Philequity Dollar Income Fund, Inc.
(An Open-End Mutual Fund Company)

Financial Statements
December 31, 2008 and 2007 and
Years Ended December 31, 2008, 2007 and 2006

and

Independent Auditors' Report

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SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Philequity Dollar Income Fund, Inc. (an open-end mutual fund company), which comprise the statements of assets and liabilities as at December 31, 2008 and 2007, and the statements of income, 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, 2008, 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.

SGV & Co
ERNST & YOUNG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

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

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
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Tax Identification No. 210-474-781
PTR No. 1566435, January 5, 2009, Makati City

April 1, 2009

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31			
	2008		2007	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*
ASSETS				
Financial Assets at Fair Value through Profit or Loss (Note 4)	**$1,649,803**	**₱78,398,643**	$896,845	₱37,021,762
Cash and Cash Equivalents (Note 5)	**573,810**	**27,267,435**	463,128	19,118,032
Receivables (Note 6)	**39,397**	**1,872,136**	1,028,162	42,442,536
Creditable Withholding Tax	**13,453**	**558,345**	13,453	558,345
	2,276,463	**108,096,559**	2,401,588	99,140,675
LIABILITIES				
Accrued Expenses and Other Liabilities	**1,386**	**65,872**	1,014	42,128
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 7)	**$2,275,077**	**₱108,030,687**	$2,400,574	₱99,098,547
Net Asset Value Per Share (Note 7)	**$0.038**	**₱1.811**	$0.038	₱1.551

See accompanying Notes to Financial Statements.

PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-end Mutual Fund Company)

STATEMENTS OF INCOME

	Years Ended December 31					
	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
REVENUE						
Interest (Notes 4, 5 and 6)	**$127,208**	**₱5,750,320**	$151,155	₱6,708,151	$199,513	₱10,241,023
Gain on sale of financial assets at fair value through profit or loss (FVPL)	**149**	**6,059**	25,589	1,193,602	1,764	90,543
Loss on changes in fair value of financial assets at FVPL (Note 4)	**(84,318)**	**(4,000,935)**	(4,489)	(131,503)	(86,598)	(4,445,077)
Foreign exchange gains (losses) - net	**(15,745)**	**(739,663)**	2,444	112,875	53,811	2,762,096
Others	–	–	–	–	11,844	607,984
	27,294	**1,015,781**	174,699	7,883,125	180,334	9,256,569
EXPENSES						
Professional fees	**4,336**	**198,278**	4,966	226,685	3,385	173,735
Taxes and licenses	**3,657**	**150,416**	2,177	105,978	4,127	211,833
Commissions (Note 9)	**66**	**3,064**	1,273	61,708	4,220	216,620
Printing and reproduction costs	–	–	–	–	490	25,160
Advertising and promotions	–	–	–	–	–	–
Others	**1,336**	**59,883**	1,717	86,161	614	31,548
	9,395	**411,641**	10,133	480,532	12,836	658,896
INVESTMENT INCOME BEFORE INCOME TAX	**17,899**	**604,140**	159,678	7,176,843	167,498	8,597,673
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 8)						
Current	–	–	–	–	248	12,160
Deferred	–	–	–	–	(19,710)	(966,365)
			–	–	(19,462)	(954,205)
NET INCREASE IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS (Note 7)	**$17,899**	**₱604,140**	$159,678	₱7,176,843	$186,960	₱9,551,878

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31					
	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
CASH FLOWS FROM OPERATING ACTIVITIES						
Investment income before income tax	**$17,899**	**₱604,140**	$159,678	₱7,176,843	$167,498	₱8,597,673
Adjustment for:	**–**	**–**				
Interest income (Notes 4, 5 and 6)	**(127,208)**	**(5,750,320)**	(151,155)	(6,708,151)	(199,513)	(10,241,023)
Gain on sale of financial assets at fair value through profit or loss (FVPL)	**(149)**	**(6,059)**	(25,589)	(1,193,602)	(1,764)	(90,543)
Loss on changes in fair value of financial assets at FVPL (Note 4)	**84,318**	**4,000,935**	4,489	131,503	86,598	4,445,077
Effect of change in foreign exchange rate		**16,089,101**	–	(17,896,314)	–	(12,874,368)
Income (loss) before working capital changes	**(25,140)**	**14,937,797**	(12,577)	(18,489,721)	$52,819	(10,163,184)
Decrease (increase) in:						
Financial assets at FVPL	**(837,127)**	**(45,371,757)**	1,464,649	78,789,828	104,859	16,378,207
Receivables	**–**	**–**	18,292	896,849	99,298	4,868,581
Creditable withholding tax	**–**	**–**	(2,065)	–	–	–
Increase (decrease) in accrued expenses and other liabilities	**372**	**23,744**	120	(1,738)	6,181	303,054
Income tax paid	**–**	**–**	–	–	(248)	(12,160)
Net cash provided by (used in) operating activities	**(861,895)**	**(30,410,216)**	1,468,418	61,195,218	262,909	11,374,498
CASH FLOWS FROM INVESTING ACTIVITIES						
Note receivable	**1,000,000**	**41,280,000**	(1,000,000)	(41,280,000)	–	–
Interest received	**115,973**	**5,040,720**	183,624	8,518,347	196,986	9,658,224
Net cash provided by (used in) investing activities	**1,115,973**	**46,320,720**	(816,376)	(32,761,653)	196,986	9,658,224
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments for redemptions of capital stock	**(149,396)**	**(8,034,099)**	(1,432,202)	(70,070,768)	(239,915)	(12,314,821)
Deposit for future stock subscriptions	**–**	**–**	(347,788)	(17,052,063)	347,788	17,052,063
Proceeds from subscriptions of capital stock	**6,000**	**272,998**	146,920	7,000,306	846,817	43,467,083
Net cash provided by (used in) financing activities	**(143,396)**	**(7,761,101)**	(1,633,070)	(80,122,525)	954,690	48,204,325
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**110,682**	**8,149,403**	(981,028)	(51,688,960)	1,414,585	69,237,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**463,128**	**19,118,032**	1,444,156	70,806,992	29,571	1,569,945
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$573,810**	**₱27,267,435**	$463,128	₱19,118,032	$1,444,156	₱70,806,992

