

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, 2001

Period Ended Date

(Secondary License Type and File Number)

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

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2001

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
1226 Makati City
Philippines

Tel 632 891 0307
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www.sgv.com.ph

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

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

March 20, 2002

SGV & Co

Report of Independent Public Accountants

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PTR No. 6723215
January 2, 2002
Makati City

March 20, 2002

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2001	2000
ASSETS		
Investments in Shares of Stock (Note 3)	₱156,528,989	₱91,161,034
Cash and Cash Equivalents (Note 4)	67,929,580	151,358,700
Receivables	1,429,634	2,291,493
Deferred Tax Assets - net (Note 6)	—	—
	225,888,203	244,811,227
LIABILITIES		
Accounts Payable and Accrued Expenses (Note 7)	1,324,301	474,907
Income Tax Payable	—	34,609
	1,324,301	509,516
NET ASSETS (Note 5)	₱224,563,902	₱244,301,711
Net Asset Value Per Share	₱3.855	₱3.788

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
INVESTMENT INCOME			
Interest	₱13,296,722	₱14,999,509	₱15,773,886
Net realized gain on sale of investments in listed securities (Note 3)	5,841,575	5,364,193	97,265,040
Dividends	3,289,238	4,442,166	2,468,765
Foreign exchange gain	5,873	52,167	909
	22,433,408	24,858,035	115,508,600
OPERATING EXPENSES			
Management fee (Note 7)	3,110,501	3,448,876	3,379,666
Decline in value of other investment (Note 3)	2,500,000	—	—
Professional fees	320,000	370,000	232,000
Directors' fees	256,000	100,000	—
Taxes and licenses	192,957	1,021,663	387,303
Commission (Note 7)	40,300	168,265	660,157
Miscellaneous	63,946	95,078	356,156
	6,483,704	5,203,882	5,015,282
INVESTMENT INCOME BEFORE INCOME TAX	15,949,704	19,654,153	110,493,318
PROVISION FOR INCOME TAX (Note 6)	—	34,609	54,086
NET INVESTMENT INCOME (Note 5)	15,949,704	19,619,544	110,439,232
CHANGES IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS IN LISTED SECURITIES (Note 5)			
End of year	(7,743,489)	4,487,016	13,082,862
Less beginning of year	4,487,016	13,082,862	28,277,302
UNREALIZED DEPRECIATION OF INVESTMENTS IN LISTED SECURITIES	(12,230,505)	(8,595,846)	(15,194,440)
NET INCREASE IN NET ASSETS FROM OPERATIONS	₱3,719,199	₱11,023,698	₱95,244,792

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		
	2001	2000	1999
FROM INVESTING ACTIVITIES			
Net investment income	₱15,949,704	₱19,619,544	₱110,439,232
Change in unrealized depreciation of investments in listed securities	(12,230,505)	(8,595,846)	(15,194,440)
Net increase in net assets from investing activities	3,719,199	11,023,698	95,244,792
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from issuance of capital stock - 342,861 shares in 2001, 19,465,678 shares in 2000 and 20,271,344 shares in 1999	1,369,701	71,872,576	58,716,105
Payments for capital stock redeemed - 6,585,522 shares in 2001, 55,085,029 shares in 2000 and 25,905,551 shares in 1999	(24,826,709)	(193,696,425)	(74,971,464)
Net decrease in net assets from capital stock transactions	(23,457,008)	(121,823,849)	(16,255,359)
NET INCREASE (DECREASE) IN NET ASSETS	(19,737,809)	(110,800,151)	78,989,433
NET ASSETS AT BEGINNING OF YEAR	244,301,711	355,101,862	276,112,429
NET ASSETS AT END OF YEAR	₱224,563,902	₱244,301,711	₱355,101,862

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	₱15,949,704	₱19,654,153	₱110,493,318
Adjustments for:			
Interest income	(13,296,722)	(14,999,509)	(15,773,886)
Changes in unrealized depreciation of investments in listed securities	(12,230,505)	(8,595,846)	(15,194,440)
Net realized gain on sale of investments in listed securities	(5,841,575)	(5,364,193)	(97,265,040)
Dividends	(3,289,238)	(4,442,166)	(2,468,765)
Decline in value of other investment	2,500,000	—	—
Amortization of organization costs	—	—	53,505
Operating investment loss before changes in working capital	(16,208,336)	(13,747,561)	(20,155,308)
Proceeds from sale of investments in listed securities	20,278,760	184,902,297	630,826,352
Decrease (increase) in:			
Investment in shares of stock	(82,305,140)	(120,534,668)	(543,403,422)
Receivables	458,880	(458,880)	1,868
Increase (decrease) in accounts payable and accrued expenses	849,394	(23,072,304)	23,168,677
Cash used for operations	(76,926,442)	27,088,884	90,438,167
Income tax paid	(34,609)	(54,086)	—
Net cash used in operating activities	(76,961,051)	27,034,798	90,438,167
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	13,915,185	15,211,494	18,636,778
Dividends received	3,073,754	4,477,730	1,666,655
Cash provided by investing activities	16,988,939	19,689,224	20,303,433
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions to capital stock	1,369,701	71,872,576	58,716,105
Payments for redemptions of capital stock	(24,826,709)	(193,696,425)	(74,971,464)
Net cash used in financing activities	(23,457,008)	(121,823,849)	(16,255,359)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,429,120)	(75,099,827)	94,486,241
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	151,358,700	226,458,527	131,972,286
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱67,929,580	₱151,358,700	₱226,458,527

