

SEC Number **A1998-16221**
File Number _____

PHILEQUITY PSE INDEX FUND, INC.

*(FORMERLY VANTAGE PSE INDEX FUND, INC.)
AN OPEN-END MUTUAL FUND COMPANY*

(Company's Full Name)

**2103-B, East Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City**

(Company's Address)

635-3963

(Telephone Number)

December 31

(Year Ending)
(month & day)

Annual Audited Financial Statements

Form Type

Amendment Designation (If applicable)

December 31, 2001

Period Ended Date

(Secondary License Type and File Number)

PHILEQUITY PSE INDEX FUND, INC.
(FORMERLY VANTAGE PSE INDEX FUND, INC.)
AN OPEN-END MUTUAL FUND COMPANY

FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
1226 Makati City
Philippines

Tel 632 891 0307
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The Stockholders and the Board of Directors
Philequity PSE Index Fund, Inc.
2103-B, East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center
Pasig City

We have audited the accompanying statements of assets and liabilities of Philequity PSE Index Fund, Inc. (formerly Vantage PSE Index Fund, Inc.), an open-end mutual fund company, as of December 31, 2001 and 2000, and the related statements of operations, changes in net assets and cash flows for the year ended December 31, 2001 and the period May 5, 2000 to December 31, 2000. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philequity PSE Index Fund, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the year ended December 31, 2001 and the period May 5, 2000 to December 31, 2000, in conformity with accounting principles generally accepted in the Philippines.

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

March 20, 2002

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

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PTR No. 6723215
January 2, 2002
Makati City

March 20, 2002

PHILEQUITY PSE INDEX FUND, INC.**(Formerly Vantage PSE Index Fund, Inc.)****An Open-end Mutual Fund Company****STATEMENTS OF ASSETS AND LIABILITIES****DECEMBER 31, 2001 AND 2000**

	2001	2000
ASSETS		
Investments in Listed Securities - net of unrealized depreciation of ₱6,164,185 in 2001 and ₱4,105,911 in 2000 (Note 3)	₱11,968,379	₱9,800,415
Cash Equivalents	4,886,616	11,934,476
Receivables	686,669	107,237
Organization Costs - net of accumulated amortization of ₱200,237 in 2001 and ₱80,095 in 2000	400,473	520,615
Deferred Tax Assets - net (Note 5)	—	—
	17,942,137	22,362,743
LIABILITIES		
Accounts Payable and Accrued Expenses	145,845	80,000
NET ASSETS (Note 4)	₱17,796,292	₱22,282,743
Net Asset Value Per Share	₱0.712	₱0.891

See accompanying Notes to Financial Statements.

PHILEQUITY PSE INDEX FUND, INC.

(Formerly Vantage PSE Index Fund, Inc.)

An Open-end Mutual Fund Company

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2001

AND THE PERIOD MAY 5, 2000 TO DECEMBER 31, 2000

	2001 (One Year)	2000* (Eight Months)
INVESTMENT INCOME		
Interest income	₱434,943	₱875,089
Dividend income	197,443	137,765
	632,386	1,012,854
OPERATING EXPENSES		
Net realized loss on sale of investments in listed securities (Note 3)	2,820,932	2,692,392
Amortization of organization costs	120,142	80,095
Professional fees	110,329	—
Taxes and licenses	8,702	—
Others	458	—
	3,060,563	2,772,487
NET INVESTMENT LOSS (Note 4)	2,428,177	1,759,633
CHANGES IN UNREALIZED DEPRECIATION OF INVESTMENTS IN LISTED SECURITIES (Note 3)		
End of year	6,164,185	4,105,911
Less beginning of year	4,105,911	—
UNREALIZED DEPRECIATION OF INVESTMENTS IN LISTED SECURITIES	2,058,274	4,105,911
NET DECREASE IN NET ASSETS	₱4,486,451	₱5,865,544

*The Fund was incorporated on February 22, 1999 and started commercial operations on May 5, 2000.

See accompanying Notes to Financial Statements.