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Years Ended December 31					
	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT BEGINNING OF YEAR	**$2,400,574**	**₱99,098,547**	$3,526,178	₱172,888,480	$2,732,316	₱145,058,708
NET INCREASE IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS	**17,899**	**604,140**	159,678	7,176,843	186,960	9,551,878
CAPITAL STOCK TRANSACTIONS (Note 7)						
Proceeds from subscriptions of capital stock	**6,000**	**272,998**	146,920	7,000,306	846,817	43,467,083
Payments for redemptions of capital stock	**(149,396)**	**(8,034,099)**	(1,432,202)	(70,070,768)	(239,915)	(12,314,821)
Net change in net assets from capital stock transactions	**(143,396)**	**(7,761,101)**	(1,285,282)	(63,070,462)	606,902	31,152,262
CUMULATIVE TRANSLATION ADJUSTMENTS (Notes 2 and 7)	**–**	**16,089,101**	–	(17,896,314)	–	(12,874,368)
NET INCREASE (DECREASE) IN NET ASSETS	**(125,497)**	**8,932,140**	(1,125,604)	(73,789,933)	793,862	27,829,772
NET ASSETS ATTRIBUTABLE TO UNITHODERS AT END OF YEAR (Note 7)	**$2,275,077**	**₱108,030,687**	$2,400,574	₱99,098,547	$3,526,178	₱172,888,480

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Dollar Income Fund, Inc. (the Fund) was incorporated in the Philippines on March 4, 1999, as an open-end mutual fund company, the purposes of which are to, among others, engage in the sale of its capital stock and to invest such proceeds in dollar-denominated bonds and debt securities. As an open-end mutual dollar fund company, its outstanding shares of stock are redeemable anytime based on the net asset value (NAV) per share at the time of redemption.

The registered address of the Fund is 2004-A, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on April 1, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in U.S. Dollar (the Fund's functional currency), as well as in Philippine Peso (the Fund's presentation currency).

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

a. Assets and liabilities presented in the statement of assets and liabilities (i.e., including comparatives) were translated using the closing rate at each date of that statement of assets and liabilities;

b. Income and expenses presented in the statement of income (i.e., including comparatives) were translated at average exchange rates; and

c. All resulting exchange differences were recognized as "Cumulative translation adjustments" a separate component of net assets attributable to unitholders.

All values are rounded to the nearest U.S. Dollar and Philippine Peso units unless otherwise stated.

Statement of Compliance
The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to existing standards that became effective on July 1, 2008 and Philippine Interpretations which became effective on January 1, 2008:

- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosure - Reclassification of Financial Assets*
  The amendment to PAS 39 introduces the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivables category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity (HTM) if there is intent and ability to hold the securities until maturity. It also allows the transfers of certain financial assets from AFS to loans and receivables and HTM. The amendment to PFRS 7 introduces the disclosures relating to these reclassifications. The amendments to PAS 39 and PFRS 7 do not have any impact on the Fund.

- Philippine Interpretation IFRIC 11, *PFRS 2-Group and Treasury Share Transactions*
  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. This interpretation is not relevant to the Fund.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
  This interpretation covers contractual arrangements arising from private entities providing public services. This interpretation is not relevant to the Fund.

- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
  This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. This Interpretation is not relevant to the Fund.

