



ANNUAL REPORT





Financial Freedom for Filipinos

The Sun Life Prosperity Funds are managed and distributed by
Sun Life Asset Management Company, Inc.,
a member of the Sun Life Financial group of companies.

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Letter to Shareholders

Dear Shareholders,

The year 2002 will be remembered as a year for investing in fixed income securities. The Bond Fund's assets increased to P2.9 billion compared to the asset increases of the Balanced and Equity Fund of P74.7 million and P113.7 million, respectively. Since launch on July 1, 2002 to the end of 2002, the Dollar Advantage Fund's assets grew to US\$1.385 million.

As equity markets both locally and internationally proved particularly challenging, the Bond Fund returns of 8.38% proved to be superior to both the Balanced and Equity Funds' returns of -12.71% and -17.87%, respectively. The Dollar Advantage Fund's returns, on the other hand, returned 1.6% in US Dollar terms. The Balanced and Equity Funds were adversely affected by the performance of the Philippine equity market. The Bond Fund took advantage of higher rates in the long term fixed-income markets. The Dollar Advantage Fund preferred to invest purely in Philippine fixed-income securities mainly due to the poor prospects of the international securities markets.

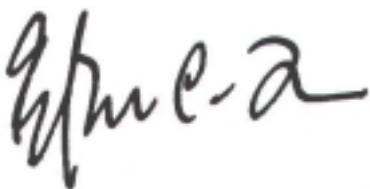
Indeed, we saw plenty of volatility in 2002 as both domestic and international financial markets grappled with risks from possible international conflicts, the effect of rising oil prices, prospects for a global economic slowdown, and other issues. Unnerving as this volatility may have been, we positively noted that the Philippine economy grew at a rate not seen in many years. The inflation rate, likewise, remained reasonable.

In 2002, we improved our fund offering and investor activities. As earlier mentioned, we launched in 2002 the Sun Life Prosperity Dollar Advantage Fund to address our investors' need for a long term dollar-denominated investment. We held our investor's forums in Manila and extended the reach to Cebu to discuss various topics. These were successful events that we expect to continue for the benefit of our investors. We encourage all of our investors to join our events we hold especially for them

You can rest assured that SLAMC is committed to managing your funds in the best possible manner to meet the objectives set out for the various funds.

As always, we appreciate your continued confidence in SLAMC

Yours truly,



ESTHER C. TAN
Chairman and President

Sun Life of Canada

Prosperity Bond Fund, Inc.

ANNUAL REPORT

Management Review & Outlook

FINANCIAL MARKETS IN REVIEW

Amidst teeming liquidity, interest rates plunged to all-time lows in 2002 notwithstanding the massive government budget deficit that reached P213 billion. The fiscal slippage was significantly in excess of the original target of P130 billion.

Accentuating the lingering economic malaise, demand for loans remained weak even as credit quality concerns continue to hound the financial sector, particularly banks. Under these bleak conditions further exacerbated by excess money supply, investors scrambled for government debt instruments and pushed down interest rates to rock-bottom levels.

The Bureau of Treasury nimbly exploited the situation, auspicious at least for the government. Faced with immense tax revenue shortfalls due to the economic slowdown and not much less tax evasion, the government turned to the international capital markets for its funding requirements. Access to cheap overseas financing eased the pressure on local interest rates as domestic borrowings declined.

To illustrate, the benchmark 91-day treasury bill (WAIR) fell sharply from 9.86% in 2001 to 5.43% in 2002. Furthermore, issues of long-term treasury notes were suspended for the most part of the year and induced a flattening of the yield curve. Supply of long term bonds in the secondary market has all but dried up.

INVESTMENT APPROACH

In essence, the investment strategy focuses mainly on the acquisition of high-yielding long-term bonds to enhance profitability and acquire duration. A realignment of the asset mix involves the expansion of the loan component of the portfolio with particular regard to credit quality. While loans are more beneficially rewarding than government securities, lending is restricted to investment-grade corporates. Finally, near-maturing bonds may be sold to lock in gains, if, and only if, alternative investment opportunities exist.

2002 PERFORMANCE REVIEW

For the year ended 31 December 2002, return on investments was 8.4% and surpassed the 91-day treasury bill benchmark of 4.4%. In terms of peer group comparison, the Bond Fund ranked second among 4 funds.

Earnings from fixed rate treasury notes accounted for the bulk of total returns. With long term bonds in short supply, medium term bonds (5-7 years) made up for most of the purchases in the secondary market. Yields on bond purchases were competitive and the bond maturity profile was somewhat smoothed by the introduction of medium tenors.

Efforts to book more loans were stymied by lackluster loan activity and credit quality woes. Three term loans with a total exposure of P205 million were booked during the year. Loans comprised 11% of total assets at yearend and all loan accounts remained active.

LONG TERM PERFORMANCE OVERVIEW

In the long-term, fixed rate treasury notes will be the main earnings growth driver. Expectations of an even higher fiscal deficit should present opportunities and augur well for bond purchases. However, any potential rise in interest rates could be tempered by abundant money supply. The ability to generate loans still depends largely on the level of economic activity even as prospects for a rebound are less than rosy.

Directors and Executive Officers

ESTHER C. TAN

Mrs. Tan, 57 years old, Filipino, is Chairperson and President of the Fund as well as of Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. She is also the Chairperson of the Board of Sun Life Asset Management Company, Inc. as well as the President of Sun Life of Canada (Philippines), Inc. She was appointed in May 1995 as Vice-President for Philippine Operations and in 1997 as Vice-President and General Manager (Philippines) of Sun Life Assurance Company of Canada. Mrs. Tan joined Sun Life in 1981 as an Agent, and rose from the ranks with exemplary performance, including being instrumental in pushing the Company's performance to an enviable rank in the industry with premium income growing dramatically by 517%, from CDN\$ 35 million in 1989 to CDN\$ 181 million in 2001, as Sales Director (1990), Sales and Marketing Director (1991), and Vice-President, Marketing for the Asia Pacific Region, and now as President. As the Regional Vice-President for Marketing, she also contributed to the Company's operations in Hong Kong and Indonesia.

Mrs. Tan graduated from the University of the Philippines in 1969 with a degree in B.S. Nutrition. She earned MBA units from the Ateneo de Manila University, and completed the Advanced Management Program for International Executives at the Harvard Business School in 1998. She has also earned the following industry designations: Chartered Life Underwriter Diploma (1987); Chartered Financial Consultant Diploma (1990); Fellow, Life Management Institute Diploma (1993, with distinction) and Associate, Customer Service Diploma (1993, with honors). She is an Executive Board member of the Life Insurance Marketing and Research Association, Phils. (LIMRA Philippines), Member of the Philippine Life Insurance Association (PLIA), Insurance Institute for Asia and the Pacific (IIAP), Makati Business Club, Management Association of the Philippines and American Management Association (AMA), and Member and Past President of the Council of Life Underwriters Association of the Philippines (LUAP).

ROLANDO A. ROBLES

Mr. Robles, 44 years old, Filipino, is a Director of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the President and a Director of Sun Life Asset Management Company, Inc. He was the Director for Group Insurance of Sun Life Assurance Company of Canada. He has had eighteen years of progressively responsible positions in agency development, sales, and marketing management in the life insurance and pre-need industries. He was, at various times, Vice-President for Group Marketing Operations, Great Pacific Life Assurance Corporation; First Vice-President for Agencies, Philippine Life; First Vice-President, Megapolis Marketing Operations, Pacific Plans, Inc.; and Regional Manager, Northwest Luzon Sales Region, Great Pacific Life Assurance Corporation.

He obtained his B.S. Physics for Teachers under the NSDB Scholarship Program in 1979, graduating Cum Laude, from the Philippine Normal College and the De La Salle University. He has earned MBA units from the De La Salle University Graduate School for Business.

RAOUL ANTONIO E. LITTAUA

Mr. Littaua, 39 years old, Filipino, is a Director of the Fund. He is also the Vice-President, Sales and Marketing, of Sun Life of Canada (Phils.), Inc. Except for a short stint as Regional Manager, National Capital Region at East Asiatic Co., Ltd in 1993, Mr. Littaua worked his way up to his current position by holding the following positions at various times in Sun Life Assurance Company of Canada since 1991: Training Manager; Manager, Training, Benefits

Sun Life, he was Training Officer and concurrent Head of Institutional Sales at Prudentiallife, Inc. He also worked as Staff Development Assistant, Sales, Marketing and International Business Operations in San Miguel Corporation, Beer Division.

Other positions held by Mr. Littaua included the following: Training Consultant for Customer Service, Bank of the Philippine Islands; Board Director and Treasurer, Philippine Society for Training and Development; Convention Committee Member, Philippine Society for Training and Development; and Consultant for Personnel Management at the Alabang Country Club, Inc. Mr. Littaua holds a degree in AB Psychology from De La Salle University and has earned Masteral Units in Psychology from the same University.

ATTY. ALELI ANGELA G. QUIRINO

Atty. Quirino, 58 years old, Filipino, is a Director of the Fund. She is a partner at Abello Concepcion Regala & Cruz Law Offices (ACCRA Law). She heads the Intellectual Property Department, and is also a member of the Corporate and Special Projects Department. She is a member of the Integrated Bar of the Philippines, the Philippine Bar Association, Director and Vice President (AIPPI) of the Intellectual Property Association of the Philippines, Director and Treasurer of the Intellectual Property Foundation, a member of the Asean Law Association, Member and Vice-Chair for Women Business Lawyers of the Inter-Pacific Bar Association, Trademark Committee Member of the Asian Patent Attorneys Association, and Executive Committee Member of the Association International pour la Protection de Propriete Industrielle. Atty. Quirino is also a member of the Board of Trustees and Corporate Secretary of Assumption College, Inc., Legal Counsel of Assumption Alumnae Association, Inc. and past National President and presently a member of the Board of Adviser of the Young Ladies Association of Charity.

