

PHILEQUITY 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

AS094-001656

SEC Registration Number

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

(Company's Full Name)

2703-A, East Tower, Philippine Stock
Exchange Centre, Exchange Road
d, Ortigas Center, Pasig City

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

Mr. Edmundo Bunyi, Jr.

(Contact Person)

635-6963

(Company Telephone Number)

12

Month

31

Day

(Calendar Year)

A A F S

(Form Type)

05

Month

18

Day

(Annual Meeting)

NA

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

1,500

Total No. of Stockholders

P-

Domestic

P-

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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

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

We have audited the financial statements of Philequity 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

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Philequity Fund, Inc.
2703-A, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the financial statements of Philequity 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 one thousand five hundred (1,500) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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The Stockholders and the Board of Directors
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2703-A, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the accompanying financial statements of Philequity Fund, Inc. (an open-end mutual fund company), 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 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.

SYCIP GORRES VELAYO & CO.

Juanito A. Fullecido
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PTR No. 0267355, January 2, 2007, Makati City

March 21, 2007

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2006	2005
ASSETS		
Financial Assets at Fair Value through Profit or Loss (Notes 6 and 12)	₱1,218,383,000	₱613,667,939
Cash and Cash Equivalents (Notes 7 and 12)	184,327,345	158,672,019
Receivables (Note 12)	22,015,001	1,646,342
	1,424,725,346	773,986,300
LIABILITIES		
Accrued Expenses and Other Liabilities (Notes 10 and 12)	9,831,490	3,074,387
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 8)	₱1,414,893,856	₱770,911,913
Net Asset Value Per Share (Note 8)	₱11.317	₱7.425

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2006	2005	2004
INVESTMENT INCOME			
Net realized gain on sale of: (Note 6)			
Financial assets at fair value through profit or loss (FVPL)	₱194,861,329	₱37,137,141	₱—
Investments	—	—	36,750,180
Gain on market valuation of FVPL securities (Note 6)	172,390,779	21,290,427	—
Dividends	14,316,111	8,765,384	4,675,780
Interest	8,701,819	9,901,808	4,958,965
Foreign exchange gain (loss)	—	(12,848)	81,329
	390,270,038	77,081,912	46,466,254
OPERATING EXPENSES			
Management fee (Note 10)	13,219,852	9,598,429	4,463,934
Sales commission (Note 10)	3,399,948	1,999,744	405,814
Professional fees	1,019,830	749,575	395,700
Taxes and licenses	409,736	341,869	195,130
Directors' fees	303,000	200,000	286,365
Advertising	—	—	33,534
Others	498,350	460,809	100,701
	18,850,716	13,350,426	5,881,178
INVESTMENT INCOME BEFORE INCOME TAX	371,419,322	63,731,486	40,585,076
PROVISION FOR (BENEFIT FROM)			
DEFERRED INCOME TAX (Note 9)	—	(26,026)	23,736
NET INCREASE IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS (Note 8)	₱371,419,322	₱63,757,512	₱40,561,340

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN NET ASSETS
ATTRIBUTABLE TO UNITHOLDERS

	Years Ended December 31		
	2006	2005	2004
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT BEGINNING OF YEAR	₱770,911,913	₱390,874,537	₱229,017,936
INCREASE IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS (Note 8)	371,419,322	63,757,512	40,561,340
UNREALIZED APPRECIATION OF INVESTMENTS (Note 8)	—	—	28,529,406
FROM TRANSACTIONS WITH UNITHOLDERS (Note 8)			
Proceeds from subscriptions of capital stock - 67,214,667 shares in 2006, 49,112,639 shares in 2005, 20,848,661 shares in 2004	676,321,512	358,183,942	127,877,307
Payments for redemptions of capital stock - 46,011,959 shares in 2006, 5,927,880 shares in 2005, 5,931,083 shares in 2004	(403,758,891)	(41,904,078)	(35,111,452)
Net increase in net assets from capital stock transactions	272,562,621	316,279,864	92,765,855
NET INCREASE IN NET ASSETS	643,981,943	380,037,376	161,856,601
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT END OF YEAR (Note 8)	₱1,414,893,856	₱770,911,913	₱390,874,537

See accompanying Notes to Financial Statements.