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
Date of recognition
Financial instruments within the scope of PAS 39 are recognized in the statement of assets and liabilities when the Fund becomes a party to the contractual provisions of the instrument. 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 using the trade date accounting.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. The initial measurement of financial instruments includes transaction costs, except for financial assets and liabilities at FVPL. The Fund classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables.

Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost. 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 financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value
The fair value for financial instruments traded in active markets at the reporting 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 ask prices are not available, the price of the most recent transaction 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.

'Day' 1 difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Fund determines the appropriate method of recognizing the 'Day 1' difference amount.

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purposes of selling and repurchasing in the near term.

Financial assets or liabilities classified in this category are designated by management on initial recognition at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains 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 and liabilities at FVPL are recorded in the statement of assets and liabilities at fair value. Subsequent changes in fair value are recognized in the statement of income. 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 bonds as of December 31, 2008 and 2007. The Fund has no financial liabilities at FVPL as of December 31, 2008 and 2007.

HTM investments
HTM 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 HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the EIR, 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 EIR. Gains and losses are recognized in statement of income when the HTM 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 income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

The Fund has no HTM investments as of December 31, 2008 and 2007.

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 as other financial assets or designated as AFS investment or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR 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 EIR. The amortization is included in the interest income in the statement of income. The losses arising from credit are recognized in provision for credit losses in the statement of income.

Classified under loans and receivables are cash and cash equivalents and receivables.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from the statement of income and are reported as net unrealized gain on AFS financial assets in the net assets attributable to unit holders section of the statement of assets and liabilities.

When the financial asset is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. 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 AFS financial assets are reported as interest income using the EIR. Dividends earned on holding AFS financial assets are recognized in the statement of income when the right of the payment has been established. The losses arising from impairment of such financial assets are recognized in the statement of income.

The Fund has no AFS investments as of December 31, 2008 and 2007.

Financial liabilities at amortized cost
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations.

Financial liabilities at amortized cost are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains or losses are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process.

Classified under other financial liabilities are accrued expenses and other liabilities.

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the asset have expired; or
- 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.

Financial liability

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 income.

Impairment of Financial Assets

The Fund assesses at each statement of assets and liabilities whether there is objective evidence that 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. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For loans and receivables and HTM investments, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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 a future write-off is later recovered, any amounts formerly charged are credited to the Provision for impairment and credit losses.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Fund and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an financial instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such financial instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting of Financial Instruments
Financial assets and 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.

Revenue Recognition
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.

Gain on sale of financial assets at FVPL
Gain on sale of financial assets at FVPL is determined at the time of sale transaction calculated as the difference between the net sales proceeds and the carrying amount.

Dividend
Dividend is recognized when the Fund's right to receive payment is established.

Interest
Interest is recognized as the interest accrues taking into account the effective yield on the asset.

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 as of statement of assets and liabilities date.

Transactions with Unitholders
Sales of units are recorded by crediting 'Net assets attributable to unitholders' for the amount received. Redemptions on the other hand are recorded by debiting this account.

Foreign Currency-denominated Transactions
The Fund's financial statements are presented in United States Dollar, which is the Fund's functional currency, and also in Philippine Peso for presentation purposes only. Transactions in foreign currencies (either in Philippine Peso or currencies other than the Fund's functional currency) are translated at the functional currency rate of exchange at the date of the statement of assets and liabilities. Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded are recognized in the statement of income in the year in which they arise.

Income Taxes

Current tax

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

Deferred tax

Deferred income tax is provided using the liability method on all temporary differences at the statement of assets and liabilities 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 and carryforward MCIT benefits of net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets is reviewed at each statement of assets and liabilities date and reduced to the extent that it is no longer probable that sufficient future 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 reporting 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 substantially enacted at the statement of assets and liabilities date.

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

Current tax and deferred tax relating to items recognized directly in equity is also recognized directly in equity and not in the statement of income.

Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Subsequent Events
Subsequent events that provide additional information about the Fund's assets and liabilities at reporting date (adjusting event) is reflected in the financial statements. Subsequent events after the reporting date that are not adjusting events are disclosed when material to the financial statements.

Future Changes in Accounting Policies
The Fund will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2009
Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*
In accordance with the amendment to PAS 1, the statements of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the statements of income together with 'other comprehensive income'. The revision specify what is included in other comprehensive income, such as gains and losses on AFS investments, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. Adoption of this amendment will not have a significant impact on the Fund except for the presentation of a statement of comprehensive income and additional disclosures to be included in the financial statements.

PAS 23, *Borrowing Costs (Revised)*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, this change in accounting for borrowing costs shall be accounted for prospectively. Accordingly, borrowing costs will be capitalized on qualifying asset with a commencement date after January 1, 2009.

Amendments to PAS 32, *Financial Instruments: Presentation and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

PFRS 1, *First-time Adoption of PFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, *Operating Segments*
This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The Fund currently does not have such programs.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation is to be applied prospectively. IFRIC 16 provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment, and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. Currently, the Fund has no hedges of a net investment in a foreign operation.

