

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
**(Formerly All Asia Fixed Income Fund, Inc.)**

**FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2006 AND 2005**  
**AND FOR EACH OF THE THREE YEARS**  
**IN THE PERIOD ENDED DECEMBER 31, 2006**

## Independent Auditor's Report

To the Shareholders and Board of Directors of  
**ATR-Kim Eng Fixed Income Fund, Inc.**  
(Formerly All Asia Fixed Income Fund, Inc.)

We have audited the accompanying financial statements of ATR-Kim Eng Fixed Income Fund, Inc., which comprise the statements of assets and liabilities as of December 31, 2006 and 2005, and the related statements of income, changes in net assets attributable to shareholders and cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and the 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.

### **Auditor's 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 whether the financial statements are free from material misstatement.

Independent Auditor's Report  
To the Shareholders and Board of Directors of  
ATR-Kim Eng Fixed Income Fund, Inc.  
(Formerly All Asia Fixed Income Fund, Inc.)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATR-Kim Eng Fixed Income Fund, Inc. as of December 31, 2006 and 2005, and its financial performance and cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

Makati City  
April 4, 2007

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
(Formerly All Asia Fixed Income Fund, Inc.)

**STATEMENTS OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2006 AND 2005**

	Notes	2006	2005
<b>ASSETS</b>			
Cash and cash equivalents	4	P 3,607,318	P 1,163,245
Available-for-sale financial assets	5	7,305,209	22,987,473
Interest receivable		162,826	724,402
Dividend receivable		6,030	-
Total assets		11,081,383	24,875,120
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	6	171,826	260,288
<b>NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>P 10,909,557</b>	<b>P 24,614,832</b>

The notes on pages 1 to 10 are an integral part of these financial statements.

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
(Formerly All Asia Fixed Income Fund, Inc.)

STATEMENTS OF INCOME  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006

	Notes	2006	2005	2004
<b>INCOME</b>				
Interest	4,5	P 1,935,091	P 2,821,769	P 5,569,242
Gain on sale of available-for-sale financial assets	5	816,751	-	-
Dividend and other	5	12,640	-	15,937
Recovery of allowance for impairment		-	-	1,115,472
Total income		2,764,482	2,821,769	6,700,651
<b>EXPENSES</b>				
Management and other fees	9	433,280	557,732	554,333
Professional fees	10	321,359	357,766	441,888
Taxes and licenses		37,282	94,201	197,998
Other		32,125	55,125	-
Total expenses		824,046	1,064,824	1,194,219
NET INVESTMENT INCOME BEFORE INCOME TAX		1,940,436	1,756,945	5,506,432
<b>PROVISION FOR INCOME TAX</b>				
Final	12	385,963	581,003	1,012,032
Deferred		-	-	4,076
Total provision for income tax		385,963	581,003	1,016,108
NET INCREASE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS FROM OPERATIONS		P 1,554,473	P 1,175,942	P 4,490,324

The notes on pages 1 to 10 are an integral part of these financial statements.

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
(Formerly All Asia Fixed Income Fund, Inc.)

STATEMENTS OF CHANGES IN NET ASSETS  
ATTRIBUTABLE TO SHAREHOLDERS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006

	Notes	2006	2005	2004
<b>NET DECREASE IN NET ASSETS RESULTING FROM SHARES OF STOCK TRANSACTIONS</b>				
Issuances during the year	7	P 7,675,027	P 23,938,007	P -
Redemptions during the year	7	(22,901,014)	(35,667,928)	(44,513,583)
		(15,225,987)	(11,729,921)	(44,513,583)
<b>NET INCREASE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS FROM OPERATIONS</b>				
		1,554,473	1,175,942	4,490,324
<b>INCOME DIRECTLY RECOGNIZED IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS</b>				
Net change in fair value of available-for-sale financial assets	5	(33,761)	825,578	-
Total income recognized during the year		1,520,712	2,001,520	4,490,324
<b>NET DECREASE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS</b>				
		(13,705,275)	(9,728,401)	(40,023,259)
<b>NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS</b>				
January 1		24,614,832	34,343,233	74,366,492
December 31		P 10,909,557	P 24,614,832	P 34,343,233

The notes on pages 1 to 10 are an integral part of these financial statements.

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
(Formerly All Asia Fixed Income Fund, Inc.)