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

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	₱371,419,322	₱63,731,486	₱40,585,076
Adjustments for:			
Net realized gain on sale of: (Note 6)			
Financial assets at FVPL	(194,861,329)	(37,137,141)	—
Investments	—	—	(36,750,180)
Gain on market valuation of FVPL securities (Note 6)	(172,390,779)	(21,290,427)	—
Dividends	(14,316,111)	(8,765,384)	(4,675,780)
Interest	(8,701,819)	(9,901,808)	(4,958,965)
Unrealized foreign exchange loss (gain)	—	12,848	(81,329)
Operating loss before working capital changes	(18,850,716)	(13,350,426)	(5,881,178)
Proceeds from sale of:			
Financial assets at FVPL	1,028,478,359	646,126,338	—
Investments	—	—	244,397,328
Decrease (increase) in:			
Financial assets at FVPL	(1,264,551,755)	(899,123,255)	—
Investments	—	—	(279,880,648)
Receivables	(20,368,659)	629,065	(1,769,803)
Increase (decrease) in accrued expenses and other liabilities	6,757,103	213,480	2,361,634
Interest received	8,523,743	9,763,183	4,654,930
Dividends received	13,044,791	8,765,384	4,675,780
Net cash used in operating activities	(246,967,134)	(246,976,231)	(31,441,957)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of capital stock (Note 8)	676,321,512	358,183,942	127,877,307
Payments for redemptions of capital stock (Note 8)	(403,758,891)	(41,904,078)	(35,111,452)
Net cash provided by financing activities	272,562,621	316,279,864	92,765,855
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	59,839	(12,848)	81,329
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,655,326	69,290,785	61,405,227
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	158,672,019	89,381,234	27,976,007
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱184,327,345	₱158,672,019	₱89,381,234

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

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 issuance by the Board of Directors (BOD) 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. The financial statements are presented in Philippine peso, which is the Fund's functional and presentation currency, and all values are rounded to the nearest peso unit, 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 for the adoption of the following new and amended PFRS and International Financial Reporting Interpretations Committee (IFRIC) during the year.

- Amendment to PAS 21, "The Effects of Changes in Foreign Exchange Rates"
- 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. This change has no significant impact on the Fund's financial statements.

- 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”. This amendment did not have an effect on the Fund’s financial statements.

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. As the Fund currently has no such transactions, the amendment did not have an effect on the Fund’s financial statements.

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. The Fund had not previously used this option; hence, the amendment did not have an 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 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 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 Securities and Exchange Commission 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 income 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 financial statements of the Fund.
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives (effective for financial years beginning on or after 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 balance sheet date. This interpretation will have no significant impact on the Fund’s financial statements.
- Philippine Interpretation IFRIC 11, “PFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007).” 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 new and revised disclosures provided by the interpretation will be included in the financial statements when the accounting standards are adopted in 2007.
- 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, held-to-maturity financial assets, 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 fair value through profit or loss

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 earnings. 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 listed and unlisted shares.

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 "fair value through profit or loss," designated as "available-for-sale financial assets" or "held-to-maturity."

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 rate 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 "fair value through profit or loss," "held-to-maturity" 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 balance sheet date 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 balance sheet date 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.

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. Where the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain the expense relating to any provision is presented in the statement of operations, net of any reimbursement. 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 assessments of the time value of money and where appropriate, the risks specific to the liability.

Foreign Currency Transactions and Translations

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at the balance sheet date. Foreign exchange gains and losses are taken to the statements of operations.

Income Tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Tax. Deferred tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax losses [such as net operating loss carryover (NOLCO)], to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets 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 law) that have been enacted or substantively enacted at the balance sheet date.

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

Contingencies

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

Subsequent Events

Post balance sheet events that provide additional information about the Fund's financial position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events 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.