Effective in 2010
Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible hedged items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

PAS 27, *Consolidated and Separate Financial Statements (Revised)*
This revised Standard establishes that change in the ownership interest of a subsidiary that does not result in loss of control will be accounted for as an equity transaction. Where change in ownership of interest results in the loss of control of a subsidiary, any retained interest will be re-measured to fair value and will impact gain or loss recognized on disposal. Moreover, any losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Consequently, the parent will no longer show the excess losses as part of its own equity. The Fund has yet to assess the impact of these amendments on the financial statements.

PFRS 3, *(Revised) Business Combinations*
The Standard has been revised to include combinations of mutual entities and combinations without considerations. It also introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period that an acquisition occurs and future revenues reported. The Fund has yet to assess the impact of these amendments on the financial statements.

Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:
a. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
b. distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Effective in 2012
Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

Improvements to PFRSs
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view of removing inconsistencies and clarifying wordings. The Fund has not yet adopted the following relevant amendments and anticipates that these changes will have no material effect in the financial statements.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

PFRS 7, *Financial Instruments: Disclosures*
- Removal of the reference to 'total interest income' as a component of finance costs.

PAS 1, *Presentation of Financial Statements*
- Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

PAS 10, *Events after the Reporting Period*
- Clarification that dividends declared after the end of the reporting period are not obligations.

PAS 16, *Property, Plant and Equipment*
- The amendment replaces the term 'net selling price' with 'fair value less costs to sell' to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and PAS 36, *Impairment of Assets*.
- Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 18, *Revenue*

- Replacement of the term ‘direct costs’ with ‘transaction costs’ as defined in PAS 39.

PAS 19, *Employee Benefits*

- Revises the definition of ‘past service costs’ to include reductions in benefits related to past services (‘negative past service costs’) and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- Revises the definition of ‘return on plan assets’ to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
- Revises the definition of ‘short-term’ and ‘other long-term’ employee benefits to focus on the point in time at which the liability is due to be settled.
- Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 23, *Borrowing Costs*

- Revises the definition of borrowing costs to consolidate the types of items that are considered components of ‘borrowing costs’, i.e., components of the interest expense calculated using the effective interest rate method.

PAS 28, *Investment in Associates*

- If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 36, *Impairment of Assets*

- When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.

PAS 38, *Intangible Assets*

- Expenditure on advertising and promotional activities is recognized as an expense when the Fund either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
- Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

PAS 39, *Financial Instruments: Recognition and Measurement*

- Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
- When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
- Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
- Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

PAS 40, *Investment Property*
Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

3. Significant Accounting Judgments and Estimates

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

Determination of functional currency
The functional currency of the Fund has been determined to be the U.S. Dollar based on the economic substance of the underlying circumstances relevant to the Fund. The U.S. Dollar 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.

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 method and assumptions used to determine the fair values of financial assets and liabilities are disclosed in Note 11.

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

Recognition of deferred tax assets
The carrying amounts of deferred tax assets at each statement of assets and liabilities date are reviewed and are reduced to the extent that there are no longer sufficient future taxable income available to allow all or part of the deferred tax assets to be utilized. 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 reporting period. This forecast is based on the Fund's past results and future expectations on revenue and expenses.

As of December 31, 2008 and 2007, no deferred tax asset is recognized in the statement of assets and liabilities. Deferred tax asset amounting to $49,332 (₱2.2 million) and $46,601 (₱2.06 million) as of December 31, 2008 and 2007, respectively, were not recognized because management believes that it is not probable that future taxable income will be available against which the deferred tax asset can be utilized (see Note 8).

4. Financial Assets at FVPL

This account consists of:

	2008		2007	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*
Government-backed bonds	**$1,145,660**	**54,441,744**	$314,771	₱12,993,744
Sovereign bonds	**504,143**	**23,956,899**	–	–
Corporate bonds	**–**	**–**	582,074	24,028,018
	$1,649,803	**₱78,398,643**	$896,845	₱37,021,762

Part of the risk management process of the Fund is the analysis and monitoring of the real economic position including those investments that are not actively traded. Moreover, the performance of the Fund is being measured or evaluated on a fair value basis.

Investments in dollar bonds were designated as financial assets at FVPL and are carried at fair value. The Fund incurred loss on changes in fair value of these investments amounting to $84,318 (₱4.0 million), $4,489 (₱0.1 million) and $86,598 (₱4.4 million) in 2008, 2007 and 2006, respectively.

Interest income earned from financial assets at FVPL amounted to $86,671 (₱4.0 million), $77,767 (₱4.4 million) and $158,693 (₱8.1 million) in 2008, 2007, and 2006, respectively.

