

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

Financial Statements
December 31, 2002 and 2001
and Years Ended December 31, 2002, 2001 and 2000

and

Report of Independent Auditors

SEC Number AS094-001656

File Number _____

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

(Company's Full Name)

2103-B, East Tower
Philippine Stock Exchange Centre
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, 2002

Period Ended Date

(Secondary License Type and File Number)

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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

J. J. M. SEBASTIAN
Partner
CPA Certificate No. 61687
Tax Identification No. 104-597-500
PTR No. 7612883
January 2, 2003
Makati City

March 7, 2003

Report of Independent Auditors

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

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PTR No. 7612883
January 2, 2003
Makati City

March 7, 2003

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2002	2001
ASSETS		
Investments in Shares of Stock (Note 3)	₱90,817,360	₱156,528,989
Cash and Cash Equivalents (Note 4)	72,941,568	67,929,580
Receivables	788,928	1,429,634
	164,547,856	225,888,203
LIABILITIES		
Accounts Payable and Accrued Expenses (Notes 6 and 7)	818,575	1,324,301
NET ASSETS	₱163,729,281	₱224,563,902
Net Asset Value Per Share	₱3.695	₱3.855

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2002	2001	2000
INVESTMENT INCOME			
Dividends	₱5,176,251	₱3,289,238	₱4,442,166
Interest	2,844,755	13,296,722	14,999,509
Recovery from decline in value of other investment	2,500,000	—	—
Net realized gain on sale of investments in listed securities (Note 3)	1,966,127	5,841,575	5,364,193
Foreign exchange gain	6,397	5,873	52,167
	12,493,530	22,433,408	24,858,035
OPERATING EXPENSES			
Management fee (Note 7)	2,859,700	3,110,501	3,448,876
Professional fees	312,000	320,000	370,000
Taxes and licenses	252,451	192,957	1,021,663
Directors' fees	78,000	256,000	100,000
Commission (Note 7)	16,358	40,300	168,265
Decline in value of other investment (Note 3)	—	2,500,000	—
Miscellaneous	89,489	63,946	95,078
	3,607,998	6,483,704	5,203,882
INVESTMENT INCOME BEFORE INCOME TAX	8,885,532	15,949,704	19,654,153
PROVISION FOR INCOME TAX - Deferred (Note 6)	2,047	—	34,609
NET INVESTMENT INCOME (Note 5)	8,883,485	15,949,704	19,619,544
CHANGES IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS IN LISTED SECURITIES (Note 5)			
End of year	(21,108,640)	(7,743,489)	4,487,016
Less beginning of year	(7,743,489)	4,487,016	13,082,862
UNREALIZED DEPRECIATION OF INVESTMENTS IN LISTED SECURITIES	(13,365,151)	(12,230,505)	(8,595,846)
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(₱4,481,666)	₱3,719,199	₱11,023,698

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		
	2002	2001	2000
FROM INVESTING ACTIVITIES			
Net investment income	₱8,883,485	₱15,949,704	₱19,619,544
Unrealized depreciation of investments in listed securities	(13,365,151)	(12,230,505)	(8,595,846)
Net increase (decrease) in net assets from investing activities	(4,481,666)	3,719,199	11,023,698
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from subscriptions of capital stock - 7,122,854 shares in 2002, 342,861 shares in 2001 and 19,465,678 shares in 2000	30,569,753	1,369,701	71,872,576
Payments for redemptions of capital stock - 21,069,345 shares in 2002, 6,585,522 shares in 2001 and 55,085,029 shares in 2000	(86,922,708)	(24,826,709)	(193,696,425)
Net decrease in net assets from capital stock transactions	(56,352,955)	(23,457,008)	(121,823,849)
NET DECREASE IN NET ASSETS	(60,834,621)	(19,737,809)	(110,800,151)
NET ASSETS AT BEGINNING OF YEAR	224,563,902	244,301,711	355,101,862
NET ASSETS AT END OF YEAR	₱163,729,281	₱224,563,902	₱244,301,711