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. General

Philequity Fund, Inc. (the Fund) is incorporated in the Philippines. It was registered with the Securities and Exchange Commission (SEC) as an open-end mutual fund company, the purpose of which is, among others, 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 Company is 2103-B, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. The Fund did not have any employees as of December 31, 2001 and 2000. Instead, substantially or all of its administrative and similar functions were outsourced to Philequity Management, Inc.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the Fund's financial statements are as follows:

Basis of Preparation

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the Philippines under the historical cost convention, except for investment in listed securities which are marked to market.

Adoption of New Statements of Financial Accounting Standards (SFAS)

The Company adopted the following SFAS effective on January 1, 2001:

- SFAS No. 1 (revised 2000), "Presentation of Financial Statements";
- SFAS No. 13 (revised 2000), "Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies"; and
- SFAS No. 22 (revised 2000), "Cash Flow Statements."

Following the new presentation rules under SFAS No. 1 (revised 2000) and SFAS No. 22 (revised 2000), prior year financial statements were restated to follow the format prescribed by the new standards. Changes made pertain principally to the statements of operations and cash flows presentation, the inclusion of statements of changes in net assets and additional disclosures required by these standards.

The effects of adopting SFAS No. 13 on the financial statements are not material.

Investments in Listed Securities

Investments in listed securities are stated based on the 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. 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 on hand and 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.

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.

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 in redemption.

Income Tax

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

Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement and reporting of monetary items at rate different from those at which they were initially recorded during the periods are recognized in the statement of operations in the period in which they arise.

3. Investments in Shares of Stock

This account consists of:

	2001	2000
Investments in listed securities - at market value	₱139,028,989	₱71,161,034
Other investment [net of allowance for decline in value of ₱2.5 million in 2001 (at cost in 2000)]	17,500,000	20,000,000
	₱156,528,989	₱91,161,034

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

	2001			2000		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
Manulife Financial Corporation	19,441	₱25,272,538	₱24,301,250	1,349	₱859,983	₱2,063,970
Sun Life Financial Service	23,118	23,401,811	24,273,900	10,091	4,635,551	12,916,480
DMCI Holdings, Inc. - Preferred	24,040	15,099,708	13,702,800	24,040	15,099,708	13,943,200
San Miguel Corporation "B"	240,680	12,461,848	12,635,700	218,800	12,461,848	12,143,400
SPI Technologies, Inc.	873,600	10,452,748	12,230,400	595,000	6,008,286	4,581,500
First Philippine Holdings Corporation	394,400	9,640,538	10,057,200	194,600	4,487,855	4,037,950
Cosmos Bottling Corporation	1,621,000	9,291,585	9,401,800	—	—	—
Bank of the Philippine Islands	152,910	10,679,838	8,792,325	3,110	266,578	180,380
SM Prime Holdings, Inc. - Preferred	887,000	4,181,705	5,588,100	887,000	4,181,705	5,144,600
San Miguel Corporation "A"	100,000	4,109,648	4,300,000	—	—	—
International Container Terminal Services, Inc.	1,340,000	3,931,405	2,814,000	—	—	—
La Tondena Distillers, Inc.	108,000	2,841,793	2,538,000	108,000	2,841,793	3,294,000
Globe Telecom. Holdings Corp.	3,696	2,445,610	2,476,320	3,696	2,445,610	2,587,200
Filinvest Land, Inc.	1,234,000	2,621,144	2,048,440	—	—	—
Digital Telecommunications Phils., Inc.	2,743,000	2,746,798	1,042,340	2,743,000	2,746,798	1,261,780
Ionics, Inc.	140,000	2,139,201	882,000	140,000	2,139,201	2,205,000
ABS-CBN Holdings Corporation	33,600	1,581,768	798,000	33,600	1,581,768	1,646,400
Manila Mining Corporation "B"	75,000,000	708,784	285,000	215,000,000	2,031,848	1,290,000
Solid Group, Inc.	800,000	1,638,760	264,000	800,000	1,638,760	416,000
Uniwide Holdings, Inc.	1,000,000	658,459	175,000	1,000,000	658,459	510,000
Philex Mining Corporation "B"	620,000	296,044	155,000	—	—	—
Manila Mining Corporation "A"	37,000,000	332,188	148,000	97,000,000	870,871	533,500
Philex Mining Corporation "A"	500,000	229,676	112,500	—	—	—
Central Azucarera Don Pedro	5,000	4,955	4,000	5,000	4,955	4,100
Ayala Corporation "A"	620	3,926	2,914	620	3,926	4,774
Ayala Corporation - Preferred	—	—	—	2,140,000	1,708,515	2,396,800
		₱146,772,478	₱139,028,989		₱66,674,018	₱71,161,034