Atty. Quirino obtained her A.B. B.S.E. at Assumption College, graduating Magna Cum Laude. Thereafter, she obtained her LL.B. at the Ateneo de Manila University where she graduated with honors.

FELICIANO L. MIRANDA, JR.

Mr. Miranda, 73 years old, is a Director of the Fund. He is the Chairman of the Board of PNB Forex, Inc., PNB Remittance Center, Inc., Japan-PNB Leasing & Finance Corporation, PNB (Europe) Plc, Bulawan Mining Corporation, PNB Capital Investment Corporation, PNB Remittance Center Ltd., Hongkong, PNB International Finance Corporation (HK). He is also a Director of the PNB, PNB Holdings Corporation, Beneficial-PNB Life Insurance Co., Citra Metro Manila Tollways Corporation, Amtrust Holdings, Inc., PNB International Investment Corporation and the Mutual Fund Management Company of the Philippines.

Mr. Miranda is a Bachelor of Commerce graduate, Major in Accounting from Far Eastern University. He completed all curriculum requirements and comprehensive examination for MA in Economics (Comparative Monetary Policies) from Georgetown University in Washington D.C., USA.

He started his career as technical helper at the Bureau of Mines. After becoming a CPA, he became an Accountant for Amalgamated Minerals, and later a Statistician in the Chamber of Mines. From 1953 to 1994, he worked in the Central Bank of the Philippines under the following designations: Assistant Economic Researcher for the Department of Economic Research; Bank Examiner; Managing Director of Commercial Banks, Deputy Governor, Bank Supervision and Examination; and Consultant to the Governor/Monetary Board. He was consultant to several commercial and thrift banks and investment houses in the Philippines and to the Asian Development Bank and International Monetary Fund.

CAESAR P. ALTAREJOS, JR.

Mr. Altarejos, 52 years old, Filipino, is the Treasurer of the Fund as well as Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the Director and Treasurer of the Sun Life Asset Management Company, Inc. He is the Vice-President for Finance, Sun Life of Canada (Philippines), Inc. He has had over ten (10) years of experience in managerial capacity with both multinational and local companies in all phases of financial management. He began his career at the Bank of the Philippine Islands; worked as Senior Bank Examiner for the Central Bank of the Philippines; progressed to the position of Senior Representative at Freight Conference Services, Inc.; and successfully became Senior Manager for Accounting at Rocha Y Cia, Inc.; Financial Accounting Manager at Telefunken Semiconductors Philippines, Inc.; Controller of International Flavors and Fragrances Phils, Inc, and Assistant Vice-President for Finance at Sun Life Assurance Company of Canada.

A Certified Public Accountant, Mr. Altarejos obtained his B.S.B.A. in Accounting at the University of the East in 1972, graduating Magna Cum Laude, landed in the Top 30 in the board exams, and went on to complete his Master in Business Administration at the De La Salle University.

He is currently a member of the Financial Executives Institute of the Philippines, Inc.; Tax Management Association of the Philippines; Philippine Institute of Certified Public Accountants, Marriage Encounter Foundation of the Philippines, Inc.; and the Brotherhood of Christian Businessmen & Professionals. He has also traveled extensively to the United States, Canada, Korea, Hong Kong, Thailand, China, and Indonesia

ATTY. AMOR M. DATINGUINO

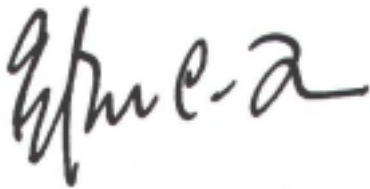
Atty. Datinguino, 33 years old, Filipino, is the Secretary of the Fund as well as Sun Life of Canada Prosperity Balanced, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc., Sun Life Prosperity Dollar Advantage Fund, Inc. and Sun Life Asset Management Company, Inc. She obtained her Bachelor of Science in Economics (Dean's List) from the School of Economics, University of the Philippines, Diliman (1991), and her Bachelor of Laws from the College of Law, University of the Philippines, Diliman (1996). She placed 9th in the 1996 Bar Exams. Before joining Sun Life, she worked as an Associate with Carpio Villaraza & Cruz Law Offices, and the Sebastian Dado Cruz & Batalla Law Offices

Statement of Management's Responsibility for Financial Statements

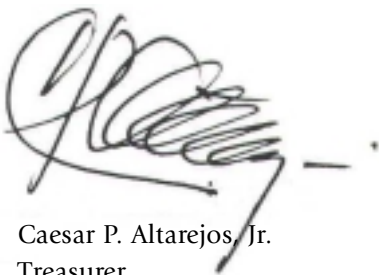
The management of Sun Life of Canada Prosperity Bond Fund, Inc. is responsible for all information and representations contained in the statements of assets and liabilities of Sun Life of Canada Prosperity Bond Fund, Inc. as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets and cash flows for each of the three years ended December 31, 2002. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration of materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal control to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal control that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the shareholders of the Company. SyCip, Gorres, Velayo & Co., the independent auditors appointed by the shareholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of the presentation upon completion of such audit, in their report to the shareholders and the Board of Directors.



Esther C. Tan
Chairperson and President



Caesar P. Altarejos, Jr.
Treasurer

Report of Independent Public Accountants

SGV & Co is a member practice of Ernst & Young Global

The Shareholders and the Board of Directors
Sun Life of Canada Prosperity Bond Fund, Inc.
10th Floor, Tower II, The Enterprise Center
6766 Ayala Avenue, Makati City

We have audited the accompanying statements of assets and liabilities of Sun Life of Canada Prosperity Bond Fund, Inc. (an open-end investment company) as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets and cash flows for each of the three years ended December 31, 2002. These financial statements are the responsibility of the Company'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 Sun Life of Canada Prosperity Bond Fund, Inc. as of December 31, 2002 and 2001, and the results of its operations, changes in net assets and its cash flows for each of the three years ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.



R. D. DIZON
Partner
CPA Certificate No. 46047
PTR No. 7612853
January 2, 2003
Makati City

January 14, 2003

Financial Statements

Statements of Assets and Liabilities

	December 31	
	2002	2001
ASSETS		
Cash	P8,637,622	P7,255,444
Investment in:		
Fixed Income Securities (Note 3)	2,848,594,608	858,324,563
Accrued Interest Receivable	56,409,231	14,163,738
Organization Costs - net of accumulated amortization of P277,138 in 2002 and P176,043 in 2001	230,862	331,957
	2,913,872,323	880,075,702
LIABILITIES		
Accounts Payable and Accrued Expenses	6,435,521	962,928
Payable to Fund Manager (Note 4)	5,508,970	500,158
	11,944,491	1,463,086
NET ASSETS (Note 5)	P 2,901,927,832	P 878,612,616

See accompanying Notes to Financial Statements.

Statements of Operations

	Years Ended December 31					
	2002		2001		2000*	
INVESTMENT INCOME						
Interest - net	P	244,381,557	P	75,170,892	P	7,389,110
Others		93,750		-		62,236
		244,475,307		75,170,892		7,451,346
EXPENSES						
Management fee (Note 4)		31,820,943		8,153,198		932,914
Taxes and licenses		15,309,990		2,901,152		325,444
Custodian and transfer agent fees		291,706		135,567		59,446
Printing and supplies		122,100		120,964		146,442
Amortization of organization costs		101,095		101,095		74,948
Directors fees		85,000		40,000		35,000
Others		263,360		44,439		15,743
		47,994,194		11,496,415		1,589,937
INVESTMENT INCOME BEFORE INCOME TAX		196,481,113		63,674,477		5,861,409
PROVISION FOR INCOME TAX (Note 7)		45,999,656		13,382,041		1,439,787
NET INVESTMENT INCOME	P	150,481,457	P	50,292,436	P	4,421,622

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Changes in Net Assets

	Years Ended December 31		
	2002	2001	2000*
FROM OPERATIONS			
Net investment income	P 150,481,457	P 50,292,436	P 4,421,622
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from issuance of capital stock - 1,625,013,070 shares in 2002, 744,590,470 shares in 2001 and 80,392,412 shares in 2000	2,003,161,184	837,515,990	81,727,137
Payments made on redemption of capital stock - 108,211,952 shares in 2002, 80,251,135 shares in 2001 and 3,709,643 shares in 2000	(130,327,425)	(91,448,526)	(3,896,043)
Net increase in net assets from capital stock transactions	1,872,833,759	746,067,464	77,831,094
NET INCREASE IN NET ASSETS	2,023,315,216	796,359,900	82,252,716
NET ASSETS AT BEGINNING OF YEAR	878,612,616	82,252,716	-
NET ASSETS AT END OF YEAR (Note 5)	P 2,901,927,832	P 878,612,616	P 82,252,716