5. Cash and Cash Equivalents

This account consists of:

	2008		2007	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*
Short-term deposits	**$570,572**	**₱27,113,563**	$461,121	₱19,035,075
Cash on hand and in banks	**3,238**	**153,872**	2,007	82,957
	$573,810	**₱27,267,435**	$463,128	₱19,118,032

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the respective short-term deposit rates. Interest income earned from cash and cash equivalents amounted to $27,478 (₱1.2 million), $26,722 (₱1.1 million) and $40,820 (₱2.1 million) in 2008, 2007 and 2006, respectively.

6. Receivables

This account consists of:

	2008		2007	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*
Interest	**$39,397**	**₱1,872,136**	$28,162	₱1,162,536
Note (Note 9)	**–**	–	1,000,000	41,280,000
	$39,397	**₱1,872,136**	$1,028,162	₱42,442,536

Interest earned from notes receivable amounted to $13,059 (₱0.5 million) and $46,666 (₱1.2 million) in 2008 and 2007, respectively.

7. Net Assets Attributable to Unitholders and Capital Management

The units issued to shareholders are liabilities in substance. However, under Republic Act (RA) No. 2629, '*Rules and Regulations Governing Investment Companies'*, investment companies including mutual funds shall be organized in the form of a stock corporation. Therefore, units issued to shareholders are legally considered as equity instruments.

Capital Stock Transactions

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

The details of the net assets are as follows:

	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
Capital stock - ₱1 par value						
Balance at beginning of year	**$1,338,859**	**₱63,888,624**	$2,021,668	₱100,000,000	$1,678,426	₱82,381,405
Issuances	**3,478**	**157,409**	84,332	4,015,028	482,125	24,747,451
Redemptions	**(81,430)**	**(4,391,358)**	(767,141)	(40,126,404)	(138,883)	(7,128,856)
Balance at end of year	**1,260,907**	**59,654,675**	1,338,859	63,888,624	2,021,668	100,000,000
Additional paid-in capital:						
Balance at beginning of year	**689,761**	**37,846,863**	1,080,503	58,533,480	814,089	44,858,462
Issuances	**2,522**	**115,589**	62,587	2,985,278	364,692	18,719,632
Redemptions	**(58,502)**	**(3,151,249)**	(453,329)	(23,671,895)	(98,278)	(5,044,614)
Balance at end of year	**633,781**	**34,811,203**	689,761	37,846,863	1,080,503	58,533,480
Retained earnings:						
Balance at beginning of year	**371,954**	**22,842,906**	424,007	21,938,532	239,801	12,528,005
Net investment income	**17,899**	**604,140**	159,678	7,176,843	186,960	9,551,878
Excess of redemption cost over original selling price	**(9,464)**	**(491,492)**	(211,731)	(6,272,469)	(2,754)	(141,351)
Balance at end of year	**380,389**	**22,955,554**	371,954	22,842,906	424,007	21,938,532
Cumulative translation adjustments:						
Balance at beginning of year	**–**	**(25,479,846)**	–	(7,583,532)	–	5,290,836
Foreign exchange adjustments	**–**	**16,089,101**	–	(17,896,314)	–	(12,874,368)
Balance at end of year	**–**	**(9,390,745)**	–	(25,479,846)	–	(7,583,532)
	$2,275,077	**₱108,030,687**	$2,400,574	₱99,098,547	$3,526,178	₱172,888,480

Movements of number of shares are as follows:

	2008	2007	2006
Authorized - ₱1 par value	**100,000,000**	100,000,000	100,000,000
Issued:			
Balance at beginning of year	**63,888,624**	100,000,000	82,381,405
Issuances	**157,409**	4,015,028	24,747,451
Redemptions	**(4,391,358)**	(40,126,404)	(7,128,856)
Balance at end of year	**59,654,675**	63,888,624	100,000,000

NAV per share is computed as follows:

	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
Net assets	**$2,275,077**	**₱108,030,687**	$2,400,574	₱99,098,547	$3,526,178	₱172,888,480
Number of shares outstanding	**59,654,675**	**59,654,675**	63,888,624	63,888,624	100,000,000	100,000,000
	$0.038	**₱1.811**	$0.038	₱1.551	$0.035	₱1.729

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.

Capital Management
The Fund aims to provide investors with long-term capital appreciation. The investments of the Fund will consist of dollar-denominated bonds issued by the Philippine or foreign governments and corporations.

Due to the Fund's nature as an open-ended mutual fund, its capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various investors or shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. As a mutual fund, the Company stands ready to redeem shares from shareholders at any time upon the request of the latter at the prevailing NAV per Share of the Fund. The investment restrictions stated in Note 10 as mandated by the SEC and the Investment Company Act are the main limitations which the Company must adhere to in investing the capital provided by various shareholders. Moreover, the Investment Company Act states that investment companies are allowed to borrow or incur debt provided that there is at all times a 300% asset coverage for all its borrowings. In the event that the asset coverage falls below 300%, the investment company has three days within which to reduce its debt to bring the asset coverage back to at least 300%.

