

SEC Number AS094-001656

File Number _____

PHILEQUITY FUND, INC.

(AN OPEN-END MUTUAL FUND COMPANY)

(Company's Full Name)

**20th Floor, Philippine Stock Exchange Centre
East Tower, Exchange Road
Ortigas Center, Pasig City**

(Company's Address)

635-6963

(Telephone Number)

December 31, 1998

(Fiscal Year Ending)
(month & day)

SEC Form 11-A Annual Report

Form Type

Amendment Designation (If applicable)

Period Ended Date

(Secondary License Type and File Number)

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

FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co
A member firm of Arthur Andersen

6760 Ayala Avenue
1226 Makati City
Philippines

Tel 632 891 0307
Fax 632 819 0872

www.sgv.com.ph

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

We have audited the accompanying statements of assets and liabilities of Philequity Fund, Inc. (an open-end mutual fund company) as of December 31, 1998 and 1997, and the related statements of operations and changes in net assets for the years then ended. 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

B. C. SIY-YAP
Partner
CPA Certificate No. 57794
PTR No. 6723215
January 2, 2002
Makati City

February 15, 1999 (except with respect to the correction
of subscriptions and redemptions including the related premium
as discussed in Note 3 as to which the date is February 15, 2002)

Report of Independent Public Accountants

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

We have audited the accompanying statements of assets and liabilities of Philequity Fund, Inc. (an open-end mutual fund company) as of December 31, 1998 and 1997, and the related statements of operations and changes in net assets for the years then ended. 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

PTR No. 6723215
January 2, 2002
Makati City

February 15, 1999 (except with respect to the correction
of subscriptions and redemptions including the related premium
as discussed in Note 3 as to which the date is February 15, 2002)

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

STATEMENTS OF ASSETS AND LIABILITIES

| | December 31 | |
|--|---------------------|---------------------|
| | 1998 | 1997 |
| ASSETS | | |
| Investments in Listed Securities - at market value (Note 2) | ₱140,322,360 | ₱57,607,108 |
| Cash and Cash Equivalents | 131,972,286 | 197,918,765 |
| Receivables | 4,142,812 | 2,628,380 |
| Organization Costs - net | 53,505 | 477,549 |
| | 276,490,963 | 258,631,802 |
| LIABILITIES | | |
| Accounts Payable and Accrued Expenses (Note 4) | 378,534 | 1,102,427 |
| NET ASSETS (Note 3) | ₱276,112,429 | ₱257,529,375 |

See accompanying Notes to Financial Statements.

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

STATEMENTS OF OPERATIONS

| | Years Ended December 31 | |
|--|--------------------------------|---------------|
| | 1998 | 1997 |
| INVESTMENT INCOME | | |
| Proceeds from sale of investments in listed securities | ₱154,260,505 | ₱377,847,903 |
| Cost of listed securities sold | 158,646,538 | 353,367,314 |
| Net realized gain (loss) from sale of investments in listed securities | (4,386,033) | 24,480,589 |
| Interest | 27,995,451 | 22,430,826 |
| Dividend | 769,876 | 735,774 |
| Foreign exchange gain | 8,117 | 135,541 |
| | 24,387,411 | 47,782,730 |
| OPERATING EXPENSES | | |
| Management fee (Note 4) | 2,594,222 | 4,017,149 |
| Taxes and licenses | 2,372,294 | 1,344,552 |
| Amortization of organization costs | 424,044 | 424,044 |
| Professional fees | 232,000 | 108,000 |
| Custodian fees | 48,000 | 48,000 |
| Commission | 46,965 | 1,933,484 |
| Miscellaneous | 51,274 | 55,609 |
| | 5,768,799 | 7,930,838 |
| NET INVESTMENT INCOME (Note 5) | ₱18,618,612 | ₱39,851,892 |
| CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS IN LISTED SECURITIES (Note 2) | | |
| Balance at beginning of year | (₱22,515,728) | ₱39,165,125 |
| Balance at end of year | 28,277,302 | (22,515,728) |
| | ₱50,793,030 | (₱61,680,853) |

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 | |
|--|--------------------------------|---------------|
| | 1998 | 1997 |
| FROM OPERATING ACTIVITIES | | |
| Net investment income | ₱18,618,612 | ₱39,851,892 |
| Change in unrealized appreciation (depreciation) of investments in listed securities | 50,793,030 | (61,680,853) |
| Net increase (decrease) in net assets from operating activities | 69,411,642 | (21,828,961) |
| FROM CAPITAL STOCK TRANSACTIONS | | |
| Proceeds from sale of capital stock - amount received for 202,277,925 shares in 1998 and 50,827,776 shares in 1997 | 448,137,090 | 124,470,185 |
| Capital stock redeemed - amount paid for 224,842,854 shares in 1998 and 60,938,572 shares in 1997 | (498,965,678) | (138,487,978) |
| Net decrease in net assets from capital stock transactions | (50,828,588) | (14,017,793) |
| NET INCREASE (DECREASE) IN NET ASSETS | 18,583,054 | (35,846,754) |
| NET ASSETS AT BEGINNING OF YEAR | 257,529,375 | 293,376,129 |
| NET ASSETS AT END OF YEAR | ₱276,112,429 | ₱257,529,375 |