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	₱8,885,532	₱15,949,704	₱19,654,153
Adjustments for:			
Unrealized depreciation of investments in listed securities	(13,365,151)	(12,230,505)	(8,595,846)
Dividends	(5,176,251)	(3,289,238)	(4,442,166)
Interest income	(2,844,755)	(13,296,722)	(14,999,509)
Provision for (recovery from) decline in value of other investment	(2,500,000)	2,500,000	—
Net realized gain on sale of investments in listed securities	(1,966,127)	(5,841,575)	(5,364,193)
Operating loss before working capital changes	(16,966,752)	(16,208,336)	(13,747,561)
Proceeds from sale of investments in listed securities	132,263,967	20,278,760	184,902,297
Decrease (increase) in:			
Investments in shares of stock	(62,086,211)	(82,305,140)	(120,534,668)
Receivables	(510)	458,880	(458,880)
Increase (decrease) in accounts payable and accrued expenses	(507,773)	849,394	(23,072,304)
Net cash generated from (used for) operations	52,702,721	(76,926,442)	27,088,884
Income tax paid	—	(34,609)	(54,086)
Net cash provided by (used in) operating activities	52,702,721	(76,961,051)	27,034,798
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	2,860,353	13,915,185	15,211,494
Dividends received	5,801,869	3,073,754	4,477,730
Cash provided by investing activities	8,662,222	16,988,939	19,689,224
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of capital stock	30,569,753	1,369,701	71,872,576
Payments for redemptions of capital stock	(86,922,708)	(24,826,709)	(193,696,425)
Net cash used in financing activities	(56,352,955)	(23,457,008)	(121,823,849)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,011,988	(83,429,120)	(75,099,827)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	67,929,580	151,358,700	226,458,527
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱72,941,568	₱67,929,580	₱151,358,700

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 as an open-end mutual fund company to engage in the sale of its capital stock and investment of such proceeds in a well selected portfolio of securities, both debt and equity.

The registered office address of the Fund is 2103-B, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. The Fund does not have any employees as of December 31, 2002 and 2001. Substantially or all of its administrative and similar functions are outsourced to Philequity Management, Inc. (PMI, fund manager).

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 and under the historical cost convention.

Adoption of New Statements of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS)

The Fund adopted SFAS 24/IAS 24, "Related Party Disclosures," which became effective on January 1, 2002.

Adoption of SFAS 24/IAS 24 did not result in restatement of prior year financial statements. Additional disclosures required by the new standard were included in prior year financial statements, where applicable.

New Accounting Standards Effective Subsequent to 2002

The Accounting Standards Council has approved the following accounting standards, which will be effective subsequent to 2002:

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting and disclosure related to adjusting and non-adjusting subsequent events. The Fund will adopt SFAS 10/IAS 10 in 2003.
- SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items. The Fund will adopt SFAS 37/IAS 37 in 2003.

Investments in Listed Securities

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 on sale of investments in listed securities" in the statements of operations.

Other investment is stated at cost. An allowance is set up for any permanent decline in value of such investment.

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 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 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.

Net Asset Value Per Share

Net asset value per share is computed by dividing net assets 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 the amount of any losses upon redemption.

Income Tax

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

Foreign Currency Transactions

Transactions in foreign currencies are recorded 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. All differences are taken to the statements of operations.

3. Investments in Shares of Stock

This account consists of:

	2002	2001
Investments in listed securities - at market value	₱90,817,360	₱139,028,989
Other investment (net of allowance for decline in value of ₱2.5 million in 2001)	—	17,500,000
	₱90,817,360	₱156,528,989