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December		
	2002	2001	2000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before income tax	P 196,481,113	P 63,674,477	P 5,861,409
Adjustments for:			
Amortization of organization costs	101,095	101,095	74,948
Operating income before working capital changes	196,582,208	63,775,572	5,936,357
Changes in operating assets and liabilities:			
Purchases of fixed income securities	(1,990,270,045)	(778,670,649)	(79,653,914)
Increase in:			
Accrued interest receivable	(42,245,493)	(12,380,259)	(1,783,479)
Organization costs	-	-	(508,000)
Increase in:			
Accounts payable and accrued expenses	5,472,593	456,174	506,754
Payable to fund manager	5,008,812	372,791	127,367
Cash used in operations	(1,825,451,925)	(726,446,371)	(75,374,915)
Income tax	(45,999,656)	(13,382,041)	(1,439,787)
Cash used in operating activities	(1,871,451,581)	(739,828,412)	(76,814,702)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	2,003,161,184	837,515,990	81,727,137
Payments made on redemption of capital stock	(130,327,425)	(91,448,526)	(3,896,043)
Net cash provided by financing activities	1,872,833,759	746,067,464	77,831,094
NET INCREASE IN CASH	1,382,178	6,239,052	1,016,392
CASH AT BEGINNING OF YEAR	7,255,444	1,016,392	-
CASH AT END OF YEAR	P 8,637,622	P 7,255,444	P 1,016,392

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Organization and Status of Operations

Sun Life of Canada Prosperity Bond Fund, Inc. is a registered open-end investment company under the Investment Company Act (R.A. 2629) and the Revised Securities Act (B.P. 178). It is engaged in the sale of its shares of stock and investment of the proceeds in fixed income securities. The Company is designed to provide long-term interest income and principal preservation. As an open-end investment 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 office address of the Company is located at 10th Floor, Tower II, The Enterprise Center, 6766 Ayala Avenue, Makati City.

Sun Life Asset Management Company, Inc. (SLAMC), a wholly-owned subsidiary of Sun Life of Canada (Philippines), Inc., acts as the Company's fund manager. SLAMC serves as the manager, adviser, administrator, distributor and transfer agent of the Company and provides management, distribution and all required operational services. The aggregate annual fees of SLAMC for these services amount to one and a half percent (1.5%) of the daily average net assets managed.

The Company was registered with the Securities and Exchange Commission (SEC) on January 19, 2000 and started commercial operations on May 1, 2000.

2. Summary of Significant Accounting Policies

Basis of Financial Statements

The Company's financial statements have been prepared under the historical cost convention method and in accordance with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards

The Company adopted Statements of Financial Accounting Standards (SFAS) 1 (revised 2000), Presentation of Financial Statements and SFAS 22 (revised 2000), Cash Flow Statements and SFAS 24/IAS 24, Related Party Disclosures, effective January 1, 2002. Following new presentation rules under SFAS 1 (revised 2000) and SFAS 22 (revised 2000), prior year financial statements were restated to follow the format prescribed by these new standards. Changes made pertain principally to presentation of statements of income and cash flows, inclusion of statements of changes in net assets and additional disclosures as required by the new standards.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of financial statements. Actual results could differ from such estimates.

Investment in Fixed Income Securities

Investments in commercial papers and government securities are carried at cost, adjusted for the amortization of premiums or accretion of discounts on the acquisition of the securities. Interest income on these investments is recognized on a time proportion basis that takes into account the effective yield on the assets.

Net Asset Value (NAV) Per Share

Net asset value per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and outstanding at report date.

Sales and Redemption of Shares of Stock

Sales of fund shares are recorded by crediting capital stock at par value and additional paid-in-capital for the amount received in excess of the par value; redemptions are recorded by debiting those accounts.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and the tax effect of net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be realized. A valuation allowance is provided for the portion of deferred tax assets which is not expected to be realized in the future. Any change in the valuation allowance on deferred tax asset is included in the computation of provision for deferred income tax for the year.

Organization Costs

Organization costs and other expenses incurred prior to the Company's operations are capitalized and are amortized on a straight-line basis over a period of five (5) years.

SFAS 38/IAS 38 (as revised), "Intangible Assets", prescribes accounting and disclosure for intangible assets that are not specifically dealt with in other SFAS and expenditures on advertising, training, start-up and research and development activities. The Company will adopt the provisions of SFAS 38/IAS 38 which will become effective for financial statements covering periods beginning on or after January 1, 2003. On such date, the remaining balance of preoperating expenses will be adjusted retroactively to retained earnings and comparative financial statements will be restated.

3. *Investments in Fixed Income Securities*

Investments in Fixed Income Securities generally represent short-term and long-term money market placements, special savings accounts and investments in government securities. Details are as follows:

	2002	2001
LONG-TERM	2,545,549,355	680,474,563
SPECIAL SAVINGS	303,045,253	177,850,000
	<u>2,848,594,608</u>	<u>858,324,563</u>

4. *Related Party Transactions*

Transactions with related parties include the following:

a. Payable to Fund Manager

This account represents the liability to SLAMC arising from management and service fees as described in Note 1.

On October 10, 2001, the Company entered into an agreement with SLAMC, wherein SLAMC has agreed to reduce its management fee or absorb Company's expenses above a specified limit. Any reductions or absorptions made to the Company by SLAMC are subject to recovery, provided the Company is able to effect such reimbursement and remain in compliance with the applicable expense limitations.

b. As of December 31, 2002, Sun Life of Canada (Philippines), Inc. and Sun Life Financial Plans, Inc. invested in the Company a total of 50.0 million shares and 77.7 million shares, respectively.

5. Net Assets

The Company's net assets consist of:

	2002	2001
Capital stock - P 1 par value		
Authorized - 2,800,000,000 shares in 2002 and 900,000,000 shares in 2001		
Issued and outstanding -		
2,257,823,222 shares in 2002 and 741,022,104 shares in 2001	P2,257,823,222	P741,022,104
Additional paid-in capital	438,909,095	82,876,454
Retained earnings (see Note 6)	205,195,515	54,714,058
	P2,901,927,832	P878,612,616
NAV per share	P 1.2853	P 1.1857

On May 29, 2002, the Company's Board of Directors (BOD) approved the increase in authorized capital stock from 900,000,000 shares to 2,500,000,000 shares. On July 5, 2002, the SEC approved the said increase in authorized capital stock.

On November 5, 2002, the BOD, amending the Articles of Incorporation, approved the second increase in authorized capital stock from 2,500,000,000 shares to 2,800,000,000 shares. On December 19, 2002, SEC approved the said increase in authorized capital stock.

6. Retained Earnings

This account consists of:

	2002	2001
Retained earnings at beginning of year	P 54,714,058	P 4,421,622
Net investment income	150,481,457	50,292,436
	P205,195,515	P54,714,058

7. Income Taxes

The Company's net deferred income tax asset is attributable to the following:

	2002	2001
NOLCO	P 7,079,127	P 833,168
Less valuation allowance	7,079,127	833,168
	P -	P -

The current provision for income tax consists of the final tax on interest income. As mentioned in Note 2, a full valuation is provided where a tax benefit is not likely to be realized in the future since the Company's income is already subjected to final tax.

Details of the Company's NOLCO are as follows:

Year Incurred	NOLCO	Tax Effect	Expiry Date
2000 ber 31, 2003		P 1,287,436	P 411,980 Decem-
2001 2004		1,316,213	421,188 December 31,
2002 2005		19,518,624	6,245,960 December 31,
	P22,122,272	P 7,079,127	

A reconciliation of statutory income tax rate to effective income tax rate follows:

	2002	2001
Statutory income tax rate	32.00%	32.00%
Tax effects of:		
Valuation allowance on DIT	3.18	0.02
Tax-paid income	(.02)	-
Interest income subjected to final tax	(11.75)	(11.00)
Effective income tax rate	23.41%	21.02%

Sun Life of Canada

Prosperity Balanced Fund, Inc.

ANNUAL REPORT

Management Review & Outlook

FINANCIAL MARKETS IN REVIEW

Accentuating the lingering economic malaise, demand for loans remained weak even as credit quality concerns continued to hound the financial sector, particularly banks. Under these bleak conditions, further exacerbated by excess money supply, investors scrambled for government debt instruments and pushed down interest rates to rock-bottom levels.

The Bureau of Treasury nimbly exploited the situation, turning to the international capital markets for its funding requirements. Access to cheap overseas financing eased the pressure on local interest rates as domestic borrowings declined.

Benchmark 91-day treasury bill (WAIR) fell sharply from 9.86% in 2001 to 5.43% in 2002. Issues of long-term treasury notes were suspended for the most part of the year and induced a flattening of the yield curve. Supply of long term bonds in the secondary market has all but dried up.

In the equity market, a euphoric start to the year 2002 ended in bitter disappointment.

Global rate cuts, normalized risk appetite and cyclical improvements in the country helped pushed the Phisix to a year's high of 1,480 in February. It did not, however, take long for the country's structural problems to rear its ugly head. Heightened incidences of kidnappings and a deteriorating peace and order situation began eroding investors' confidence in the market. A burgeoning budget deficit only served to dampen investors' sentiment further.

Towards the end of the year, market liquidity practically disappeared as terrorists attacks in Indonesia, and in Southern Philippines, plus the Supreme Court's decision on Meralco's overcharging case highlighted the risks associated in investing in Asian emerging markets. Foreign funds shelved plans of reinvesting in the country and used every market uptick as an opportunity to sell. The Phisix, thus, ended the year at 1,018, down 13% year-on-year (yoy).

INVESTMENT APPROACH

Skeptical of the rally that began in January, we took a short position in the equity market, posting modest gains. Attempts to reenter the equity market, however, were restrained by the lack of viable investments and the near absence of fund inflows.

We, likewise, took profits on a couple of fixed-rate treasury notes to alleviate the constraints placed on the fund's cash position. Subsequent purchases were placed on hold in anticipation of the eventual rise in interest rates given the burgeoning budget deficit.