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Investments in Listed Securities

The market value of investments in listed securities is stated based on the single average of current market quotations of the Philippine Stock Exchange (PSE). 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 as of last business day of the year. The net difference between the selling price and the cost of listed securities sold, which is computed based on the moving average cost of all the shares of each security held at the time of sale, is shown as net realized gain or loss from sale of investments in listed securities in the statements of operations.

Cash Equivalents

The Fund considers all highly liquid debt instruments purchased with maturity of three months or less from date of acquisition to be cash equivalents.

Organization Costs

Organization costs were deferred and are being amortized over five years from start of operations until 1999.

Revenue Recognition

Revenues are recognized on the following bases: (a) gain or loss from sale of investments in listed securities as determined at the time of sale of such investments; (b) interest, on a time proportion basis taking into account the effective yield on the asset; and, (c) dividend, when the Fund's right to receive payment is established.

Income Tax

Deferred tax assets and liabilities are recognized for the: (1) future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases; (2) carryforward benefit of the minimum corporate income tax (MCIT); and, (3) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Foreign Currency Denominated Transactions

Exchange gains or losses arising from foreign currency denominated transactions are credited or charged to current operations.

2. Investments in Listed Securities

This account consists of investments in the following:

| | 1998 | | | 1997 | | |
|--|---------------------|---------------------|-----------------|---------------------|--------------------|-----------------|
| | Number of Shares | Cost | Market Value | Number of Shares | Cost | Market Value |
| Belle Corporation | 11,990,000 | ₱22,616,704 | ₱25,658,600 | 4,658,334 | ₱33,058,942 | ₱7,267,001 |
| SPI Technologies, Inc. | 1,311,080 | 13,980,320 | 25,238,290 | 947,200 | 14,140,268 | 20,838,400 |
| Jollibee Foods Corporation - Warrants | 1,120,000 | 19,673,568 | 21,280,000 | — | — | — |
| La Tondeña Distillers, Inc. | 576,700 | 12,686,816 | 17,877,700 | — | — | — |
| San Miguel Corporation "B" | 200,000 | 12,225,394 | 15,000,000 | — | — | — |
| Equitable Banking Corporation (EBC) | 229,700 | 13,485,753 | 13,437,450 | — | — | — |
| DMCI Holdings, Inc. - Preferred | 13,100 | 6,539,527 | 9,825,000 | 5,500 | 2,772,962 | 2,777,500 |
| San Miguel Corporation "A" | 70,000 | 2,876,834 | 3,850,000 | — | — | — |
| Bank of Philippine Islands | 39,000 | 3,246,874 | 3,217,500 | — | — | — |
| EEI Corporation | 1,991,000 | 2,444,057 | 2,429,020 | — | — | — |
| Ayala Corporation - Preferred | 2,640,000 | 2,107,701 | 2,323,200 | — | — | — |
| EBC - Warrants | 64,000 | 161,510 | 185,600 | — | — | — |
| Jollibee Foods Corporation | — | — | — | 1,065,156 | 10,447,320 | 17,841,363 |
| Lepanto Consolidated Manufacturing Company "B" | — | — | — | 10,846,000 | 8,130,469 | 4,446,860 |
| SM Development Corporation | — | — | — | 2,962,800 | 5,674,897 | 2,073,960 |
| Waterfront Phils., Inc. | — | — | — | 896,000 | 3,665,918 | 1,003,520 |
| Mondragon International Philippines | — | — | — | 950,000 | 1,253,798 | 674,500 |
| International Container Terminal Services, Inc. | — | — | — | 105,175 | 978,262 | 525,875 |
| Waterfront Phils., Inc. - Warrants | — | — | — | 499,500 | — | 99,900 |
| Belle Corporation - Warrants | — | — | — | 931,666 | — | 58,229 |
| | ₱112,045,058 | ₱140,322,360 | | ₱80,122,836 | ₱57,607,108 | |

As of February 15, 1999, the unrealized appreciation of investments in listed securities, based on the market quotations of PSE is ₱21,168,300.