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

	2002			2001		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
SPI Technologies, Inc.	1,037,115	₱10,387,783	₱12,186,101	873,600	₱10,452,748	₱12,230,400
International Container Terminal Services, Inc.	4,632,000	13,850,912	11,209,440	1,340,000	3,931,405	2,814,000
Highlands Prime, Inc.	4,550,000	9,691,520	9,100,000	—	—	—
San Miguel Corporation "B"	117,780	6,141,707	7,773,480	240,680	12,461,848	12,635,700
Globe Telecom. Holdings Corp.	14,935	9,394,309	6,683,413	3,696	2,445,610	2,476,320
Bank of the Philippine Islands	168,492	9,342,913	5,644,482	152,910	10,679,838	8,792,325
Petron Corporation	3,479,000	6,436,660	5,427,240	—	—	—
Sun Life Financial Service	5,808	5,879,303	5,227,200	23,118	23,401,811	24,273,900
Manulife Financial Corporation	4,441	5,773,126	5,107,150	19,441	25,272,538	24,301,250
La Tondeña Distillers, Inc.	143,000	3,992,177	5,005,000	108,000	2,841,793	2,538,000
First Philippine Holdings Corporation	561,480	12,171,857	4,547,988	394,400	9,640,538	10,057,200
SM Prime Holdings, Inc.	887,000	4,181,705	4,213,250	887,000	4,181,705	5,588,100
San Miguel Corporation "A"	40,000	1,643,859	2,400,000	100,000	4,109,648	4,300,000
Ayala Corporation "A"	550,620	3,433,686	2,367,666	620	3,926	2,914
Ayala Land, Inc.	323,000	2,065,510	1,469,650	—	—	—
Digital Telecommunications Phils., Inc.	2,743,000	2,746,798	1,097,200	2,743,000	2,746,798	1,042,340
ABS-CBN Holdings Corporation	33,600	1,581,768	546,000	33,600	1,581,768	798,000
Manila Mining Corporation "B"	75,000,000	708,784	210,000	75,000,000	708,784	285,000
Philex Mining Corporation "B"	620,000	296,044	186,000	620,000	296,044	155,000
Solid Group, Inc.	800,000	1,638,760	168,000	800,000	1,638,760	264,000
Philex Mining Corporation "A"	500,000	229,676	140,000	500,000	229,676	112,500
Manila Mining Corporation "A"	37,000,000	332,188	103,600	37,000,000	332,188	148,000
Roxas Holdings, Inc.	5,000	4,955	4,500	5,000	4,955	4,000
DMCI Holdings, Inc. - Preferred	—	—	—	24,040	15,099,708	13,702,800
Cosmos Bottling Corporation	—	—	—	1,621,000	9,291,585	9,401,800
Filinvest Land, Inc.	—	—	—	1,234,000	2,621,144	2,048,440
Ionics, Inc.	—	—	—	140,000	2,139,201	882,000
Uniwide Holdings, Inc.	—	—	—	1,000,000	658,459	175,000
		₱111,926,000	₱90,817,360		₱146,772,478	₱139,028,989

As of March 7, 2003, the market value of investments in listed securities held as of December 31, 2002 amounted to ₱96.5 million.

The Fund's other investment in 2001, which is net of allowance for decline in value, consists of investment in preferred shares issued by Metro Pacific Corporation (MPC). Such preferred shares are convertible into common shares of MPC. In 2002, the Fund entered into a Deed of Assignment with Terre Haule, Inc. for the assignment of these preferred shares.

In the normal course of business, the Fund recognizes the difference between the selling price and the cost of listed securities sold as "Net realized gain on sale of investments in listed securities" shown in the statements of operations.

	2002	2001	2000
Proceeds from sale of investments in listed securities	₱132,263,967	₱20,278,760	₱184,902,297
Less cost of listed securities sold	130,297,840	14,437,185	179,538,104
	₱1,966,127	₱5,841,575	₱5,364,193

4. Cash and Cash Equivalents

This account consists of:

	2002	2001
Cash in banks	₱1,387,224	₱341,511
Short-term deposits	71,554,344	67,588,069
	₱72,941,568	₱67,929,580

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of between one day and 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:

	2002	2001	2000
Capital stock - ₱1 par value			
Authorized - 1,000,000,000 shares			
Balance at beginning of year	₱58,256,881	₱64,499,542	₱100,118,893
Issuance	7,122,854	342,861	19,465,678
Redemptions	(21,069,345)	(6,585,522)	(55,085,029)
Balance at end of year	44,310,390	58,256,881	64,499,542

(Forward)