2002 PERFORMANCE REVIEW

The Fund underperformed the benchmark by 7.6% by the end of 2002. This was due to the Fund's heavy exposure to PLDT (down 35% yoy) and the Lopez group of companies whose share prices dropped by more than 50% yoy. Adding to the Fund's negative performance was its underexposure to San Miguel shares, whose share price rose 39.5% and 25.7% for A and B shares, respectively.

On a per sector basis, the fund has an overweight position in telecommunications while maintaining underweight

There was little activity on the fixed income side as cash levels were too low to participate in auctions and rates were unattractive. The fixed income portion of the portfolio, thus, ended the year with a yield of 12.5% net.

LONG-TERM PERFORMANCE OVERVIEW

In the long-term, fixed rate treasury notes will be the main earnings growth driver. Expectations of an even higher fiscal deficit should present opportunities and augur well for bond purchases. However, any potential rise in interest rates could be tempered by abundant money supply. The ability to generate loans still depends largely on the level of economic activity even as prospects for a rebound are less than rosy.

The outlook in the equity market for 2003 remains filled with uncertainties. Unless the current administration implements its much-touted reforms and keeps the budget deficit in check, there would be little incentive for foreign investors to give the country a second look. In the absence of positive macro developments, our positions with regards to stock-specific issues will be the key driver of the fund's equity performance.

Directors and Executive Officers

ESTHER C. TAN

Mrs. Tan, 57 years old, Filipino, is Chairperson and President of the Fund as well as of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. She is also the Chairperson of the Board of Sun Life Asset Management Company, Inc. as well as the President of Sun Life of Canada (Philippines), Inc. She was appointed in May 1995 as Vice-President for Philippine Operations and in 1997 as Vice-President and General Manager (Philippines) of Sun Life Assurance Company of Canada. Mrs. Tan joined Sun Life in 1981 as an Agent, and rose from the ranks with exemplary performance, including being instrumental in pushing the Company's performance to an enviable rank in the industry with premium income growing dramatically by 517%, from CDN\$ 35 Million in 1989 to CDN\$ 181 Million in 2001, as Sales Director (1990), Sales and Marketing Director (1991), and Vice-President, Marketing for the Asia Pacific Region, and now as President. As the Regional Vice-President for Marketing, she also contributed to the Company's operations in Hong Kong and Indonesia.

Mrs. Tan graduated from the University of the Philippines in 1969 with a degree in B.S. Nutrition. She earned MBA units from the Ateneo de Manila University, and completed the Advanced Management Program for International Executives at the Harvard Business School in 1998. She has also earned the following industry designations: Chartered Life Underwriter Diploma (1987); Chartered Financial Consultant Diploma (1990); Fellow, Life Management Institute Diploma (1993, with distinction) and Associate, Customer Service Diploma (1993, with honors). She is an Executive Board member of the Life Insurance Marketing and Research Association, Phils. (LIMRA Philippines), Member of the Philippine Life Insurance Association (PLIA), Insurance Institute for Asia and the Pacific (IIAP), Makati Business Club, Management Association of the Philippines and American Management Association (AMA), and Member and Past President of the Council of Life Underwriters Association of the Philippines (LUAP).

ROLANDO A. ROBLES

Mr. Robles, 44 years old, Filipino, is a Director of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the President and a Director of Sun Life Asset Management Company, Inc. He was the Director for Group Insurance of Sun Life Assurance Company of Canada. He has had eighteen years of

industries. He was, at various times, Vice-President for Group Marketing Operations, Great Pacific Life Assurance Corporation; First Vice-President for Agencies, Philippine Life; First Vice-President, Megapolis Marketing Operations, Pacific Plans, Inc.; and Regional Manager, Northwest Luzon Sales Region, Great Pacific Life Assurance Corporation.

He obtained his B.S. Physics for Teachers under the NSDB Scholarship Program in 1979, graduating Cum Laude, from the Philippine Normal College and the De La Salle University. He has earned MBA units from the De La Salle University Graduate School for Business.

RAFAEL M. ALUNAN III

Mr. Alunan, 54 years old, Filipino, is a Director of the Fund. He has had extensive experience in government service as well as in the private sector. He served in the Cabinets of Pres. Fidel V. Ramos and Pres. Corazon C. Aquino, as Secretary of the Interior and Local Government and Secretary of Tourism, respectively. He has been President of the Manila Hotel, Director of Coca-Cola Amatil (Australia), President of General Reliance Corporation, and consultant on Government Relations for San Miguel Corporation, among others.

He is now President of Maynilad Water Services, Inc., and of Kybernan Group, Inc., consultant of Benpres Holdings Corporation, and Director of First Philippine Infrastructure Development Corporation and of Manila North Tollways Corporation. He is a member of the Board of Trustees of De La Salle University and Galing Pook Foundation; and an Adjunct Professor of the University of the Philippines in Los Baños. Mr. Alunan holds the rank of Colonel in the Philippine Army (Reserves), Armed Forces of the Philippines, and is currently the Deputy Division Commander of the 131st "Rainbow" Division.

He obtained his double degree in Business Administration and History and Political Science from the De La Salle University; attended the master in Business Administration-Senior Executive Program at the Ateneo de Manila University; and obtained a Master's degree in Public Administration from Harvard University, John F. Kennedy School of Government.

DR. ERLINDA S. ECHANIS

Dr. Echanis, 55 years old, Filipino, is a Director of the Fund. Dr. Echanis is a distinguished member of the academe, having taught in the University of the Philippines, and written a score of published and unpublished articles on business and management. She is a Certified Public Accountant, professor at the College of Business Administration ("CBA"), University of the Philippines in Diliman. She is the current dean of the CBA, UP. She obtained her Bachelor of Science in Business Administration (cum laude), Master of Business Administration, and Doctor of Business Administration from the University of the Philippines. Her involvement in the private sector includes her being consultant for the Philippine National Oil Company, the Home Development Mutual Fund, Metrobank, Bangko Sentral ng Pilipinas, the Department of Budget and Management, the Board of Investments and the Asian Development Bank, among others.

ATTY. NILO B. PEÑA

Atty Peña, 65 years old, Filipino, is a Director of the Fund. He is Senior Partner at one of the top law firms in the country, the Quasha, Ancheta, Peña, & Nolasco Law Firm. He obtained his law degree from the University of the Philippines. He is a member of the Board of Trustees of St. Luke's Medical Center, Inc.; Chairman, Board of Trustees of Standard Chartered Bank Employees' Retirement Fund; Trustee-Corporate Secretary of the Philippine-Australian Business Council and director or officer of several corporations engaged in various business activities.

CAESAR P. ALTAREJOS, JR.

Mr. Altarejos, 52 years old, Filipino, is the Treasurer of the Fund as well as Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Fund, Inc. He is also the Director and Treasurer of the Sun Life Asset Management Company, Inc. He is the Vice-President for Finance, Sun Life of Canada (Philippines), Inc. He has had over ten (10) years of experience in managerial capacity with both multinational and local companies in all phases of financial management. He began his career at the Bank of the Philippine Islands; worked as Senior Bank Examiner for the Central Bank of the Philippines; progressed to the position of Senior Representative at Freight Conference Services, Inc.; and successfully became Senior Manager for Accounting at Rocha Y Cia, Inc.; Financial Accounting Manager at Telefunken Semiconductors Philippines, Inc.; Controller of International Flavors and Fragrances Phils, Inc, and Assistant Vice-President for Finance at Sun Life Assurance Company of Canada.

A Certified Public Accountant, Mr. Altarejos obtained his B.S.B.A. in Accounting at the University of the East in 1972, graduating Magna Cum Laude, landed in the Top 30 in the board exams, and went on to complete his Master in Business Administration at the De La Salle University.

He is currently a member of the Financial Executives Institute of the Philippines, Inc.; Tax Management Association of the Philippines; Philippine Institute of Certified Public Accountants, Marriage Encounter Foundation of the Philippines, Inc.; and the Brotherhood of Christian Businessmen & Professionals. He has also traveled extensively to the United States, Canada, Korea, Hong Kong, Thailand, China, and Indonesia

ATTY. AMOR M. DATINGUINO

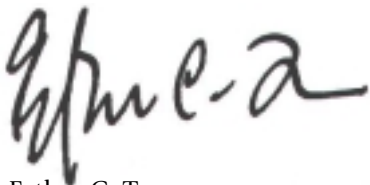
Atty. Datinguino, 33 years old, Filipino, is the Secretary of the Fund as well as Sun Life of Canada Prosperity Bond, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc., Sun Life Prosperity Dollar Advantage Fund, Inc. and Sun Life Asset Management Company, Inc. She obtained her Bachelor of Science in Economics (Dean's List) from the School of Economics, University of the Philippines, Diliman (1991), and her Bachelor of Laws from the College of Law, University of the Philippines, Diliman (1996). She placed 9th in the 1996 Bar Exams. Before joining Sun Life, she worked as an Associate with Carpio Villaraza & Cruz Law Offices, and the Sebastian Dado Cruz & Batalla Law Offices.

Statement of Management's Responsibility for Financial Statements

The management of Sun Life of Canada Prosperity Balanced Fund, Inc. is responsible for all information and representations contained in the statements of assets and liabilities of Sun Life of Canada Prosperity Balanced Fund, Inc. as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets, and cash flows for each of the three years ended December 31, 2002. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration of materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal control to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal control that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the shareholders of the Company. SyCip, Gorres, Velayo & Co., the independent auditors appointed by the shareholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of the presentation upon completion of such audit, in their report to the shareholders and the Board of Directors.