PHILEQUITY PSE INDEX FUND, INC.**(Formerly Vantage PSE Index Fund, Inc.)****An Open-end Mutual Fund Company****STATEMENTS OF CHANGES IN NET ASSETS****FOR THE YEAR ENDED DECEMBER 31, 2001****AND THE PERIOD MAY 5, 2000 TO DECEMBER 31, 2000**

	2001 (One Year)	2000* (Eight Months)
FROM INVESTING ACTIVITIES		
Net investment loss (Note 4)	₱2,428,177	₱1,759,633
Net change in unrealized depreciation of investments in listed securities (Note 4)	2,058,274	4,105,911
NET DECREASE IN NET ASSETS	4,486,451	5,865,544
NET ASSETS AT BEGINNING OF YEAR	22,282,743	28,148,287
NET ASSETS AT END OF YEAR (Note 4)	₱17,796,292	₱22,282,743

*The Fund was incorporated on February 22, 1999 and started commercial operations on May 5, 2000.

See accompanying Notes to Financial Statements.

PHILEQUITY PSE INDEX FUND, INC.

(Formerly Vantage PSE Index Fund, Inc.)

An Open-end Mutual Fund Company

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2001

AND THE PERIOD MAY 5, 2000 TO DECEMBER 31, 2000

	2001 (One Year)	2000* (Eight Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net investment loss	(P2,428,177)	(P1,759,633)
Adjustments for:		
Net realized loss on sale of investments in listed securities	2,820,932	2,692,392
Net change in unrealized depreciation of investments in listed securities	(2,058,274)	(4,105,911)
Interest income	(434,943)	(875,089)
Dividend income	(197,443)	(137,765)
Amortization of organization costs	120,142	80,095
Operating investment loss before changes in working capital	(2,177,763)	(4,105,911)
Proceeds from sale of investments in listed securities	3,502,787	4,151,497
Increase in:		
Investments in listed securities	(8,491,683)	(16,644,304)
Receivables	(642,135)	—
Accounts payable and accrued expenses	65,845	80,000
Net cash used in operating activities	(7,742,949)	(16,518,718)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	492,932	971,574
Dividends received	202,157	116,751
Increase in organization costs	—	(600,710)
Net cash provided by investing activities	695,089	487,615
NET DECREASE IN CASH EQUIVALENTS	(7,047,860)	(16,031,103)
CASH EQUIVALENTS AT BEGINNING OF YEAR	11,934,476	27,965,579
CASH EQUIVALENTS AT END OF YEAR	P4,886,616	P11,934,476

*The Fund was incorporated on February 22, 1999 and started commercial operations on May 5, 2000.

See accompanying Notes to Financial Statements.

PHILEQUITY PSE INDEX FUND, INC.

(Formerly Vantage PSE Index Fund, Inc.)

An Open-end Mutual Fund Company

NOTES TO FINANCIAL STATEMENTS

1. General

Philequity PSE Index Fund, Inc. (the Fund) is incorporated in the Philippines. It was registered with the Securities and Exchange Commission (SEC) on February 22, 1999 as an open-end mutual fund company, the purpose of which is, among others, to engage in the sale of its capital stock and investing such proceeds in shares of stock that comprise the Philippine Stock Exchange (PSE) Composite Index.

The registered office address of the Fund is 2103-B East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. The Fund did not employ any personnel as of December 31, 2001 and 2000.

The Fund started commercial operations on May 5, 2000.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of **the Fund** are as follows:

General

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the Philippines.

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost convention.

Adoption of New Statements of Financial Accounting Standards (SFAS)

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

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

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

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

Cash Equivalents

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.

Investments in Listed Securities

Investments in listed securities are stated based on the current market quotations of the PSE. The difference between the aggregate cost of investments in listed securities and the market value as of the end of the year is shown as unrealized appreciation or depreciation of investments in listed securities. The cost of listed securities sold is computed based on the moving average cost of all the shares of each security held at the time of sale.

Organization Costs

All costs and expenses incurred since incorporation and prior to the start of commercial operations of the Fund were deferred and are being amortized over five years from the start of commercial operations.

Net Asset Value Per Share

Net Asset Value per share is computed by dividing net assets (total assets less total liabilities) by the number of shares issued and outstanding.

Revenue Recognition

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

Income Tax

Deferred tax assets are recognized for the future tax consequences attributable to net operating loss carryover (NOLCO). Deferred tax assets are measured using the tax rates expected to apply to taxable income in the years in which NOLCO is expected to be applied. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

3. Investments in Listed Securities

This account consists of investments in the following:

	2001			2000		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
Bank of the Philippine Islands	34,100	₱2,103,261	₱1,960,750	—	₱—	₱—
San Miguel Corporation "A"	34,190	1,712,043	1,470,170	38,100	2,102,884	1,847,850
Philippine Long Distance Telephone Company	2,960	2,741,794	1,235,800	—	—	—
Metropolitan Bank and Trust Company	5,740	1,391,589	1,176,700	—	—	—
Ayala Corporation	249,600	2,292,309	1,173,120	303,600	2,792,806	2,337,720
SM Prime Holdings Corporation	175,000	1,212,255	1,102,500	—	—	—
Ayala Land, Inc.	186,800	1,529,600	905,980	220,800	1,823,142	1,192,320
San Miguel Corporation "B"	13,870	703,153	728,175	15,300	852,138	849,150
Manila Electric Company "A"	10,600	825,781	241,150	12,000	964,481	588,000
Petron Corporation	165,000	317,286	237,600	—	—	—
Jollibee Foods Corporation	17,900	275,040	219,275	20,300	320,787	196,910
JG Summit Holdings, Inc.	133,200	470,230	215,784	132,000	517,253	274,560
Manila Electric Company "B"	7,120	698,455	210,040	8,520	847,031	421,740
First Philippine Holdings Corporation	7,900	210,524	201,450	—	—	—
Aboitiz Equity Ventures, Inc.	96,000	214,446	151,680	115,000	256,888	161,000

(Forward)

	2001			2000		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
La Tondena Distillers, Inc.	5,700	₱178,632	₱133,950	6,800	₱213,105	₱207,400
Filinvest Land, Inc.	75,000	296,310	124,500	90,000	381,254	122,400
Megaworld Corporation	142,500	131,439	101,175	172,500	159,111	138,000
Metro Pacific Corporation	330,000	225,033	99,000	—	—	—
International Container Terminal Services, Inc.	40,000	128,956	84,000	48,000	154,748	37,440
Ionics, Inc.	9,500	141,349	59,850	—	—	—
Belle Corporation	84,000	157,394	47,040	84,000	157,394	57,960
Digital Telecommunications Phils., Inc.	110,000	79,148	41,800	—	—	—
Lepanto Consolidated Mining Company "B"	175,000	47,874	26,250	175,000	47,874	34,125
ABS-CBN Holdings, Inc.	800	39,775	19,200	16,600	871,594	813,400
DMCI Holdings, Inc.	8,000	8,888	1,440	8,000	8,888	2,160
Benpres Holdings Corporation	—	—	—	92,000	655,345	266,800
Filinvest Development Corporation	—	—	—	126,000	331,983	83,160
Philippine National Bank	—	—	—	4,400	444,550	167,200
Pilipino Telephone Corporation	—	—	—	2,000	3,070	1,120
		₱18,132,564	₱11,968,379		₱13,906,326	₱9,800,415

As of March 20, 2002, the market value of investments in listed securities held as of December 31, 2001 is ₱13,447,157.

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

	2001	2000
Proceeds from sale of investments in listed securities	₱3,502,787	₱4,151,497
Less cost of listed securities sold	6,323,719	6,843,889
	₱2,820,932	₱2,692,392

4. Net Assets

The Fund's net assets consist of:

	2001	2000
Capital stock - ₱1 par value		
Authorized - 100,000,000 shares		
Issued - 25,000,000 shares	₱25,000,000	₱25,000,000
Retained earnings (deficit):		
Balance at beginning of year	1,388,654	3,148,287
Net investment loss	(2,428,177)	(1,759,633)
Balance at end of year	(1,039,523)	1,388,654
Unrealized depreciation of investments in listed securities:		
Balance at beginning of year	(4,105,911)	—
Net change in unrealized depreciation of investments in listed securities	(2,058,274)	(4,105,911)
Balance at end of year	(6,164,185)	(4,105,911)
	₱17,796,292	₱22,282,743

On February 23, 1999, the Fund's Board of Directors approved the registration of the Fund's 100,000,000 shares with the SEC. The application for registration was approved on October 25, 2001.

5. Income Tax

There was no provision for income tax in 2001 and 2000 since interest income have already been subjected to final tax while dividend income is exempt from tax.

The carryforward benefits of the NOLCO were set up as deferred tax assets. A corresponding valuation allowance has been established since management believes that it is more likely than not that the carryforward benefits of NOLCO will not be realized prior to their expiration.

As of December 31, 2001, the NOLCO that can be claimed as deductions from normal taxable income are as follows:

Year Incurred	Expiry Date	Amount
2000	December 31, 2003	₱80,095
2001	December 31, 2004	239,631
		<u>₱319,726</u>

6. Change in Fund Name

On October 25, 2001, the SEC also approved the change of the Fund's corporate name from Vantage PSE Index Fund, Inc. to Philequity PSE Index Fund, Inc.