Functional Currency. The functional currency of the Fund has been determined to be the Philippine peso based on the economic substance of the underlying circumstances relevant to the Fund. The Philippine peso 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 balance sheet date 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 ₱13.3 million and ₱8.1 million as of December 31, 2006 and 2005, respectively, 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. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	2006	2005
Investments in:		
Listed securities	₱1,216,793,585	₱598,922,985
Unlisted securities	1,589,415	14,744,954
	₱1,218,383,000	₱613,667,939

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

	2006			2005		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
Philippine Long Distance Telephone Company	47,030	₱96,552,173	₱119,926,500	22,240	₱34,090,933	₱40,810,400
Ayala Land, Inc.	6,027,800	89,442,559	91,923,950	1,916,000	16,869,891	18,968,400
Bank of the Philippine Islands	1,402,467	71,936,376	89,056,655	532,190	27,131,409	29,004,355
Ayala Corporation "A"	148,000	70,647,728	87,320,000	74,620	23,749,744	23,505,300
PNOC – Energy Dev't. Corp.	14,690,000	65,511,784	71,246,500	—	—	—
iVantage Corp.	28,358,000	23,609,299	47,074,280	25,500,000	19,194,583	15,300,000
SM Investment Corp.	136,520	38,829,717	44,369,000	50,000	12,274,009	12,000,000
Meralco "B"	805,200	34,013,453	44,286,000	623,800	14,197,511	13,567,650
Metro Bank & Trust Co.	840,900	32,674,629	43,306,350	1,800	53,078	57,600
Globe Telecom, Inc.	33,755	34,659,677	41,687,425	18,005	13,710,344	13,233,675
Megaworld Prop. & Holdings, Inc.	16,677,000	36,016,778	40,358,340	1,500,000	1,895,639	1,800,000
First Philippine Holdings Corporation	533,180	28,299,810	33,590,340	260,680	10,777,811	12,773,320
SM Prime Holdings, Inc.	3,063,000	25,425,356	32,927,250	700,000	5,530,557	5,530,000
International Container Terminal Services, Inc.	1,332,500	18,219,539	27,649,375	4,552,000	20,669,468	39,543,600
Manila Water	2,766,000	25,618,847	26,000,400	2,675,000	17,879,535	16,585,000
Robinsons Land Corporation	1,513,300	23,127,452	24,591,125	5,000	10,329	28,500
Pilipino Tel. Corp.	3,101,000	11,493,555	21,396,900	5,601,000	18,725,545	19,603,500
JG Summit Holdings, Inc.	1,891,000	6,991,045	20,801,000	1,603,000	5,733,843	5,530,350
Equitable PCI Bank, Inc.	235,100	17,386,854	19,513,300	426,500	20,630,396	25,163,500
Security Bank Corporation	285,600	9,175,192	18,706,800	383,100	12,109,559	13,216,950
Roxas Holdings	6,664,000	18,635,953	17,992,800	—	—	—
Philex Mining Corporation "A"	4,398,000	13,472,995	17,811,900	—	—	—
San Miguel Corporation "A"	260,000	17,098,409	17,550,000	70,770	4,062,808	4,600,050