Esther C. Tan
Chairperson and President



Caesar P. Altarejos, Jr.
Treasurer

Report of Independent Public Accountants

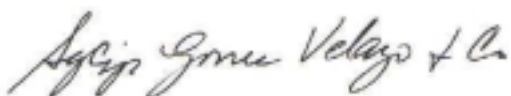
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The Shareholders and the Board of Directors
Sun Life of Canada Prosperity Balanced Fund, Inc.
10th Floor, Tower II, The Enterprise Center
6766 Ayala Avenue, Makati City

We have audited the accompanying statements of assets and liabilities of Sun Life of Canada Prosperity Balanced Fund, Inc. (an open-end investment company) as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets and cash flows for each of the three years ended December 31, 2002. These financial statements are the responsibility of the Company'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 Sun Life of Canada Prosperity Balanced Fund, Inc. as of December 31, 2002 and 2001, and the results of its operations, changes in net assets and its cash flows for each of the years ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.



R. D. DIZON
Partner
CPA Certificate No. 46047
PTR No.7612853
January 2, 2003
Makati City

January 14, 2003

Financial Statements

Statements of Assets and Liabilities

	December 31	
	2002	2001
ASSETS		
Cash	P 593,711	P 191,304
Investments in:		
Fixed income securities	36,716,029	48,925,475
Listed securities (Note 3)	36,410,188	29,228,433
Accrued Interest Receivable	1,299,342	1,577,862
Organization Costs - net of accumulated amortization of P277,989 in 2002 and P176,615 in 2001	230,011	331,385
	75,249,281	80,254,459
LIABILITIES		
Accounts Payable and Accrued Expenses	324,744	66,092
Payable to Fund Manager (Note 4)	178,002	135,632
	502,746	201,724
NET ASSETS (Note 5)	P 74,746,535	P 80,052,735

See accompanying Notes to Financial Statements.

Statements of Operations

	Years Ended December 31					
	2002		2001		2000*	
INVESTMENT INCOME						
Interest - net	P	5,739,230	P	6,959,021	P	4,820,941
Net realized gain (loss) on sale of investments in listed securities (Note 3)		(323,865)		882,843		370,786
Dividends		785,796		-		27,765
		6,802,561		8,252,726		5,437,852
EXPENSES						
Management fee (Note 4)		1,879,029		1,791,251		1,337,681
Taxes and licenses		175,641		120,474		332,913
Custodian and transfer agent fees		148,714		322,782		65,587
Printing and supplies		109,559		76,853		151,427
Amortization of organization costs		101,374		101,374		75,241
Directors fees		90,000		45,000		25,000
Others		34,916		28,710		13,500
		2,539,233		2,486,444		2,001,349
INVESTMENT INCOME BEFORE INCOME TAX		4,263,328		5,766,282		3,436,503
PROVISION FOR INCOME TAX (Note 7)		689,196		1,116,367		944,462
NET INVESTMENT INCOME	P	3,574,132	P	4,649,915	P	2,492,041
CHANGES IN UNREALIZED DEPRECIATION OF INVESTMENTS						
End of year	P	24,330,618	P	8,926,721	P	2,811,853
Less beginning of year		8,926,721		2,811,853		-
UNREALIZED DEPRECIATION OF INVESTMENTS	P	15,403,897	P	6,114,868	P	2,811,853

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Changes in Net Assets

	Years Ended December 31		
	2002	2001	2000*
FROM OPERATIONS			
Net investment income	P 3,574,132	P 4,649,915	P 2,492,041
Unrealized depreciation of investments	(15,403,897)	(6,114,868)	(2,811,853)
Net decrease in net assets from operations	(11,829,765)	(1,464,953)	(319,812)
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from issuance of capital stock - 16,284,973 shares in 2002, 10,185,401 shares in 2001 and 81,351,407 shares in 2000	16,997,427	10,375,507	30,405,381
Payments made on redemption of capital stock - 10,501,994 shares in 2002, 5,643,178 shares in 2001 and 3,589,935 shares in 2000	(10,473,862)	(5,589,601)	(3,353,787)
Net increase in net assets from capital stock transactions	6,523,565	4,785,906	27,051,594
NET INCREASE (DECREASE) IN NET ASSETS	(5,306,200)	3,320,953	26,731,782
NET ASSETS AT BEGINNING OF YEAR	80,052,735	76,731,782	50,000,000
NET ASSETS AT END OF YEAR (Note 5)	P 74,746,535	P 80,052,735	P 76,731,782

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31					
	2002		2001		2000*	
CASH FLOWS FROM OPERATING ACTIVITIES						
Investment income before income tax	P	4,263,328	P	5,766,282	P	3,436,503
Adjustments for:						
Amortization of organization costs		101,374		101,374		75,241
Loss (gain) on sale of investments in listed securities		323,865		(882,843)		(370,786)
Operating income before working capital changes		4,688,567		4,984,813		3,140,958
Changes in operating assets and liabilities:						
Net disposals (purchases) of:						
Listed securities		(22,909,517)		(3,016,830)		(33,884,695)
Fixed income securities		12,209,446		(5,842,475)		6,917,000
Decrease (Increase) in:						
Accrued interest receivable		278,520		(344,786)		(1,233,076)
Organization costs		-		-		(8,000)
Increase (decrease) in:						
Accounts payable and accrued expenses		258,652		7,871		(441,779)
Payable to fund manager		42,370		(27,211)		162,843
Cash used in operations		(5,431,962)		(4,238,618)		(25,346,749)
Income tax		(689,196)		(1,116,367)		(944,462)
Net cash used in operating activities		(6,121,158)		(5,354,985)		(26,291,211)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of capital stock		16,997,427		10,375,507		30,405,381
Payments made on redemption of capital stock		(10,473,862)		(5,589,601)		(3,353,787)
Net cash provided by financing activities		6,523,565		4,785,906		27,051,594
NET INCREASE (DECREASE) IN CASH		402,407		(569,079)		760,383
CASH AT BEGINNING OF YEAR		191,304		760,383		-
CASH AT END OF YEAR	P	593,711	P	191,304	P	760,383

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. *Organization and Status of Operations*

Sun Life of Canada Prosperity Balanced Fund, Inc. is a registered open-end investment company under the Investment Company Act (R.A. 2629) and the Revised Securities Act (B.P. 178). It is engaged in the sale of its shares of stock, the proceeds of which are invested in a mix of high-quality debt and equity securities. The Company is designed to provide total returns consisting of current income and capital growth through investment in a diversified portfolio of debts (bonds) and equity (stocks) securities from both domestic and foreign issues. As an open-end investment company, its outstanding shares of stocks are redeemable anytime based on the net asset value per share at the time of redemption. The registered office address of the Company is located at 10th Floor, Tower II, The Enterprise Center, 6766 Ayala Avenue, Makati City.

Sun Life Asset Management Company, Inc. (SLAMC), a wholly-owned subsidiary of Sun Life of Canada (Philippines), Inc., acts as the Company's fund manager. SLAMC serves as the manager, adviser, administrator, distributor and transfer agent of the Company and provides management, distribution and all required operational services. The aggregate annual fees of SLAMC for these services amount to two percent (2%) of the daily average net assets managed.

The Company started commercial operations on May 1, 2000.

2. *Summary of Significant Accounting Policies*

Basis of Financial Statements

The Company's financial statements have been prepared under the historical cost convention method and in accordance with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards

The Company adopted Statements of Financial Accounting Standards (SFAS) 1 (revised 2000), Presentation of Financial Statements and SFAS 22 (revised 2000), Cash Flow Statements and SFAS 24/IAS 24, Related Party Disclosures, effective January 1, 2002. Following new presentation rules under SFAS 1 (revised 2000) and SFAS 22 (revised 2000), prior year financial statements were restated to follow the format prescribed by these new standards. Changes made pertain principally to presentation of statements of income and cash flows, inclusion of statements of changes in net assets and additional disclosures as required by the new standards.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of financial statements. Actual results could differ from such estimates.

Valuation of Securities

For purposes of obtaining net asset value, investments in listed securities which are classified as available-for-sale securities, are valued using the latest closing price at the end of year for securities with trading transactions at the stock exchange.

The difference between the aggregate cost of investments in listed securities at year-end and the carrying value as defined in the preceding paragraph, is presented as unrealized depreciation of investments shown in the Statements of Changes in Net Assets. The difference between the selling price and the cost of investments sold, which is computed based on the average cost of all the shares of each security held at the time of sale, is shown as net realized gain (loss) on sale of investments in listed securities shown in the Statements of Operations.

Investments in Fixed Income Securities

Investments in commercial papers and government securities are carried at cost, adjusted for the amortization of premiums or accretion of discounts on the acquisition of the securities. Interest income on these investments is recognized on a time proportion basis that takes into account the effective yield on the assets.

Net Asset Value (NAV) Per Share

Net asset value per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and outstanding at report date.

Sales and Redemption of Shares of Stock

Sales of fund shares are recorded by crediting capital stock at par value and additional paid-in-capital for the amount received in excess of the par value; redemptions are recorded by debiting those accounts.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and the tax effect of net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be realized. A valuation allowance is provided for the portion of deferred tax assets, if any, which is not expected to be realized in the future. Any change in the valuation allowance on deferred tax asset is included in the computation of provision for deferred income tax for the year.