As of March 20, 2002, the market value of investments in listed securities held as of December 31, 2001 is ₱158.4 million.

The Fund's other investment, which is net of allowance for decline in value in 2001, consists of investment in preferred shares issued by Metro Pacific Corporation (MPC). Such preferred shares are convertible into common shares of MPC. If the preferred shares are to be converted into common, as of March 20, 2002, the market value of the investment would be ₱18.2 million.

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.

	2001	2000	1999
Proceeds from sale of investments in listed securities	₱20,278,760	₱184,902,297	₱630,826,352
Less cost of listed securities sold	14,437,185	179,538,104	533,561,312
	₱5,841,575	₱5,364,193	₱97,265,040

4. Cash and Cash Equivalents

This account consists of:

	2001	2000
Cash in banks	₱341,511	₱1,177,137
Short-term investments	67,588,069	150,181,563
	₱67,929,580	₱151,358,700

5. Net Assets

The Fund's net assets consist of:

	2001	2000
Capital stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Balance at beginning of year	₱64,499,542	₱100,118,893
Subscriptions	342,861	19,465,678
Redemptions	(6,585,522)	(55,085,029)
Balance at end of year	58,256,881	64,499,542
Additional paid-in capital		
Balance at beginning of year	101,850,218	74,866,361
Issuance in excess of par	1,026,840	52,406,898
Cost of redemptions in excess of par	(11,685,776)	(25,423,041)
Balance at end of year	91,191,282	101,850,218
Retained earnings		
Balance at beginning of year	73,464,935	167,033,746
Net investment income	15,949,704	19,619,544
Loss on redemptions of capital stock	(6,555,411)	(113,188,355)
Balance at end of year	82,859,228	73,464,935
Unrealized appreciation (depreciation) of investments in listed securities		
Balance at beginning of year	4,487,016	13,082,862
Net change in unrealized depreciation of investment in listed securities	(12,230,505)	(8,595,846)
Balance at end of year	(7,743,489)	4,487,016
	₱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 provision for income tax in 2000 and 1999 represents the MCIT.

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:

	2001	2000	1999
Statutory income tax	₱5,103,905	₱6,289,329	₱35,357,862
Income tax effect of permanent differences:			
Interest income already subjected to final tax at a lower rate	(4,254,951)	(4,248,516)	(5,047,644)
Net realizable gain on sale of investments in listed securities	(1,869,304)	(1,716,542)	(31,124,813)
Others	(252,556)	(1,421,493)	(790,005)
Valuation allowance	1,272,906	1,131,831	1,658,685
	₱-	₱34,609	₱54,086

The components of the Fund's deferred tax assets as of December 31, 2001 and 2000, are as follows:

	2001	2000
NOLCO	₱3,196,669	₱1,938,043
MCIT	88,695	88,695
Unrealized foreign exchange gain	-	(14,280)
	3,285,364	2,012,458
Less valuation allowance	3,285,364	2,012,458
	₱-	₱-

A corresponding valuation allowance has been set-up 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, 2001, 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 Date	NOLCO	MCIT
1999	December 31, 2002	₱2,582,939	₱54,086
2000	December 31, 2003	3,473,445	34,609
2001	December 31, 2004	3,933,206	-
		₱9,989,590	₱88,695

7. Management and Distribution Agreement (Agreement)

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

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

PHILEQUITY FUND, INC.
(An Open-end Mutual Fund Company)
Schedule A. Cash and Cash Equivalents
December 31, 2001

Name of Issuing Entity and Description of Each Issue		Amount Shown in the Statement of Assets and Liabilities
Cash in Banks		₱341,511
Cash Equivalents		
China Trust Corporation	FXTN	26,010,537
Security Bank and Trust Corporation	FXTN	17,000,000
International Exchange Bank	SSA	12,777,532
Rizal Commercial Banking Corporation	SSA	10,000,000
Metropolitan Bank and Trust Company	FXTN	1,800,000
		67,588,069
		₱67,929,580

Legend:

FXTN - Fixed Treasury Note
SSA - Special Savings Account