investments are recognized in the statement of operations.

The Fund has no held-to-maturity investments.

d. Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated as "FVPL," "held-to-maturity investments" or "loans and receivables." They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. The effective yield component of available-for-sale debt securities, as well as the impact of restatement on foreign currency-denominated available-for-sale debt securities, is reported in the statement of operations. The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets are excluded, net of tax, from the statement of operations and are reported as net unrealized gain on available-for-sale financial assets in the statement of changes in net assets attributable to unitholders.

When the financial asset is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of operations. Where the Fund holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding available-for-sale financial assets are reported as interest income using the effective interest rate. Dividends earned on holding available-for-sale financial assets are recognized in the statement of operations when the right of the payment has been established. The losses arising from impairment of such financial assets are recognized in the statement of operations.

The Fund has no available-for-sale financial assets.

Determination of Fair Value

The fair value for financial instruments traded in active markets at the date of the statement of assets and liabilities is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

On the other hand, a financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the statement of operations.

Impairment of Financial Assets

The Fund assesses at each date of the statement of assets and liabilities whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For loans and receivables, the Fund assesses whether objective evidence of impairment exists. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account and the amount of loss is charged to the statement of operations. Receivables, together with the associated allowance, are written off when there is no prospect of future recovery. The amount of the loss shall be recognized in the statement of operations. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the

allowance account. If write off is later recovered, any amounts formerly charged are credited in the statement of operations.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of assets and liabilities if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of assets and liabilities.

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 financial assets at FVPL, determined at the time of sale transaction calculated as the difference between the net sales proceeds and the net book value;
- 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 (NAV) Per Share

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

Transactions with Unitholders

Sales of units are recorded by crediting net assets attributable to unitholders for the amount received; redemptions are recorded by debiting this account.

Foreign Currency-denominated Transactions

The Fund's financial statements are presented in U.S. dollar, which is the Fund's functional currency, and also in Philippine peso for presentation purposes only. Transactions in foreign currencies (either in Philippine peso or currencies other than the Fund's functional currency) are translated at the functional currency rate of exchange at the date of the statement of assets and liabilities. Exchange rate differences arising from the restatement or settlement of monetary items at rates different from those at which they were initially recorded are recognized in the statements of operations in the year in which they arise.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of the assets and liabilities.

Deferred Tax. Deferred tax is provided using the liability method on all temporary differences at the date of the statement of assets and liabilities 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 unused tax losses [such as net operating loss carryover (NOLCO)], to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward benefit of unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each date of the statement of assets and liabilities and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each date of the statement of assets and liabilities and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the statement of assets and liabilities.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions

Provisions 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Subsequent Events

Events after the date of the statement of assets and liabilities that provide additional information about the Fund's financial position at the date of the statement of assets and liabilities (adjusting events) are reflected in the financial statements. Events after the date of the statement of assets and liabilities that are not adjusting events are disclosed in the notes to financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

Judgments

In the process of applying the Fund's accounting policies, management has made judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the financial statements and accompanying notes. The judgments are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements.

Determination of Functional Currency. The functional currency of the Fund has been determined to be the U.S. dollars based on the economic substance of the underlying circumstances relevant to the Fund. The U.S. dollars is the currency of the primary economic environment in which the Fund operates. It is the currency that mainly influences the Fund's revenue and expenses.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as of the date of the statement of assets and liabilities that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Fair Value of Financial Assets. Fair value determinations for the financial assets at FVPL are based generally on quoted prices.

While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in the fair value of these financial assets would affect net assets.

The methods and assumptions used to determine the fair values of financial assets and financial liabilities are disclosed in Note 12.

Impairment of Financial Assets. In determining the fair values, management evaluates the financial health of the issuer and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value.

The carrying and fair values of financial assets are discussed in Note 12.

Deferred Tax Assets. The Fund's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following year. This forecast is based on the Fund's past results and future expectations on revenues and expenses. Deferred tax assets amounting to \$27,250 (₱1.40 million) in 2006, \$8,145 (₱0.43 million) in 2005 and \$1,042 (₱0.05 million) in 2004 were not recognized because management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized.

6. Cash and Cash Equivalents

This account consists of:

	2006		2005	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)
Cash on hand and in banks	\$30,872	₱1,513,697	\$3,535	₱187,663
Short-term deposits	1,413,284	69,293,295	26,036	1,382,282
	\$1,444,156	₱70,806,992	\$29,571	₱1,569,945

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.