Organization Costs

Organization costs and other expenses incurred prior to the Company's operations are capitalized and are amortized on a straight-line basis over a period of five (5) years.

SFAS 38/IAS 38 (as revised), "Intangible Assets", prescribes accounting and disclosure for intangible assets that are not specifically dealt with in other SFAS and expenditures on advertising, training, start-up and research and development activities. The Company will adopt the provisions of SFAS 38/IAS 38 which will become effective for financial statements covering periods beginning on or after January 1, 2003. On such date, the remaining balance of preoperating expenses will be adjusted retroactively to retained earnings and comparative financial statements will be restated.

3 . Investments in Listed Securities

This account consists of investments in:

	Number of shares held		Cost		Market Value
Common Stocks:					
Ayala Corporation	629,600	P	4,292,091	P	2,707,280
Aboitiz Equity Ventures, Inc.	289,000		565,465		653,140
Ayala Land, Inc.	549,000		2,880,419		2,497,950
Benpres Holdings Corp.	240,000		1,438,509		26,400
Bank of the Phil. Islands	176,700		9,790,386		5,919,450
Filinvest Land, Inc.	450,000		505,423		373,500
First Phil. Holdings Corp.	135,120		3,169,441		1,094,472
Globe Telecom Inc.	6,990		4,065,447		3,128,025
Ionics Circuits, Inc.	275,000		2,017,714		264,000
Jollibee Foods Corp.	118,350		1,350,472		2,159,887
La Tondena Distillers, Inc.	9,400		261,500		329,000
Metropolitan Bank and Trust Company	31,130		1,390,720		980,595
Manila Electric Company "B"	88,820		4,383,908		781,616
Petron Corporation	590,000		1,202,067		920,400
San Miguel Corporation "B"	54,510		2,636,839		3,597,660
SM Prime Holdings, Inc.	733,000		4,065,471		3,481,750
PLDT Co.	19,940		11,580,975		5,383,800
Union Cement Corporation	379,000		341,406		170,550
Universal Robina Corporation	103,400		563,858		284,350
Warrants:					
ABS-CBN, Phils. Depository Receipt	101,930		4,238,695		1,656,363
	4,980,890	P	60,740,806	P	36,410,188

As of January 14, 2003, the market value of the Company's investments in listed securities held as of December 31, 2002 amounted to P39.04 million.

Net realized gain (loss) on sale of investments in listed securities consists of:

		2002		2001
Proceeds from sales	P	8,870,259	P	2,650,578
Cost of listed securities sold		(9,194,124)		(1,767,735)
	(P	323,865)	P	882,843

4. *Related Party Transactions*

Transactions with a related party pertain to the liability to SLAMC arising from management and service fees as described in Note 1.

5. *Net Assets*

The Company's net assets consist of:

	2002		2001	
Capital stock - P 1 par value				
Authorized - 200,000,000 shares				
Issued and outstanding -				
88,086,674 shares in 2002				
and 82,303,695 shares in 2001	P	88,086,674	P	82,303,695
Additional paid-in capital		274,391		(466,195)
Retained earnings (see Note 6)		10,716,088		7,141,956
Unrealized depreciation of investments		(24,330,618)		(8,926,721)
	P	74,746,535	P	80,052,735
NAV per share	P	0.8486	P	0.9727

6. *Retained Earnings*

This account consists of:

	2002		2001	
Retained earnings at beginning of year	P	7,141,956	P	2,492,041
Net investment income		3,574,132		4,649,915
	P	10,716,088	P	7,141,956

7. *Income Taxes*

The Company's net deferred income tax asset is attributable to the following:

	2002		2001	
NOLCO	P	1,575,922	P	1,500,969
Less valuation allowance		1,575,922		1,500,969
	P	-	P	-

The current provision for income tax consists of the final tax on interest income. As mentioned in Note 2, a full valuation is provided where a tax benefit is not likely to be realized in the future since the Company's income is already subjected to final tax.

Details of the Company's NOLCO are as follows:

Year Incurred	NOLCO		Tax Effect	Expiry Date
2002	P 234,226	P 74,953		December 31, 2005
2001	2,890,848	925,041		December 31, 2004
2000	1,799,682	575,898		December 31, 2003
	P 4,924,756	P 1,575,922		

A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2002	2001
Statutory income tax rate	32.00%	32.00%
Tax effects of:		
Tax-paid income	(2.08)	(4.90)
Valuation allowance on DIT	1.76	6.06
Dividend income	(5.90)	(2.28)
Income subjected to final tax	(9.61)	(11.52)
Effective income tax rate	16.17%	19.36%

Sun Life of Canada Prosperity

Philippine Equity Fund, Inc.

ANNUAL REPORT

Management Review & Outlook

EQUITY MARKET IN REVIEW

The so-called “January effect” turned into a full-blown rally in the first quarter as foreign investors flooded the equity market with a liquidity boost. Global rate cuts, unattractively low domestic interest rates, the Arroyo government’s successful borrowing foray overseas and foreign direct investments in local corporations (e.g., Kirin in San Miguel) fueled interest in the domestic equity market, enabling the Phisix to hit the year’s high of 1,480 in February.

Bombings in General Santos, however, signaled an ominous start to the second quarter. The explosions coincided with the realignment in the MSCI components and the release of dismal first quarter corporate earnings results, causing the Phisix to lose 4% in the month of April alone. Lower than expected GDP growth and a three-month budget deficit overshooting forecast by 16% then took the lead southwards. Adding to the series of negative events were the much-politicized practice of passing on to consumers purchased power adjustments and First Pacific’s announcement of its sale of PLDT to the Gokongwei Group.

Burgeoning budget deficit concerns then dominated market sentiment. Heightened incidences of kidnappings and a deteriorating peace and order situation only served to further erode investors’ confidence in the market.

Towards the end of the year, market liquidity practically disappeared as terrorists attacks in Indonesia, and in Southern Philippines, plus the Supreme Court’s decision on Meralco’s overcharging case highlighted the risks associated in investing in Asian emerging markets. Foreign funds shelved plans of reinvesting in the country and used every market uptick as an opportunity to sell. The Phisix, thus, ended the year at 1,018, down 13% year-on-year (yoy).

INVESTMENT APPROACH

Skeptical of the rally that began in January, we took a short position in the equity market, posting modest gains. Attempts to reenter the market, however, were restrained by the lack of viable investments and the near absence of fund inflows. As negative developments in the equity market escalated, we shifted from a neutral to an underweight position in equities, i.e., asset mix of 71% equity, 29% cash & fixed income.

2002 PERFORMANCE REVIEW

The Fund underperformed the benchmark by 5.1% by the end of 2002. This was due to the Fund’s heavy exposure to the Lopez group of companies whose share prices dropped by more than 50% yoy. The Lopez group’s fortunes took a turn for the worse when the Supreme Court ruled in favor of the ERC, mandating Meralco to make customer refunds of, possibly, as much as P 28 billion. Adding to the Fund’s negative performance was its underexposure to San Miguel shares, whose share price rose 39.5% and 25.7% for A and B shares, respectively.

On a per sector basis, the Fund has an overweight position in telecommunications and retail while maintaining underweight positions in banks, property, power and food.

LONG-TERM PERFORMANCE OVERVIEW

The outlook in the equity market for 2003 remains filled with uncertainties. Unless the current administration implements its much-touted reforms and keeps the budget deficit in check, there would be little incentive for foreign investors to give the country a second look. In the absence of positive macro developments, our positions with regards to stock-specific issues will be the key driver of the Fund’s performance.

Directors and Executive Officers

ESTHER C. TAN

Mrs. Tan, 57 years old, Filipino, is Chairperson and President of the Fund as well as of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. She is also the Chairperson of the Board of Sun Life Asset Management Company, Inc. as well as the President of Sun Life of Canada (Philippines), Inc. She was appointed in May 1995 as Vice-President for Philippine Operations and in 1997 as Vice-President and General Manager (Philippines) of Sun Life Assurance Company of Canada. Mrs. Tan joined Sun Life in 1981 as an Agent, and rose from the ranks with exemplary performance, including being instrumental in pushing the Company's performance to an enviable rank in the industry with premium income growing dramatically by 517%, from CDN\$ 35 million in 1989 to CDN\$ 181 million in 2001, as Sales Director (1990), Sales and Marketing Director (1991), and Vice-President, Marketing for the Asia Pacific Region, and now as President. As the Regional Vice-President for Marketing, she also contributed to the Company's operations in Hong Kong and Indonesia.

Mrs. Tan graduated from the University of the Philippines in 1969 with a degree in B.S. Nutrition. She earned MBA units from the Ateneo de Manila University, and completed the Advanced Management Program for International Executives at the Harvard Business School in 1998. She has also earned the following industry designations: Chartered Life Underwriter Diploma (1987); Chartered Financial Consultant Diploma (1990); Fellow, Life Management Institute Diploma (1993, with distinction) and Associate, Customer Service Diploma (1993, with honors). She is an Executive Board member of the Life Insurance Marketing and Research Association, Phils. (LIMRA Philippines), Member of the Philippine Life Insurance Association (PLIA), Insurance Institute for Asia and the Pacific (IIAP), Makati Business Club, Management Association of the Philippines and American Management Association (AMA), and Member and Past President of the Council of Life Underwriters Association of the Philippines (LUAP).