As December 31, 2008 and 2007, the Fund does not have any outstanding debt. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Stock purchases: three days after date of transaction
b) Redemptions from shareholders: maximum of seven days after date of transaction, as prescribed by the Investment Company Act Rule 35-1

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8. **Income Taxes**

RA 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%.

The regulations also impose the MCIT of 2% on modified gross income and allow a NOLCO. The NOLCO and the excess of the MCIT over the RCIT may be applied against taxable income and the income tax liability, respectively, over a three year period from the year of inception.

The deferred tax asset on NOLCO and unrealized foreign exchange loss are not recognized in the statement of assets and liabilities as management believes that future taxable income will not be sufficient against which it can be utilized. The details of NOLCO and unrealized foreign exchange loss are as follows:

	2008		2007		2006	
	Functional Currency	**Presentation Currency**	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	***(In Philippine Peso)***	*(In U.S. Dollar)*	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
NOLCO	**$15,548**	**₱675,857**	$108,086	₱4,476,954	$25,059	₱1,286,291
Unrealized foreign exchange loss	**15,745**	**739,663**	2,444	112,875	77,857	3,996,423
	$31,293	**₱1,415,520**	$110,530	₱4,589,829	$102,916	₱5,282,714

The balance of NOLCO as of December 31, 2008 with their corresponding expiry dates, which may be used by the Fund as additional deduction against future taxable income, are as follows:

Year Incurred	Expiry Date	Amount
2006	2009	₱1,286,291
2007	2010	4,476,954
2008	2011	675,857
		₱6,439,102

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

	2008	2007	2006
Statutory income tax rates	**35.00%**	35.00%	35.00%
Income tax effects of:			
Interest income already subjected to final tax and tax exempt income	**(333.14)**	(32.71)	(41.68)
Gain on sale of financial assets at FVPL	**(0.35)**	(5.82)	–
Effect of changes in unrecognized deferred tax assets	**62.34**	2.89	0.20
Loss on changes in fair value of financial assets at FVPL	**231.79**	0.64	18.10
Effect of change in tax rate	**4.40**	–	–
Effective income tax rates	**–%**	–%	11.62%

9. Related Party Disclosure

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

Shares held by directors totaled seven (7) as of December 31, 2008 and 2007.

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 maximum of 1.5% of the monthly average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2008 and 2007, the payment of management fee has not been made effective by the Fund and PMI.
b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commissions amounted to $66 (₱3,064), $1,273 (₱61,708) and $4,220 (₱216,620) in 2008, 2007 and 2006, respectively.

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

On August 22, 2007, the Fund granted a loan with a face value of $1,000,000 to E-business services, Inc. (E-biz), an affiliate. The notes receivable bears interest at three-month London Interbank Offered Rate (LIBOR) plus 2%. Total interest income recognized in relation to the receivable amounted to $13,059 (₱0.5 million) and $46,666 (₱1.12 million) in 2008 and 2007, respectively. The notes receivable from E-biz matured on August 22, 2008.

10. **Financial Risk Management Objectives and Policies**

The Fund's principal financial instruments comprise cash and cash equivalents, financial assets through FVPL and receivables. The main purpose of these financial instruments is to seek long-term capital appreciation through investments in dollar-denominated bonds issued by the Philippine or foreign governments and corporations. The Fund has various other financial assets and liabilities such as interest receivables and accrued expenses and other liabilities, which arise directly from its operations.

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 Philippine 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 liabilities. The most important components of this financial risk are credit risk, liquidity risk, market risk and fair value interest rate 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.

The Fund manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Fund; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Fund further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of assets and liabilities, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the date of the statement of assets and liabilities because the exposure is affected by transactions subject to the arrangement.

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

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

The following table provides information regarding the credit risk exposure of the Fund as of December 31, 2008 and 2007, without considering the effects of collaterals and other credit risk mitigation techniques:

	2008		**2007**	
	Functional Currency	**Presentation Currency**	**Functional Currency**	**Presentation Currency**
Financial assets at FVPL				
Government-backed bonds	**$1,145,660**	**₱54,441,744**	$314,771	₱12,993,744
Governement bonds	**504,143**	**23,956,899**	–	–
Corporate bonds	**–**	**–**	582,074	24,028,018

(Forward)

	2008		2007	
	Functional Currency	**Presentation Currency**	**Functional Currency**	**Presentation Currency**
Loans and receivables				
Cash and cash equivalents	**$573,810**	**₱27,267,435**	$463,128	₱19,118,032
Receivables				
Interest receivable	**39,397**	**1,872,136**	28,162	1,162,536
Notes receivable	**–**	**–**	1,000,000	41,280,000
	$2,263,010	**₱107,538,214**	$2,388,135	₱98,582,330

As of December 31, 2008 and 2007, these financial assets are viewed by management as high grade considering the collectibility of the receivables and the credit history of the counterparties. There are no past due or impaired financial assets as of December 31, 2008 and 2007.