STATEMENTS OF CASH FLOWS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006

	Notes	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net investment income before income tax		P 1,940,436	P 1,756,945	P 5,506,432
Adjustments for:				
Interest income	4,5	(1,935,091)	(2,821,769)	(5,569,242)
Interest income received		2,491,393	2,313,275	5,355,387
Dividend income	5	(12,640)	-	-
Dividend income received		6,610	-	-
Net realized gain on sale of available-for-sale financial assets		(816,751)	-	-
Reversal of allowance for impairment		-	-	(1,115,472)
Operating income before changes in operating assets and liabilities		1,673,957	1,248,451	4,177,105
Changes in operating assets and liabilities				
Proceeds from disposal of available-for-sale financial assets		55,299,556	8,821,140	79,506,925
Acquisition of available-for-sale financial assets	5	(38,829,028)	(31,065,061)	(31,198,581)
(Decrease) increase in accounts payable and accrued expenses		(88,462)	(684,045)	828,397
Net cash generated from (used in) operations		18,056,023	(21,679,515)	53,313,846
Income taxes paid		(385,963)	(585,079)	(1,060,942)
Net cash from (used in) operating activities		17,670,060	(22,264,594)	55,252,904
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares of stock	7	7,675,027	23,938,007	-
Redemption of shares of stock	7	(22,901,014)	(35,667,928)	(44,513,583)
Net cash used in financing activities		(15,225,987)	(11,729,921)	(44,513,583)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,444,073</b>	<b>(33,994,515)</b>	<b>7,739,321</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>4</b>			
January 1		1,163,245	35,157,760	27,418,439
December 31		P 3,607,318	P 1,163,245	P 35,157,760

The notes on pages 1 to 10 are an integral part of these financial statements.

**ATR-KIM ENG FIXED INCOME FUND, INC.**  
(Formerly All Asia Fixed Income Fund, Inc.)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2006 AND 2005  
AND FOR EACH OF THE THREE YEARS  
IN THE PERIOD ENDED DECEMBER 31, 2006

**Note 1 - General information**

ATR-Kim Eng Fixed Income Fund, Inc. (the "Fund") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as an open-end investment company, primarily to engage in the sale of its shares of stock and investment of the proceeds thereof in fixed income securities. As an open-end investment company, the Fund stands ready at any time to redeem its outstanding shares of stock at net asset value per share (NAVPS) at the time of redemption.

The Fund is 29.37% (2005 - 99.56%) owned by AsianLife Financial Assurance Corporation (ALFA), which is 70% owned by AsianLife General Assurance Corporation.

The Fund has no employees. The Fund's investment, administration and fund accounting are managed by The Mutual Fund Management Company of the Philippines, Inc. (MFMCP) (see Note 9).

On August 21, 2004, the Fund's Board of Directors approved the Fund's filing of registration statements with the SEC for the sale of its 167,036,400 shares of stock (the "Offering"). The Fund used the proceeds from the Offering to invest and re-invest in fixed income and debt securities of Philippine and non-Philippine issuers. The Offering was approved by the SEC on August 9, 2005.

On September 20, 2004, the SEC approved the change in the Fund's corporate name from All Asia Fixed Income Fund, Inc. to ATR-Kim Eng Fixed Income Fund, Inc.

The Fund's registered office, which is also its principal place of business, is located at the 17th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

As of December 31, 2006, the Fund has 28 shareholders owning one hundred or more shares (2005 - 8).

The financial statements were approved and authorized for issuance by the Fund's Board of Directors on April 4, 2007.

## **Note 2 - Significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **Basis of preparation**

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee and Philippine Interpretations Committee Interpretations, which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Fund's accounting policies. There are no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements that are required to be disclosed herein.

### **Standards, interpretations and amendments to published standards effective beginning January 1, 2006 and onwards**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2006 or later periods. These are not relevant to the Fund, except for PFRS 7, and the amendment to PAS 1, which the Fund has not early adopted.

- PAS 19, Employee Benefits (Amendment) - Actuarial Gains and Losses, Group Plans and Disclosures (effective from January 1, 2006)
- PAS 21 (Amendment), Net Investment in Foreign Operation (effective From January 1, 2006)
- PAS 39 (Amendment), Financial Instruments: Recognition and Measurement - The Fair Value Option (effective from January 1, 2006)
- PAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from January 1, 2006)
- PAS 39 and PFRS 4 (Amendment), Financial Guarantee Contracts (effective from January 1, 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective January 1, 2006)
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from January 1, 2006)

- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from December 1, 2005)
- IFRIC 7, Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006)
- IFRIC 8, Scope of PFRS 2 (effective from May 1, 2006)
- IFRIC 9, Reassessment of Embedded Derivatives (effective from June 1, 2006)
- IFRIC 10, Interim Financial Reporting and Impairment (effective from November 1, 2006)
- PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards (effective from January 1, 2006)
- PFRS 6, Exploration for and Evaluation of Mineral Resources (effective January 1, 2006)
- PFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to PAS 1, Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1. In the case of the Fund, the capital disclosures will center mainly on how it manages its net assets attributable to shareholders. The Fund will apply PFRS 7 and the amendment to PAS 1 beginning January 1, 2007.