ROLANDO A. ROBLES

Mr. Robles, 44 years old, Filipino, is a Director of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the President and a Director of Sun Life Asset Management Company, Inc. He was the Director for Group Insurance of Sun Life Assurance Company of Canada. He has had eighteen years of progressively responsible positions in agency development, sales, and marketing management in the life insurance and pre-need industries. He was, at various times, Vice-President for Group Marketing Operations, Great Pacific Life Assurance Corporation; First Vice-President for Agencies, Philippine Life; First Vice-President, Megapolis Marketing Operations, Pacific Plans, Inc.; and Regional Manager, Northwest Luzon Sales Region, Great Pacific Life Assurance Corporation.

He obtained his B.S. Physics for Teachers under the NSDB Scholarship Program in 1979, graduating Cum Laude, from the Philippine Normal College and the De La Salle University. He has earned MBA units from the De La Salle University Graduate School for Business.

JOSE R. PEREZ

Mr. Perez, 65 years old, Filipino is a Director of the Fund. He founded the JP Consultancy & Management, Inc., a consulting company which specializes in financial structuring and packaging of loans. He is also a Director of Maybank, Metro Alliance, and Mabuhay Vinyl. He began his career at Bank of America as Assistant Manager, Credit Officer before he worked at PCI Bank where he was Senior Vice-President in charge of Corporate Banking and Special Projects in 1974, Executive Vice-President in 1976, and a Director from 1979 to January 9, 1997. Mr. Perez also became a Director of PCI Capital Corporation, President (1996-1997) and Director of PCI Leasing & Finance, Inc., and a Director of Bankard, Inc., PCI Insurance Brokers, Inc., PCI Forex Brokers Corp., PCIB Securities Corporation

Mr. Perez obtained his Bachelor's degree from the Ateneo de Manila University in 1958. He also attended various seminars and conferences both local and abroad on banking, finance and related subjects.

JOSE M. FAUSTINO

Mr. Faustino, 63 years old, Filipino, is a Director of the Fund. Professor Jose M. Faustino is the Goodyear Professor of Business Management, and the Program Director of AIM's Marketing Strategy Course. He teaches and provides management consultancy in the fields of marketing management, strategic planning and strategy formulation, organizational behavior in development. In 1991, he received the Agora Award for Excellence in Marketing Education, bestowed by the Philippine Marketing Association. His twenty years of work experience as professional manager and entrepreneur were in the areas of marketing, operation, and general management. As visiting professor, he has taught in 2002-2003 for USW in Germany and the Leiden School of Management in Holland.

At TIMEX, he was the Director of Far East Marketing and Sales responsible for ASEAN countries: Hong Kong, Taiwan, Japan, and Australia. For three years, he was the Pharmaceutical Division manager of Pfizer (Phils.). Thereafter, he joined Pepsi Cola Bottling Co. of the Philippines as Vice-President for Marketing and was later appointed Vice-President/General Manager of the Quezon City Plant, then the largest bottling plant in the Far East.

In 1972, he was marketing consultant for S.C. Johnson & Sons, Inc. In the following years, he became Coca-Cola Export Corp.'s Regional Marketing Manager in which capacity he planned and implemented joint marketing strategies with bottlers in the Philippines, Hong Kong, Taiwan, Macau, and Guam. From 1975-1977, he was connected with American Optical (Phils.), a Warner-Lambert subsidiary, as General Manager. Later on, he ran the Philippine market organization of Levi Strauss Phils., Inc. as Domestic Market Director. In 1978, he was elected to the Levi Strauss Board of Directors. Professor Faustino has provided management consultancy for a number of ASEAN organizations, designed and conducted the marketing and organizational skills seminar for the Asia-Pacific region of McCann-Erickson for twelve years, and has conducted a series of seminars for the National Insurance Association of Malaysia since 1992.

Professor Faustino graduated from the Harvard Business School with an MBA degree from Amherst College with an MA degree in Economics. He earned his Bachelor of Arts, cum laude, from the Ateneo de Manila University. He also attended AIM's Top Management Program.

ATTY. OSCAR M. ORBOS

Atty. Orbos, 52 years old, Filipino, is a Director of the Fund. Atty. Orbos obtained his Bachelor of Laws and his degree in Economics from the University of the Philippines. He has also earned units in Masters of Laws also from the same university. He served as Congressman and as Governor of the Province of Pangasinan. He has also served the Philippine Government as the Secretary of the Department of Transportation and Communication, and Executive Secretary. Atty. Orbos, likewise, has been a member of various law firms in his career.

CAESAR P. ALTAREJOS, JR.

Mr. Altarejos, 52 years old, Filipino, is the Treasurer of the Fund as well as of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the Director and Treasurer of the Sun Life Asset Management Company, Inc. He is the Vice-President for Finance, Sun Life of Canada (Philippines), Inc. He has had over ten (10) years of experience in managerial capacity with both multinational and local companies in all phases of financial management. He began his career at the Bank of the Philippine Islands; worked as Senior Bank Examiner for the Central Bank of the Philippines; progressed to the position of Senior Representative at Freight Conference Services, Inc.; and successfully became Senior Manager for Accounting at Rocha Y Cia, Inc.; Financial Accounting Manager at Telefunken Semiconductors Philippines, Inc.;

A Certified Public Accountant, Mr. Altarejos obtained his B.S.B.A. in Accounting at the University of the East in 1972, graduating Magna Cum Laude, landed in the Top 30 in the board exams, and went on to complete his Master in Business Administration at the De La Salle University.

He is currently a member of the Financial Executives Institute of the Philippines, Inc.; Tax Management Association of the Philippines; Philippine Institute of Certified Public Accountants, Marriage Encounter Foundation of the Philippines, Inc.; and the Brotherhood of Christian Businessmen & Professionals. He has also traveled extensively to the United States, Canada, Korea, Hong Kong, Thailand, China, and Indonesia

ATTY. AMOR M. DATINGUINO

Atty. Datinguino, 33 years old, Filipino, is the Secretary of the Fund as well as of Sun Life of Canada Prosperity Bond, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life Prosperity Dollar Advantage Fund, Inc. and Sun Life Asset Management Company, Inc. She obtained her Bachelor of Science in Economics (Dean's List) from the School of Economics, University of the Philippines, Diliman (1991), and her Bachelor of Laws from the College of Law, University of the Philippines, Diliman (1996). She placed 9th in the 1996 Bar Exams. Before joining Sun Life, she worked as an Associate with Carpio Villaraza & Cruz Law Offices, and the Sebastian Dado Cruz & Batalla Law Offices.

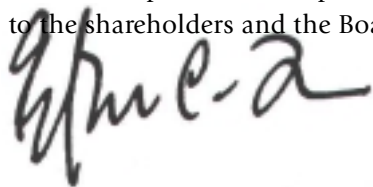
Statement of Management's Responsibility

for Financial Statements


The management of Sun Life of Canada Prosperity Philippine Equity Fund, Inc. is responsible for all information and representations contained in the statements of assets and liabilities of Sun Life of Canada Prosperity Philippine Equity Fund, Inc. as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2002. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration of materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal control to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal control that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the shareholders of the Company. SyCip, Gorres, Velayo & Co., the independent auditors appointed by the shareholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of the presentation upon completion of such audit, in their report to the shareholders and the Board of Directors.



Esther C. Tan
Chairperson and President



Caesar P. Altarejos, Jr.
Treasurer

Report of Independent Public Accountants

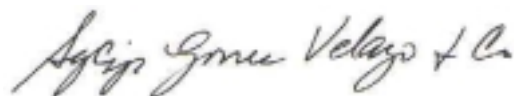
SGV & Co is a member practice of Ernst & Young Global

The Shareholders and the Board of Directors
Sun Life of Canada Prosperity Philippine Equity Fund, Inc.
10th Floor, Tower II, The Enterprise Center
6766 Ayala Avenue, Makati City

We have audited the accompanying statements of assets and liabilities of Sun Life of Canada Prosperity Philippine Equity Fund, Inc. (an open-end investment company) as of December 31, 2002 and 2001 and the related statements of operations, changes in net assets and cash flows for each of the three years ended December 31, 2002. These financial statements are the responsibility of the Company'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 statement. 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 Sun Life of Canada Prosperity Philippine Equity Fund, Inc. as of December 31, 2002 and 2001, and the results of its operations, changes in net assets and its cash flows for each of the three years ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.



R. D. DIZON
Partner
CPA Certificate No. 46047
PTR No. 7612853
January 2, 2003
Makati City

January 14, 2003

Financial Statements

Statements of Assets and Liabilities

	Decem-	
ber 31	2002	2001
ASSETS		
Cash	P 611,308	P 355,573
Investments in:		
Listed securities (Note 3)	81,011,414	85,134,490
Fixed income securities	31,322,038	45,294,315
Accrued Interest Receivable	887,102	898,545
Organization Costs - net of accumulated amortization of P276,923 in 2002 and P176,106 in 2001	231,077	331,894
	114,062,939	132,014,817
LIABILITIES		
Accounts Payable and Accrued Expenses	101,005	133,008
Payable to Fund Manager (Note 4)	239,527	256,427
	340,532	389,435
NET ASSETS (Note 5)	P 113,722,407	P 131,625,382

See accompanying Notes to Financial Statements.