7. Financial Assets at FVPL

Investments in dollar bonds were designated as financial assets at FVPL and are carried at fair value. Loss on changes in fair value of these investments amounted to \$86,598 (₱4.4 million) in 2006; while gain on market valuation of these investments in 2005 amounted to \$41,254 (₱2.2 million).

8. Net Assets

The units issued to shareholders are liabilities in substance. Accordingly, the accounting treatment and presentation of the units issued to shareholders are in accordance with PAS 32 for purposes of PFRS financial statements. However, under Republic Act (RA) No. 2629, Rules and Regulations Governing Investment Companies, investment companies including mutual funds shall be organized in the form of a stock corporation. Therefore, units issued to shareholders are legally considered as equity instruments.

Capital Stock Transactions

Sales of fund shares are recorded by crediting capital stock at par value and additional paid-in capital (APIC) for the amount received in excess of the par value; redemptions are recorded by debiting those accounts. In the event that the APIC balance is exhausted as a result of redemptions, the retained earnings account is reduced by redemptions in excess of par.

The details of the net assets are as follows:

	2006		2005		2004	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)
Capital Stock - P1 par value						
Authorized - 100,000,000 shares						
Issued and subscribed – 100,000,000 in 2006, 82,381,405 in 2005 and 32,156,190 in 2004						
Balance at beginning of year	\$1,678,426	₱82,381,405	\$766,652	₱32,156,190	\$638,962	₱25,000,000
Issuance	482,125	24,747,451	920,587	50,710,647	127,690	7,156,190
Redemption	(138,883)	(7,128,856)	(8,813)	(485,432)	–	–
Balance at end of year	2,021,668	100,000,000	1,678,426	82,381,405	766,652	32,156,190
Additional paid-in capital:						
Balance at beginning of year	814,089	44,858,462	173,257	9,558,111	82,945	4,496,624
Issuance	364,692	18,719,632	646,757	35,626,719	90,312	5,061,487
Redemption	(98,278)	(5,044,614)	(5,925)	(326,368)	–	–
Balance at end of year	1,080,503	58,533,480	814,089	44,858,462	173,257	9,558,111
Retained earnings:						
Balance at beginning of year	239,801	12,528,005	15,212	965,074	(10,495)	(568,975)
Net investment income	186,960	9,551,878	225,389	11,606,963	25,707	1,534,049
Excess of redemption cost over original selling price	(2,754)	(141,351)	(800)	(44,032)	–	–
Balance at end of year	424,007	21,938,532	239,801	12,528,005	15,212	965,074
Cumulative translation adjustments:						
Balance at beginning of year	–	5,290,836	–	11,074,784	–	8,092,904
Additions (deductions)	–	(12,874,368)	–	(5,783,948)	–	2,981,880
Balance at end of year	–	(7,583,532)	–	5,290,836	–	11,074,784
	\$3,526,178	₱172,888,480	\$2,732,316	₱145,058,708	\$955,121	₱53,754,159
NAV per share	\$0.035	₱1.729	\$0.033	₱1.761	\$0.030	₱1.672

NAV per share is computed as follows:

	2006		2005		2004	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)
Net assets	\$3,526,178	₱172,888,480	\$2,732,316	₱145,058,708	\$955,121	₱53,754,159
Number of shares outstanding	100,000,000	100,000,000	82,381,405	82,381,405	32,156,190	32,156,190
	\$0.035	₱1.729	\$0.033	₱1.761	\$0.030	₱1.672

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.

9. Income Taxes

The following deductible differences 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 represents the following:

	2006		2005		2004	
	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)	Functional Currency (In U.S. Dollar)	Presentation Currency (In Philippine Peso)
Unrealized foreign exchange loss	\$77,857	₱3,996,423	\$23,270	₱1,235,381	\$-	₱-
NOLCO	-	-	-	-	3,257	183,329
	\$77,857	₱3,996,423	\$23,270	₱1,235,381	\$3,257	₱183,329

Deferred tax asset on the above deductible differences amounted to \$27,250 (₱1.4 million) in 2006, \$8,145 (₱0.4 million) in 2005 and \$1,042 (₱0.05 million) in 2004. The carryforward benefit of NOLCO in 2004 was applied against taxable income in 2005.