The Fund has no significant credit concentration risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2008 and 2007.

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 and invests only a limited proportion of its assets in investments not actively traded on a stock exchange. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders when they fall under normal and stress circumstances.

To limit this risk, the Fund strictly complies with Investment Company Act Rule 35-1 (Rule) which requires all investment companies/mutual funds to invest at least 10% of its net assets in liquid assets. This Rule defines such assets as (a) treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.

The following table sets out the different investments as of December 31, 2008 and 2007 and their respective percentages to total net assets of the Fund:

	2008	2007
Cash and cash equivalents	**25.22%**	19.29%
Financial assets at FVPL		
Government-backed bonds	**50.36**	13.11
Sovereign bonds	**22.16**	–
Corporate bonds	**–**	24.25
Notes receivable	**–**	41.66
Total investments	**97.74%**	98.31%

The table below analyzes financial assets and liabilities as of December 31, 2008 and 2007 of the Fund into their relevant maturity groups based on the remaining period at the date of statement of assets and liabilities to their contractual maturities or expected repayment dates.

	2008					
	Up to 1 year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial Assets						
Financial assets at FVPL						
Government-backed bonds	**$–**	**₱–**	**$1,145,660**	**₱54,441,744**	**$1,145,660**	**₱54,441,744**
Sovereign bonds	**504,143**	**23,956,899**	**–**	**–**	**504,143**	**23,956,899**
Loans and receivables						
Cash and cash equivalents	**573,810**	**27,267,435**	**–**	**–**	**573,810**	**27,267,435**
Receivables						
Interest	**39,397**	**1,872,136**	**–**	**–**	**39,397**	**1,872,136**
Total financial assets	**$1,117,350**	**₱53,096,470**	**$1,145,660**	**₱54,441,744**	**$2,263,010**	**₱107,538,214**
Financial Liabilities						
Financial liabilities at amortized cost						
Accrued expenses and other liabilities	**$1,386**	**₱65,872**	**$–**	**₱–**	**$1,386**	**₱65,872**

	2007					
	Up to 1 year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial Assets						
Financial assets at FVPL						
Corporate bonds	$582,074	₱24,028,018	$–	₱–	$582,074	₱24,028,018
Government-backed bonds	–	–	314,771	12,993,744	314,771	12,993,744
Loans and receivables						
Cash and cash equivalents	463,128	19,118,032	–	–	463,128	19,118,032
Receivables						
Notes	1,000,000	41,280,000	–	–	1,000,000	41,280,000
Interest	28,162	1,162,536	–	–	28,162	1,162,536
Total financial assets	$2,073,364	₱85,588,506	$314,771	₱12,993,744	$2,388,135	₱98,582,330
Financial Liabilities						
Financial liabilities at amortized cost						
Accrued expenses and other current liabilities	$1,014	₱42,128	$–	₱–	$1,014	₱42,128

It is unusual for a Fund to predict the requirements of funding with absolute certainty as theory of probability is applied on contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of liabilities are thus based on management's best estimate based on statistical techniques and past experience.

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

The Fund is exposed to the risk that the value of the Fund's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets. The two main components of the risks recognized by the Fund are systematic risk and unsystematic risk. Systematic risk is the variability in price caused by factors that affect all securities across all markets (e.g. significant economic or political events). As an illustration, when the country's general political and economic situations are perceived to be in turmoil, the stock market, in general, experience lack of trading interest that will consequently result in thin volume trading and narrow price volatility. Such situations generally will trigger a downward momentum for both the stock prices and trading volumes until the political and economic condition normalize. As a consequence, these instances can result to the redemption prices of redeemed shares being less than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investments.

Unsystematic risk on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the shares of stock. Through proper portfolio diversification, this risk can be minimized as losses on one particular stock may be off-set by gains in another.

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio. The effectivity of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the Hong Kong Shanghai Banking Corporation Asia Dollar Bond (HSBC ADB) Index for the Philippines, which is a basket of all outstanding dollar-denominated government bonds. As shown below, the portfolio volatility for the year ended December 31, 2008 and 2007 of the investment portfolio as measured by its annualized daily standard deviation is lower than the volatility of the said Index:

Volatility of investment portfolio	**2008**	2007
Philequity Dollar Income Fund, Inc.	**1.0%**	2.0%
HSBC ADB	**12.3%**	5.8%

a. *Interest rate risk*
   Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Fund exposure to market risk for changes in interest rates relates primarily to the Fund's financial assets at FVPL, cash and cash equivalent and notes receivables.