3. Net Assets

The Fund's net assets consist of:

| | 1998 | | 1997 | |
|---|---------------------|----------------|---------------------|----------------|
| | Number of Shares | Amount | Number of Shares | Amount |
| Capital stock - ₱1 par value | | | | |
| Authorized | 1,000,000,000 | ₱1,000,000,000 | 1,000,000,000 | ₱1,000,000,000 |
| Issued | | | | |
| Balance at beginning of year | 65,818,029 | ₱65,818,029 | 75,928,825 | ₱75,928,825 |
| Subscriptions | 264,777,925 * | 264,777,925 * | 50,827,776 | 50,827,776 |
| Redemption | (224,842,854)* | (224,842,854)* | (60,938,572) | (60,938,572) |
| Balance at end of year | 105,753,100 | 105,753,100 | 65,818,029 | 65,818,029 |
| Subscribed | | | | |
| Balance at beginning of year | 250,000,000 | 62,500,000 | 250,000,000 | 250,000,000 |
| Collection of subscriptions receivable | — | 187,500,000 | — | — |
| Issuances | (250,000,000) | (250,000,000) | | |
| Less subscriptions receivable | — | — | — | (187,500,000) |
| Balance at end of year | — | — | 250,000,000 | 62,500,000 |
| | 105,753,100 | 105,753,100 | 315,818,029 | 128,318,029 |
| Additional paid-in capital | | | | |
| Balance at beginning of year | | 87,344,984 | | 72,476,004 |
| Premium on new issuances | | 245,859,165 * | | 73,642,409 |
| Redemption | | (264,945,501)* | | (58,773,429) |
| Balance at end of year | | 68,258,648 | | 87,344,984 |
| Retained earnings | | | | |
| Balance at beginning of year | | 64,382,090 | | 43,306,175 |
| Net investment income | | 18,618,612 | | 39,851,892 |
| Redemption of shares | | (9,177,323) | | (18,775,977) |
| Balance at end of year | | 73,823,379 | | 64,382,090 |
| Unrealized appreciation (depreciation) of investments in listed securities | | 28,277,302 | | (22,515,728) |
| | | ₱276,112,429 | | ₱257,529,375 |
| Net asset value per share (computed by dividing net assets by the total capital stock issued of 105,753,100 shares in 1998 and 128,318,029 shares in 1997) | | ₱2.611 | | ₱2.007 |

* The subscriptions and redemptions for the year ended December 31, 1998, including the related premium, have been revised on February 15, 2002 for a double take-up of such transactions by ₱187,500,000 (187,500,000 shares). The reversal recorded in the books to adjust the double take-up was inadvertently not reflected in previously reported subscriptions and redemptions for 1998.

| | Issued | | | | Additional Paid-in Capital | |
|-------------------------------|---------------------|---------------|---------------------|----------------|----------------------------|----------------|
| | Subscriptions | | Redemption | | New Issuance | Redemption |
| | Number of Shares | Amount | Number of Shares | Amount | | |
| As previously reported | 452,277,925 | ₱452,277,925 | (412,342,854) | (₱412,342,854) | ₱474,065,415 | (₱493,151,751) |
| Adjustment for double take-up | (187,500,000) | (187,500,000) | 187,500,000 | 187,500,000 | (228,206,250) | 228,206,250 |
| As restated | 264,777,925 | ₱264,777,925 | (224,842,854) | (₱224,842,854) | ₱245,859,165 | (₱264,945,501) |

As an open-end mutual fund company, it stands ready at any time to redeem the outstanding capital stock at net asset value per share.

4. Management Agreement (Agreement)

The Fund has an existing management agreement with its manager, Philequity Management, Inc. Pursuant to the terms of the Agreement, the Company shall pay the following for services rendered by the manager:

- a. Sales load charge of a maximum three and a half percent for every sale of the Fund's shares of stocks; and,
- b. 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.

5. Income Tax

There is no provision for income tax due mainly to gain from sale of investments in listed securities and interest income already subjected to final tax, and dividend income exempt from income tax.

The Fund's deferred tax asset represents the deferred tax on NOLCO of ₱1,843,418 but a corresponding valuation allowance has been established since management believes that it is more likely that the carryforward benefit will not be realized prior to its expiration.

On December 11, 1997, Republic Act No. 8424 entitled "An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes" (Act) was passed into law effective January 1, 1998. Among others, the Act includes the following significant revisions to the current rules of taxation:

- a. Change in the corporate income tax rate to 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;
- b. Imposition of MCIT of 2% of gross income, as defined;
- c. Imposition on the employer of a final tax on the grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;
- d. Reduction of the interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999 and 38% starting January 1, 2000 and onwards; and,
- e. Introduction of a three-year NOLCO.