Jollibee Foods Corp.	407,800	15,348,001	17,127,600	170,000	7,183,869	6,885,000
Filinvest Land, Inc.	7,641,000	12,079,680	16,351,740	1,796,000	2,295,718	2,478,480
Benpres Holdings Corp.	6,299,000	14,868,199	13,605,840	5,900,000	6,584,385	6,372,000
Paxy's Inc. (Fil-Hispano Holding Corp.)	675,100	4,457,423	13,333,225	4,859,500	32,085,387	31,100,800
PSE	45,450	10,255,425	12,726,000	—	—	—
Aboitiz Equity Ventures, Inc.	1,797,000	10,148,898	12,579,000	431,000	2,179,583	2,068,800
Petron Corporation	2,664,000	9,002,125	10,922,400	7,936,000	24,704,863	35,712,000
DMCI Holdings, Inc.	1,705,000	6,920,584	10,400,500	3,182,000	9,357,330	10,023,300
Holcim Philippines, Inc.	1,093,000	4,887,297	8,525,400	943,000	3,782,754	4,149,200
Apex Mining Co., Inc. – "B"	1,425,000	5,239,045	8,550,000	—	—	—
Union Bank of the Philippines	168,800	5,722,215	8,271,200	—	—	—
A. Soriano Corporation	2,526,000	5,196,765	7,199,100	5,574,000	10,487,893	11,593,920
Manila Mining Corporation "B"	254,800,000	6,161,349	6,624,800	135,700,000	3,077,795	3,799,600
First Gen. Corporation	114,100	5,615,626	6,446,650	—	—	—
ABS CBN Holdings Corp. (PDR)	245,000	3,985,955	4,961,250	—	—	—
San Miguel Corporation "B"	58,500	4,274,176	4,533,750	77,780	6,170,615	6,883,530
Universal Robina Corporation	234,730	3,764,953	4,518,553	148,200	2,158,495	2,889,900
Petroenergy	442,365	5,165,246	4,335,177	—	—	—
Banco de Oro Universal Bank	93,800	3,600,153	4,314,800	655,100	21,164,202	22,273,400
Republic Cement Corp.	1,081,000	2,986,690	4,269,950	520,000	730,320	400,400
Alaska Milk Corporation	1,100,000	3,240,797	4,070,000	2,168,000	6,210,883	7,371,200
Apex Mining Co., Inc.	656,000	2,772,366	3,936,000	—	—	—
Digital Telecommunications Philippines, Inc.	1,903,000	2,684,426	3,729,880	3,000	4,886	2,790
Belle Corporation	3,309,000	2,172,183	3,706,080	7,000,000	4,595,129	7,140,000
Engineering Equip. Inc.	1,052,000	1,812,602	3,313,800	—	—	—
Meralco – A	61,000	3,240,795	3,294,000	—	—	—
iPeople, Inc.	1,053,000	3,287,551	3,264,300	—	—	—
SM Development Corp.	1,099,000	3,217,531	2,912,350	—	—	—
ABS-CBN Holdings Corporation	127,400	2,100,302	2,579,850	164,000	2,554,977	2,091,000
Fil-invest Dev. Corp.	593,000	2,111,185	2,164,450	—	—	—
Manila Mining Corporation "A"	67,250,000	1,349,927	1,614,000	194,600,000	3,177,451	3,502,800
Semirara Mining Corp.	45,000	932,821	821,250	235,000	6,647,272	6,815,000
Cebu Holdings, Inc.	250,000	376,119	800,000	—	—	—
Empire East Land Holdings, Inc.	1,150,000	571,729	621,000	—	—	—
Lepanto Cons. Mining B	2,250,000	671,881	607,500	—	—	—
Solid Group, Inc.	800,000	1,638,760	520,000	800,000	1,638,760	392,000
Rizal Commercial Banking Corp.	6,500	110,516	156,000	—	—	—