#### Cash and cash equivalents

Cash and cash equivalents consist of deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition.

#### Available-for-sale financial assets

The Fund classifies its investments as available-for-sale financial assets. Such classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Regular purchases and sales of investments are recognized on trade date - the date on which the Fund commits to purchase or sell the asset. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Such investments are derecognized when the rights to receive cash flows from the investments have expired or where they have been transferred and the Fund has also transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of available-for-sale financial assets are recognized in the statements of changes in net assets attributable to shareholders. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statements of income as net realized gains or losses on financial assets.

The fair values of quoted investments and other securities are based on market quotations. The quoted market price is the current bid price.

Premiums and discounts arising from the difference of acquisition cost and face amount at acquisition date are amortized using the effective interest rate method and are recognized in the statements of income.

#### Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that available-for-sale financial assets are impaired and a significant decline in the fair value of the securities below their cost. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognized in profit or loss) is recognized in the statements of income.

#### Shares of stock

Shares of stock are redeemable at the shareholders option and are classified as financial liabilities. Sales of shares of stock are accounted for based on prevailing NAVPS of the Fund. Repurchases of shares of stock are accounted for based on the prevailing NAVPS of the Fund, less any applicable redemption fee.

#### Dividend and other income

Dividend income on available-for-sale financial asset is recognized when the right to receive payment is established. Other income is recognized when earned.

#### Interest income

Interest income from cash in banks, Treasury notes and corporate fixed rate bonds, which are subject to final withholding tax, are presented at gross amounts while taxes paid or withheld are included in Provision for final tax.

#### Expenses

Expenses are recognized when incurred and are accrued daily.

#### Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused credits (excess of minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted at the dates of the statements of assets and liabilities and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The Fund reassesses at each date of the statements of assets and liabilities the need to recognize previously unrecognized deferred income tax assets.

#### Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Fund's financial statements are presented in Philippine Peso, which is the Fund's functional and presentation currency.

#### Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. The Fund has no material identifiable reportable segment other than its investing activities. It is also not necessary to present geographical segmentation as all revenues are derived from one principal place of business.

### **Note 3 - Financial risk management**

The Fund is exposed to the following risks:

a. Liquidity risk

Liquidity risk is the risk that an investment may not find a ready buyer or that it may have to be disposed at a substantial loss. The prices of longer-term bonds are more affected by changes in interest rates than shorter-term bonds.

b. Interest rate risk

Interest rate risk refers to the volatility of bond prices that result from changes in interest rates. If bonds are purchased and interest rates subsequently rise, then the prices of the purchased bonds will decline. Lower interest rates, on the other hand, adversely affect the yield on money market instruments and funds. Interest rates are affected by various factors and are difficult to predict especially over the long term.

c. Credit/Default risk

Credit or default risk refers to the “creditworthiness” of the bond issuer and its expected ability to pay interest and repay its debt. A decline in an issuer’s credit rating can cause a bond’s price to decline. A fixed income fund holding the bond could then experience a decline in its NAVPS. However, restricting investments to high-grade debt instruments can also limit choices and dampen earnings.

d. Management risk

Management risk is a type of risk associated with actively managed forms of investments. Investment decisions are made by portfolio managers who can and do make mistakes from time to time by selecting the wrong issues or misallocating the assets of the Fund. These errors in judgment can result in the Fund’s underperformance, decline in value or even loss.

Risks in investing are managed by the Fund by proper portfolio diversification. Interest rate risk is managed by spreading out the schedule of maturities such that the Fund can purchase higher yielding instruments as near-term investment matures. By diversifying its investment across different issuers, the Fund can manage credit risk, or default risk. Additionally, Republic Act No. 2629 requires that no more than 10% of the Fund’s assets may be invested in one issuer.