The reconciliation between the statutory income tax rate and effective income tax rate under functional currency is as follows:

	2006	2005	2004
Statutory income tax rate	35.00%	32.50%	32.00%
Income tax effects of:			
Interest income already subjected to final tax	(43.58)	(25.13)	(36.50)
Loss (gain) on market valuation of financial assets at FVPL	18.92	(6.43)	-
Others	(21.94)	(9.02)	42.69
Effective income tax rate	(11.60%)	(8.08%)	38.19%

Due to the enactment of Republic Act (RA) No. 9337 in 2005, effective November 1, 2005, RCIT is at 35%. As of December 31, 2005, the effective statutory income tax is at 32.5%. The deferred tax assets and liabilities were measured using the appropriate corporate income tax rate on the year it is expected to be reversed or settled.

10. Management and Distribution Agreement (Agreement)

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

- Annual management fee of maximum of 1.5% of the monthly average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2006, the payment of management fee has not been made effective by the Fund and PMI.
- Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commission amounted to \$4,220 (₱216,620) in 2006, \$4,572 (₱251,835) in 2005 and \$1,075 (₱60,246) in 2004.

11. Financial Risk Management Objectives and Policies

Governance Framework

The Fund has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Fund's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

Regulatory Framework

The operations of the Fund are also subject to the regulatory requirements of the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. investment portfolios, capital requirements, etc.).

Financial Risk

The Fund is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, which are exposed to general and specific market movements. The risk that the Fund primarily faces due to the nature of its investments and liabilities is interest rate risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

In respect of investment securities, if any, the Fund secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers. The Fund also transacts only with institutions with high credit worthiness.

The Fund sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties, which are set by reference to their long term ratings.

The credit risk exposure of the Fund as of December 31, 2006 and 2005 represent the carrying amount of cash and cash equivalents, financial assets at FVPL and receivables.

The Fund did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2006 and 2005.

Liquidity Risk

Liquidity or funding risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of redeemable participating shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded in the market.

The Fund manages liquidity through a liquidity risk policy, which determines what constitutes liquidity risk for the Fund; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets of the Fund into their relevant maturity groups based on the remaining period at the date of the statement of assets and liabilities to their contractual maturities or expected repayment dates.

2006				
	Up to a Year	2-5 Years	Over 5 Years	Total
Cash and cash equivalents	\$1,444,156	\$–	\$–	\$1,444,156
Financial assets at FVPL	2,340,393	–	–	2,340,393
Receivables	78,923	–	–	78,923
	\$3,863,472	\$–	\$–	\$3,863,472

2005				
	Up to a Year	2-5 Years	Over 5 Years	Total
Cash and cash equivalents	\$29,571	\$–	\$–	\$29,571
Financial assets at FVPL	–	1,544,220	987,630	2,531,850
Receivables	182,303	–	–	182,303
	\$211,874	\$–	\$–	\$211,874

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Fund; basis used to fair value financial assets and liabilities; asset allocation and duration limit based on the Fund's chosen benchmark; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's fixed rate investments and receivables in particular are exposed to such risk.

The Fund's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

Price Risk

The Fund's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally FVPL debt instruments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

12. Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. The following table sets forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2006 and 2005.

	2006			
	Carrying Value		Fair Value	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)
Cash and cash equivalent	\$1,444,156	₱70,806,992	\$1,444,156	₱70,806,992
Financial assets at FVPL	2,340,393	114,749,490	2,340,393	114,749,490
Receivables	78,923	3,869,581	78,923	3,869,581
Financial assets recognized in statements of assets and liabilities	\$3,863,472	₱189,426,063	\$3,863,472	₱189,426,063

	2005			
	Carrying Value		Fair Value	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	(In Philippine Peso)	(In U.S. Dollar)	(In Philippine Peso)
Cash and cash equivalent	\$29,571	₱1,569,945	\$29,571	₱1,569,945
Financial assets at FVPL	2,531,850	134,415,904	2,531,850	134,415,904
Receivables	182,303	9,678,488	182,303	9,678,488
Financial assets recognized in statements of assets and liabilities	\$2,743,724	₱145,664,337	\$2,743,724	₱145,664,337

Fair values of financial assets are estimated as follows:

	Methods and Assumptions
Cash and cash equivalents and receivables	Due to the short-term nature of the instrument, the fair value approximates the carrying amount.
Financial assets at FVPL	Fair values were obtained by discounting the instruments' expected cash flows using the prevailing discount rates of similar instruments.

13. Related Party Disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Fund; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Fund that gives them significant influence over the Fund and close members of the family of any such individual.

Shares held by directors totaled 7 and 2,147,908 as of December 31, 2006 and 2005, respectively.

The Fund has no key management personnel. The key management functions are being handled by PMI.