	2006			2005		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
International Exchange Bank	P—	P—	P—	P2,395,500	P40,354,371	P50,305,500
Manulife Financial Corporation	—	—	—	7,908	22,592,924	24,989,280
Sun Life Financial, Inc.	—	—	—	9,437	19,313,885	20,100,810
Atlas Cons. Mining and Devt.	—	—	—	1,873,000	9,629,481	10,863,400
Highlands Prime, Inc.	—	—	—	1,423,000	3,030,996	3,301,360
Philex Mining Corporation “B”	—	—	—	949,000	1,030,105	1,670,240
Ginebra San Miguel, Inc.	—	—	—	48,300	1,348,407	1,147,125
Leisure and Resorts World Corp.	—	—	—	665,000	893,638	984,200
Philippine National Bank	—	—	—	25,200	1,047,257	793,800
		P980,810,476	P1,216,793,585		P535,330,623	P598,922,985

Upon adoption of PAS 39, investments were designated as “Financial assets at FVPL” and changes in market value are included as “Gain on market valuation of FVPL securities” in the statements of operations.

As of March 21, 2007, the market value of financial assets at FVPL as of December 31, 2006 amounted to P1,325.8 million.

Details of sold investments in listed securities are as follows:

	2006	2005	2004
Proceeds from sale of:			
Financial assets at FVPL	P1,028,478,359	P646,126,338	P—
Investments	—	—	244,397,328
Less cost of sold:			
Financial assets at FVPL	833,617,030	608,989,197	—
Investments	—	—	207,647,148
Net realized gain on sale of:			
Financial assets at FVPL	P194,861,329	P37,137,141	P—
Investments	—	—	36,750,180

7. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash in banks	P4,707,623	P3,255,603
Short-term deposits	179,619,722	155,416,416
	P184,327,345	P158,672,019

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the prevailing short-term deposit rates.

8. Net Assets Attributable to Unitholders

Under PAS 32, 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 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.

This account consists of:

	2006		2005		2004	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Capital stock - ₱1 par value						
Authorized	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued:						
Balance at beginning of year	103,820,634	₱103,820,634	60,635,875	₱60,635,875	45,718,297	₱45,718,297
Issuances	67,214,667	67,214,667	49,112,639	49,112,639	20,848,661	20,848,661
Redemptions	(46,011,959)	(46,011,959)	(5,927,880)	(5,927,880)	(5,931,083)	(5,931,083)
Balance at end of year	125,023,342	125,023,342	103,820,634	103,820,634	60,635,875	60,635,875
Additional paid-in capital:						
Balance at beginning of year		437,058,013		157,754,747		69,477,434
Issuances in excess of par value		609,106,845		309,071,303		107,028,646
Cost of redemptions in excess of par value		(291,273,756)		(29,768,037)		(18,751,333)
Balance at end of year		754,891,102		437,058,013		157,754,747
Retained earnings:						
Balance at beginning of year		230,033,266		115,453,117		85,320,813
Effect of adoption of PAS 39		—		57,030,798		—
Net income		371,419,322		63,757,512		40,561,340
Excess of the redemption cost over the original selling price		(66,473,176)		(6,208,161)		(10,429,036)
Balance at end of year		534,979,412		230,033,266		115,453,117
Unrealized appreciation (depreciation) of investments:						
Balance at beginning of year		—		57,030,798		28,501,392
Effect of adoption of PAS 39		—		(57,030,798)		—
Unrealized appreciation of investments		—		—		28,529,406
Balance at end of year		—		—		57,030,798
		₱1,414,893,856		₱770,911,913		₱390,874,537
NAV per share		₱11.317		₱7.425		₱6.446

As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at NAV per share.

NAV per share is computed as follows:

	2006	2005	2004
Net assets	₱1,414,893,856	₱770,911,913	₱390,874,537
Number of shares outstanding	125,023,342	103,820,634	60,635,875
NAV per share	₱11.317	₱7.425	₱6.446

9. Income Tax

The carryforward benefit of NOLCO for which no deferred tax assets is recognized in the statements of assets and liabilities as management believes that future taxable profits will not be sufficient against which it can be utilized amounted to ₱38.0 million and ₱23.1 million as of December 31, 2006 and 2005, respectively.

In 2006, NOLCO incurred in 2003 amounting to ₱3,926,452 expired and was written-off. In 2005, NOLCO incurred in 2002 amounting to ₱3,598,943 expired and was written-off.