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

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

The following tables show the information relating to the Fund's exposure to fair value interest rate risk as of December 31, 2008:

	2008					
	Up to 1 year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial Assets						
Financial assets at FVPL						
Government-backed bonds	**\$–**	**₱–**	**\$1,145,660**	**₱54,441,744**	**\$1,145,660**	**₱54,441,744**
Sovereign bonds	**504,143**	**23,956,899**	**–**	**–**	**573,810**	**27,267,435**

	2007					
	Up to 1 year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial Assets						
Financial assets at FVPL						
Corporate bonds	\$582,074	₱24,028,018	\$–	₱–	\$582,074	₱24,028,018
Government-backed bonds	314,771	12,993,744	–	–	314,771	12,993,744

Cash flow interest rate risk/reinvestment risk
Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Fund's floating rate investments are exposed to such risk.

The following tables show the information relating to the Fund's exposure to cash flow interest rate risk as of December 31, 2008:

	2008					
	Up to a year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Cash and cash equivalents	**\$573,810**	**₱27,267,435**	**\$–**	**₱–**	**\$573,810**	**₱27,267,435**

	2007					
	Up to a year		2 - 5 years		Total	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Cash and cash equivalents	$463,128	₱19,117,926	$–	₱–	$463,128	₱19,117,926
Notes receivable	1,000,000	41,280,000	–	–	1,000,000	41,280,000

The sensitivity to a reasonably possible change in market interest rates of the Fund's profit before tax is approximated via the modified duration formula. Standard analysis of measurable change assumes a ±100 basis point movement in yields in 2008 and 2007. The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the year ended December 31, 2008 and 2007, with all other variables held constant, of the Fund's income before income tax.

2008			2007		
Change in Price	**Effect on Income Before Income Tax**		Change in price	Effect on Income Before Income Tax	
	Functional Currency	**Presentation Currency**		Functional Currency	Presentation Currency
+0.89%	**$19,953.00**	**₱951,534.00**	+2.08%	$50,169.00	₱2,077,546.00
-0.89%	**(19,953.00)**	**(951,534.00)**	-2.08%	(50,169.00)	(2,077,546.00)

There is no other impact on the Fund's net assets attributable to unitholders other than those already affecting income before income tax.

b. Foreign currency risk

Foreign currency risk is the risk of earnings or capital arising from changes in foreign exchange rates. The Fund's exposure to this risk arises from its peso denominated expenses and liabilities. As of December 31, 2008 and 2007, the Fund does not have significant exposure to foreign currency risk.

11. Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of financial assets recognized as of December 31, 2008 and 2007.

	2008			
	Carrying Value		**Fair Value**	
	Functional Currency	**Presentation Currency**	**Functional Currency**	**Presentation Currency**
	(In U.S. Dollar)	***(In Philippine Peso)***	***(In U.S. Dollar)***	***(In Philippine Peso)***
Financial Assets				
Financial assets at FVPL				
Government-backed bonds	**$1,145,660**	**₱54,441,744**	**$1,145,660**	**₱54,441,744**
Government bonds	**504,143**	**23,956,899**	**504,143**	**23,956,899**
	1,649,803	**78,398,643**	**1,649,803**	**78,398,643**
Loans and receivables:				
Cash and cash equivalent	**573,810**	**27,267,435**	**573,810**	**27,267,435**
Receivables				
Interest	**39,397**	**1,872,136**	**39,397**	**1,872,136**
Total loans and receivables	**613,207**	**29,139,571**	**613,207**	**29,139,571**
	$2,263,010	**₱107,538,214**	**$2,263,010**	**₱107,538,214**
Financial Liabilities				
Financial liabilities at amortized cost				
Accrued expenses and other liabilities	**$1,386**	**₱65,872**	**$1,386**	**₱65,872**

	2007			
	Carrying Value		Fair Value	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
	(In U.S. Dollar)	*(In Philippine Peso)*	*(In U.S. Dollar)*	*(In Philippine Peso)*
Financial Assets				
Financial assets at FVPL				
Corporate bonds	$582,074	₱24,028,018	$582,074	₱24,028,018
Government-backed bonds	314,771	12,993,744	314,771	12,993,744
	896,845	37,021,762	896,845	37,021,762
Loans and receivables				
Cash and cash equivalent	463,128	19,118,032	463,128	19,118,032
Receivables				
Interest	28,162	1,162,536	28,162	1,162,536
Notes	1,000,000	41,280,000	1,000,000	41,280,000
Total loans and receivables	1,491,290	61,560,568	1,491,290	61,560,568
	$2,388,135	₱98,582,330	$2,388,135	₱98,582,330
Financial Liabilities				
Financial liabilities at amortized cost				
Accrued expenses and other liabilities	$1,014	₱42,128	$1,014	₱42,128

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents and 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 of listed securities are based on quoted prices. If market prices are not readily available or if the securities are not traded in an active market, fair value are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices 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.