**Note 4 - Cash and cash equivalents**

The account at December 31 consists of:

	2006	2005
Cash in bank	P 559,638	P 1,163,245
Short-term investment	3,047,680	-
	P 3,607,318	P 1,163,245

Short-term investment in 2006 represents placement in special savings deposit with interest rate of 5.25 % and maturity of 21 days.

Interest income earned on cash and cash equivalents amounts to P271,320 (2005 - P1,809,977; 2004 - P1,254,685).

**Note 5 - Available-for-sale financial assets**

The details of the account at December 31, 2006 are shown below:

Particulars	Interest rate	Maturity date	2006
Treasury Notes - PIBD0511C22	08.500%	March 3, 2011	P 833,767
Corporate fixed rate bonds - FGen	11.550%	July 30, 2010	3,004,315
Corporate fixed rate bonds - PNB	10.000%	August 10, 2016	2,221,082
Corporate fixed rate bonds - PSBank	10.000%	January 27, 2016	1,108,940
Preferred shares			137,105
			P 7,305,209

The details of the account at December 31, 2005 are shown below:

Particulars	Interest rate	Maturity date	2005
Treasury Notes - PIBD0409H170	10.500%	August 4, 2009	P 4,135,159
Treasury Notes - PIBD0409H170	10.500%	August 4, 2009	3,413,680
Treasury Notes - PIBD0509H550	11.875%	August 12, 2009	4,303,422
Treasury Notes - PIBD0509H550	11.875%	August 12, 2009	5,379,277
Treasury Notes - PIBD1010E196	14.250%	May 25, 2010	3,155,935
Corporate fixed rate bonds	11.550%	July 30, 2010	2,600,000
			P 22,987,473

Movements in the account follow:

	2006	2005
January 1	P 22,987,473	P -
Additions during the year	38,829,028	31,065,061
Disposals during the year	(54,482,805)	(8,821,140)
Accretion/amortization of premium/discount, net	5,274	(82,026)
Fair value adjustments	(33,761)	825,578
December 31	P 7,305,209	P 22,987,473

Interest income on the above available-for-sale financial assets amounts to P1,663,771 (2005 - P 1,011,792; 2004 - P3,572,339).

Gain on disposal of Treasury notes amounts to P828,167 (2005 and 2004 - nil).

In 2006, the Fund also invested in Treasury bills which were also disposed during the year. Loss on sale of these investments amounts to P11,416.

Dividend income on investment in preferred shares in 2006 amounts to P12,640.

**Note 6 - Accounts payable and accrued expenses**

The account pertains mainly to the management, distribution and advisory fees payable to MFMCP (see Note 9), and accrued legal and audit fees.

**Note 7 - Shares of stock**

The account at December 31 consists of:

	2006		2005		2004	
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount
Common shares, P1.00 par value per share						
Authorized	200,000,000	P 200,000,000	200,000,000	P 200,000,000	200,000,000	P 200,000,000
Issued and outstanding	9,125,377	9,125,377	22,104,774	22,104,774	32,963,600	32,963,600
NET INCREASE IN NET ASSETS RESULTING FROM SHARES OF STOCK TRANSACTIONS						
Issuances during the year	6,747,556	P 7,675,027	22,207,325	P 23,938,007	-	P -
Redemptions during the year	(19,726,953)	(22,901,014)	(33,066,151)	(35,667,928)	(44,487,659)	(44,513,583)
Stock dividends	-	-	-	-	27,451,259	-
	(12,979,397)	P (15,225,987)	(10,858,826)	P (11,729,921)	17,036,400	P (44,513,583)

On August 21, 2004, the Fund's Board of Directors and shareholders approved the following: a) declaration of a 54.9% stock dividends or 27,451,259 to shareholders of record as of September 1, 2004; and b) redemption of 44,487,659 shares held by ALFA of which 26,104,289 shares were executed on August 31, 2004 and 18,383,370 shares on November 25, 2004 through the transfer of certain assets of the Fund to ALFA.

**Note 8 - Net asset value per share**

In accordance with the Fund's Prospectus, the NAVPS of the Fund is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. The result is rounded to the nearest centavo (four decimal places). Any change in the NAVPS calculation or valuation method shall be subject to the approval by the SEC.

The NAVPS of the Fund amounts to P 1.1955 as of December 31, 2006 (2005 - P1.1136; 2004 - P1.0419).

**Note 9 - Management agreement/Custodian agreement**

In 2004, the Fund entered into an investment advisory agreement with MFMCP, a related entity, to act as investment advisor in re-activating and re-launching the Fund. For its services, the Fund pays MFMCP a monthly fee of one percent (1%) (on an annualized basis) based on the average daily net assets of the Fund.