As of December 31, 2006, the NOLCO that can be claimed as deduction from regular taxable income are as follows:

Year Incurred	Expiry Year	NOLCO
2004	2007	₱5,874,023
2005	2008	13,269,097
2006	2009	18,850,716
		₱37,993,836

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

	2006	2005	2004
Income tax computed at statutory income tax rate of 35% in 2006, 32.5% in 2005 and 32% in 2004	₱129,996,763	₱20,712,733	₱12,987,224
Income tax effects of:			
Net realized gain on sale of:			
Financial assets at FVPL	(68,201,465)	(12,069,571)	–
Investments	–	–	(11,760,057)
Gain on market valuation of FVPL securities	(60,336,772)	(6,919,389)	–
Dividend income exempt from tax	(5,010,639)	(2,848,750)	(1,496,250)
Interest income already subjected to final tax	(3,045,637)	(3,218,088)	(1,586,869)
Expired NOLCO	1,374,258	1,169,656	1,258,626
Change in unrecognized deferred tax assets	5,223,492	3,786,536	621,062
Effect of 3% change in tax rate	–	(639,153)	–
	₱–	(₱26,026)	₱23,736

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:

- a. Annual management fee of a maximum of 1.5% of the monthly average net asset value of the Fund's assets. The net asset value shall be determined in accordance with the procedures agreed upon by both parties.
- b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock.

Related party transactions and balances with PMI as of and for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Management Fee	Sales Commission	Amount Owed to PMI
2006	₱13,219,852	₱3,399,948	₱1,879,991
2005	9,598,429	1,999,744	785,152
2004	4,463,934	405,814	748,692

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

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. The BOD reviews and approves policies for managing these risks and they are summarized below:

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, the Fund secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers. Also, the Fund transacts only with institutions with high credit worthiness.

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

The Fund's credit risk exposure as of December 31, 2006 represents the carrying value of cash and cash equivalents and financial assets at FVPL.

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.

Liquidity Risk. Liquidity or funding risk is the risk that an entity 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 on a stock exchange.

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 balance sheet date to their contractual maturities or expected repayment dates.

2006				
	Up to a Year	2-5 Years	Over 5 Years	Total
Cash and cash equivalents	₱184,327,345	₱—	₱—	₱184,327,345
Financial assets at FVPL	1,218,383,000	—	—	1,218,383,000
Receivables	22,015,001	—	—	22,015,001
	₱1,424,725,346	₱—	₱—	₱1,424,725,346

2005				
	Up to a Year	2-5 Years	Over 5 Years	Total
Cash and cash equivalents	₱158,672,019	₱—	₱—	₱158,672,019
Financial assets at FVPL	613,667,939	—	—	613,667,939
Receivables	1,646,342	—	—	1,646,342
	₱773,986,300	₱—	₱—	₱773,986,300

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 structure of market risk, the Fund accepts through a market risk policy 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; 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.

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 equity securities.

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		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	₱184,327,345	₱184,327,345	₱158,672,019	₱158,672,019
Financial assets at FVPL	1,218,383,000	1,218,383,000	613,667,939	613,667,939
Receivables	22,015,001	22,015,001	1,646,342	1,646,342
Total financial assets	₱1,424,725,346	₱1,424,725,346	₱773,986,300	₱773,986,300
Financial liabilities -				
Accounts payable and other current liabilities	₱9,831,490	₱9,831,490	₱3,074,387	₱3,074,387

Fair values of financial assets are estimated as follows:

	Methods and Assumptions
Cash and cash equivalents, receivables, and accrued expenses and other liabilities	Due to the short term nature of the instrument, the fair value approximates the carrying amount.
Financial assets at FVPL	Fair values are based on quoted prices.

13. Related Party Disclosures

Shares held by directors totaled 4,068,207 and 8,968,835 as of December 31, 2006 and 2005, respectively.

The Fund has no key management personnel. The key management functions are being handled by Philequity Management, Inc.

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

Schedule A. Cash and Cash Equivalents
December 31, 2006

Name of Issuing Entity and Description of Each Issue		Amount Shown in the Statement of Assets and Liabilities
Cash in Banks		₱4,707,623
Short-term Deposits		
East West Bank	PSA	132,001,972
Asian Alliance Investment Corporation	PSA	46,745,260
International Exchange Bank		872,490
		179,619,722
		₱184,327,345

Legend:

PSA - Peso Savings Account