	2002	2001	2000
Additional paid-in capital:			
Balance at beginning of year	₱91,191,282	₱101,850,218	₱74,866,361
Issuance in excess of par value	23,446,899	1,026,840	52,406,898
Cost of redemptions in excess of par value	(52,366,181)	(11,685,776)	(25,423,041)
Balance at end of year	62,272,000	91,191,282	101,850,218
Retained earnings:			
Balance at beginning of year	82,859,228	73,464,935	167,033,746
Net investment income	8,883,485	15,949,704	19,619,544
Loss on redemptions of capital stock	(13,487,182)	(6,555,411)	(113,188,355)
Balance at end of year	78,255,531	82,859,228	73,464,935
Unrealized appreciation (depreciation) of investments in listed securities:			
Balance at beginning of year	(7,743,489)	4,487,016	13,082,862
Unrealized depreciation of investments in listed securities	(13,365,151)	(12,230,505)	(8,595,846)
Balance at end of year	(21,108,640)	(7,743,489)	4,487,016
	₱163,729,281	₱224,563,902	₱244,301,711

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 components of the Fund's deferred tax assets (liability) as of December 31, 2002 and 2001, presented under "Accounts Payable and Accrued Expenses" account in the statements of assets and liabilities, are as follow:

	2002	2001
Deferred tax assets:		
NOLCO	₱3,521,790	₱3,196,669
MCIT	34,609	88,695
Unrealized foreign exchange gain	(2,047)	—
	3,554,352	3,285,364
Less valuation allowance	3,556,399	3,285,364
	(₱2,047)	₱—

NOLCO and MCIT in 1999 amounting to ₱2,582,939 and ₱54,086, respectively, have expired on December 31, 2002. Corresponding deferred tax assets and valuation allowance were reversed accordingly.

A corresponding valuation allowance has been provided since management believes that it is more likely than not that the carryforward benefits of NOLCO and MCIT will not be realized prior to their expiration.

As of December 31, 2002, the NOLCO and MCIT that can be claimed as deductions from normal taxable income and normal income tax due, respectively, are as follows:

Year Incurred	Expiry Year	NOLCO	MCIT
2000	2003	₱3,473,445	₱34,609
2001	2004	3,933,206	—
2002	2005	3,598,943	—
		₱11,005,594	₱34,609

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

	2002	2001	2000
Income tax computed at statutory income tax rate	₱2,843,370	₱5,103,905	₱6,289,329
Income tax effect of permanent differences:			
Dividend income exempt from tax	(1,656,400)	(1,052,556)	(1,421,493)
Interest income already subjected to final tax at a lower rate	(910,322)	(4,254,951)	(4,799,843)
Net realized gain on sale of investments in listed securities	(629,161)	(1,869,304)	(1,716,542)
Others	83,525	800,000	551,327
Changes in valuation allowance	271,035	1,272,906	1,131,831
	₱2,047	₱—	₱34,609

7. Management and Distribution Agreement

The Fund has an existing management and distribution agreement (Agreement) with PMI. Pursuant to the terms of the Agreement, the Fund shall pay the following for services rendered by PMI:

- Management fee computed at one and a half percent per annum 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 load charge of a maximum three and a half percent for every sale of the Fund's shares of stocks.

Related party accounts and balances with PMI as of and for the years ended December 31, 2002 and 2001 are as follow:

	Management Fee	Sales Load Charge	Amounts Owed to PMI
2002	₱2,859,700	₱16,358	₱205,368
2001	3,110,501	40,300	219,396
2000	3,448,876	168,265	248,441

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

Schedule A. Cash and Cash Equivalents
December 31, 2002

Name of Issuing Entity and Description of Each Issue		Amount Shown in the Statement of Assets and Liabilities
Cash in Banks		₱1,387,224
Short-term Deposits		
China Trust Corporation	GS	43,549,200
Philippine Bank of Communications	PSA	20,619,522
Asian Alliance Investment Corp.	GS	7,385,622
		71,554,344
		₱72,941,568

Legend:

GS - Government Security
PSA - Peso Saving Account