MFMCP continues to provide the administrative support and accounting services to the Fund in relation to the Fund's reportorial requirements. For services rendered, the Fund pays a monthly fee at an annual rate of 15/100 percent (0.15%) of the average daily net assets of the Fund subject to a minimum fee of one hundred thousand pesos (P100,000) annually. MFMCP will also serve as distributor for the Fund for an annual rate of up to 0.5% of the average daily net assets.

Management, administration and distribution fees charged to operations for the year amount to P428,526 (2005 - P555,936; 2004 - P554,333).

In 2005, the Fund entered into a Custodian Agreement with a foreign bank (Bank) for custodial services of the Fund's proprietary assets and/or assets in the Philippines. For the services provided, the Fund shall pay a monthly fee at the rate of 0.03% per annum for Peso and foreign currency denominated investments plus transaction fees in accordance with the Bank's Tariff Reply Form and Custodian Agreement. Total assets in custody of the Bank amounts to P821,783 (2005 - P 19,818,833). Fee charged to operations for these services amounts to P4,754 (2005 - P1,796).

**Note 10 - Professional fees**

Professional fees mainly pertain to audit and legal fees.

**Note 11 - Related party transactions**

Related party transactions consist mainly of management fees paid in accordance with the management agreement with MFMCP (see Note 9).

There are no loans to and remunerations paid to directors.

**Note 12 - Taxes**

On October 18, 2005, the Supreme Court has lifted the Temporary Restraining Order on, and approved the implementation beginning November 1, 2005 of Republic Act 9337 (the "Act"), otherwise known as "Expanded Value-Added Tax (EVAT) of 2005". Such implementation was made following the declaration by the Supreme Court on September 2, 2005 of the constitutionality of the Act.

The Act, which was passed into law in May 2005, amended certain provisions of the National Internal Revenue Code of 1997. The more salient provisions of the Act included: 1) change in normal corporate income tax from 32% to 35% effective November 1, 2005 and 30% effective January 1, 2009; and 2) change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009.

The Fund did not recognize deferred income tax (DIT) assets of P817,803 (2005 - P4,624,978; 2004 - P4,218,155) due to the Fund's limited ability to generate sufficient taxable income against which such DIT assets can be applied.

The details of these DIT assets at December 31 are as follows:

	2006	2005	2004
NOLCO	P 2,324,935	P 13,062,833	P 13,016,152
Tax rate	35%	35%	32%
	813,727	4,571,992	4,165,169
MCIT	4,076	52,986	52,986
	P 817,803	P 4,624,978	P 4,218,155

The details of the Fund's NOLCO at December 31 are as follows:

Year of incurrence	Year of expiration	2006	2005	2004
2006	2009	P 824,046	P -	P -
2005	2008	1,064,824	1,064,824	-
2004	2007	436,065	436,065	436,065
2003	2006	11,561,944	11,561,944	11,561,944
2002	2005	-	1,018,143	1,018,143
2001	2004	-	-	1,304,270
		13,886,879	14,080,976	14,320,422
Expired NOLCO		(11,561,944)	(1,018,143)	(1,304,270)
		P 2,324,935	P 13,062,833	P 13,016,152

In compliance with the Tax Reform Act of 1997, the Fund pays the higher of MCIT or the normal income tax. Any excess of the MCIT over the normal income tax is carried forward annually and credited against the normal income tax for the next three succeeding taxable years.

The details of the Fund's MCIT are as follows:

Taxable year incurred	Year of Expiry	2006	2005	2004
2004	2007	P 4,076	P 4,076	P 4,076
2003	2006	48,910	48,910	48,910
		52,986	52,986	52,986
Expired MCIT		(48,910)	-	-
		P 4,076	P 52,986	P 52,986

The reconciliation between the provision for income tax at the statutory income tax rate and the actual provision for income tax at December 31 follows:

	2006	2005	2004
Net investment income before income tax	P 1,940,436	P 1,756,945	P 5,506,432
Income tax calculated at 35% (2005 - 32.5%; 2004 - 32%)	679,153	571,007	1,762,058
NOLCO for which no DIT asset was recognized	288,416	346,068	139,541
Income subject to lower tax rate	(289,473)	(336,072)	(532,616)
Non-taxable income	(292,133)	-	(356,951)
Other	-	-	4,076
Provision for income tax	P 385,963	P 581,003	P 1,016,108