Statements of Operations

	Years Ended December 31					
	2002		2001		2000*	
INVESTMENT INCOME						
Interest - net	P	3,692,860	P	4,382,819	P	2,296,529
Net realized gain on sale of investments in listed securities (Note 3)		827,356		1,376,464		815,207
Dividends		1,686,469		1,079,179		436,675
Others		-		-		4,816
		6,206,685		6,838,462		3,553,227
EXPENSES						
Management fee (Note 4)		3,005,112		2,563,706		1,320,515
Taxes and licenses		432,258		825,763		501,881
Custodian and transfer agent fees		143,683		357,816		63,162
Amortization of organization costs		100,817		100,817		75,289
Printing and supplies		99,614		71,854		151,441
Directors fees		90,000		35,000		20,000
Others		54,794		32,720		13,500
		3,926,278		3,987,676		2,145,788
INVESTMENT INCOME BEFORE INCOME TAX		2,280,407		2,850,786		1,407,439
PROVISION FOR INCOME TAX (Note 7)		733,825		872,418		459,584
NET INVESTMENT INCOME	P	1,546,582	P	1,978,368	P	947,855
CHANGES IN UNREALIZED DEPRECIATION OF INVESTMENTS						
End of year	P	46,795,401	P	20,864,481	P	4,736,098
Less beginning of year		20,864,481		4,736,098		-
UNREALIZED DEPRECIATION OF INVESTMENTS	P	25,930,920	P	16,128,383	P	4,736,098

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Changes in Net Assets

	Years Ended December 31		
	2002	2001	2000*
FROM OPERATIONS			
Net investment income	P 1,546,582	P 1,978,368	P 947,855
Unrealized depreciation of investments	(25,930,920)	(16,128,383)	(4,736,098)
Net decrease in net assets from operations	(24,384,338)	(14,150,015)	(3,788,243)
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from issuance of capital stock - 47,669,829 shares in 2002, 83,542,764 shares in 2001 and 98,248,891 shares in 2000	41,097,777	76,106,062	93,267,941
Payments made on redemption of capital stock - 39,355,700 shares in 2002, 18,844,879 shares in 2001 and 2,632,723 shares in 2000	(34,616,414)	(17,596,148)	(2,214,215)
Net increase in net assets from capital stock transactions	6,481,363	58,509,914	91,053,726
NET INCREASE (DECREASE) IN NET ASSETS	(17,902,975)	44,359,899	87,265,483
NET ASSETS AT BEGINNING OF YEAR	131,625,38	287,265,483	-
NET ASSETS AT END OF YEAR (Note 5)	P 113,722,407	P 131,625,382	P 87,265,483

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31					
	2002		2001		2000*	
CASH FLOWS FROM OPERATING ACTIVITIES						
Investment income before income tax	P	2,280,407	P	2,850,786	P	1,407,439
Adjustments for						
Amortization of organization costs		100,817		100,817		75,289
Gain on sale of investments in listed securities		(827,356)		(1,376,464)		(815,207)
Operating income before working capital changes		1,553,868		1,575,139		667,521
Changes in operating assets and liabilities:						
Net disposals (purchases) of:						
Listed securities		(20,980,488)		(35,415,880)		(68,391,420)
Fixed income securities		13,972,277		(23,864,373)		(21,429,942)
Decrease (increase) in:						
Receivables		11,443		(408,709)		(489,836)
Organization costs		-		-		(508,000)
Increase (decrease) in:						
Accounts payable and accrued expenses		(32,003)		64,886		68,122
Payable to fund manager		(16,900)		90,974		165,453
Cash used in operations		(5,491,803)		(57,957,963)		(89,918,102)
Income tax		(733,825)		(872,418)		(459,584)
Net cash used in operating activities		(6,225,628)		(58,830,381)		(90,377,686)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of capital stock		41,097,777		76,106,062		93,267,941
Payments made on redemption of capital stock		(34,616,414)		(17,596,148)		(2,214,215)
Net cash provided by financing activities		6,481,363		58,509,914		91,053,726
NET INCREASE (DECREASE) IN CASH		255,735		(320,467)		676,040
CASH AT BEGINNING OF YEAR		355,573		676,040		-
CASH AT END OF YEAR	P	611,308	P	355,573	P	676,040

* The Company started commercial operations on May 1, 2000.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. *Organization and Status of Operations*

Sun Life of Canada Prosperity Philippine Equity Fund, Inc. is an open-end investment company under the Investment company act (R.A. 2629) and the Revised Securities Act (B.P. 178). It is engaged in the sale of its shares of stock, the proceeds of which are invested mainly in listed equities of Philippine entities. The Company is designed to generate long-term capital appreciation through investment in high-quality equity securities across sectors and issue sizes to provide moderate portfolio volatility. As an open-end investment company, its outstanding shares of stocks are redeemable anytime based on the net asset value per share at the time of redemption. The registered office address of the Company is located at 10th Floor, Tower II, The Enterprise Center, 6766 Ayala Avenue, Makati City.

Sun Life Asset Management Company, Inc. (SLAMC), a wholly-owned subsidiary of Sun Life of Canada (Philippines), Inc., acts as the Company's fund manager. SLAMC serves as the manager, adviser, administrator, distributor, and transfer agent of the Company and provides management, distribution and all required operational services. The aggregate annual fees of SLAMC for these services amount to two percent (2%) of the daily average net assets managed.

The Company was registered with the Securities and Exchange Commission (SEC) on January 17, 2000 and started commercial operations on May 1, 2000.

2. *Summary of Significant Accounting Policies*

Basis of Financial Statements

The Company's financial statements have been prepared under the historical cost convention method and in accordance with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards

The Company adopted Statements of Financial Accounting Standards (SFAS) 1 (revised 2000), Presentation of Financial Statements and SFAS 22 (revised 2000), Cash Flow Statements and SFAS 24/IAS 24, Related Party Disclosures, effective January 1, 2002. Following new presentation rules under SFAS 1 (revised 2000) and SFAS 22 (revised 2000), prior year financial statements were restated to follow the format prescribed by these new standards. Changes made pertain principally to presentation of statements of income and cash flows, inclusion of statements of changes in net assets and additional disclosures as required by the new standards.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of financial statements. Actual results could differ from such estimates.

Valuation of Securities

For purposes of obtaining net asset value, investments in listed securities are valued using the latest closing price at the end of year for securities with trading transactions at the stock exchange.

The difference between the aggregate cost of investments in listed securities at year-end and the carrying value as defined in the preceding paragraph, is presented as unrealized depreciation of investments shown in the Statement of Changes in Net Assets. The difference between the selling price and the cost of investments sold, which is computed based on the average cost of all the shares of each security held at the time of sale, is shown as Net realized gain on sale of investments in listed securities shown in the Statement of Operations.

Investments in Fixed Income Securities

Investments in commercial papers and government securities are carried at cost, adjusted for the amortization of premiums or accretion of discounts on the acquisition of the securities. Interest income on these investments is recognized on a time proportion basis that takes into account the effective yield on the assets.

Net Asset Value (NAV) Per Share

Net asset value per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and outstanding at report date.

Sales and Redemption of Shares of Stock

Sales of fund shares are recorded by crediting capital stock at par value and additional paid-in-capital for the amount received in excess of the par value; redemptions are recorded by debiting those accounts.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and the tax effect of net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be realized. A valuation allowance is provided for the portion of deferred tax assets, if any, which is not expected to be realized in the future. Any change in the valuation allowance on deferred tax asset is included in the computation of provision for deferred income tax for the year.

Organization Costs

Organization costs and other expenses incurred prior to the Company's operations are capitalized and are amortized on a straight-line basis over a period of five (5) years.

SFAS 38/IAS 38 (as revised), "Intangible Assets", prescribes accounting and disclosure for intangible assets that are not specifically dealt with in other SFAS and expenditures on advertising, training, start-up and research and development activities. The Company will adopt the provisions of SFAS 38/IAS 38 which will become effective for financial statements covering periods beginning on or after January 1, 2003. On such date, the remaining balance of preoperating expenses will be adjusted retroactively to retained earnings and comparative financial statements will be restated.

3 . Investments in Listed Securities

This account consists of investments in:

	Number of shares held		Cost	Market Value
Common stocks:				
Ayala Corporation	1,887,000	P	12,941,177	P 8,114,100
Aboitiz Equity Ventures, Inc.	576,000		1,126,994	1,301,760
Ayala Land Inc.	1,633,800		8,275,207	7,433,790
Benpres Holdings Corp.	401,000		2,548,200	44,110
Bank of the Phil. Islands	264,010		13,301,865	8,844,335
Filinvest Land, Inc.	912,500		1,049,048	757,375
First Phil. Holdings Corp.	259,440		5,369,216	2,101,464
Globe Telecom, Inc.	25,842		14,265,733	11,564,295
Ionics Circuits, Inc.	478,500		3,853,623	459,360
Jollibee Foods Corp.	238,500		2,649,933	4,349,888
La Tondeña Distillers, Inc.	49,800		1,373,551	1,743,000
Metropolitan Bank & Trust Company	40,440		1,821,627	1,273,860
Manila Electric Company "B"	175,600		9,182,175	1,545,280
Petron Corporation	898,000		1,937,022	1,400,880
San Miguel Corporation "B"	132,530		6,353,748	8,746,980
SM Prime Holdings Inc.	1,641,000		8,669,283	7,794,750
Phil. Long Distance Telephone Co.	33,990		22,165,506	9,177,300
Union Cement Corporation	669,000		609,614	301,050
Universal Robina Corporation	179,300		1,000,481	493,075
Warrants:				
ABS-CBN, Phils. Depository Receipt	219,370		9,312,812	3,564,762
	10,715,622	P	127,806,815	P 81,011,414

As of January 14, 2003, the market value of the Company's investments in listed securities held as of December 31, 2002 amounted to P86.37 million.

Net realized gain on sale of investments in listed securities consists of:

		2002	2001
Proceeds from sales	P	12,383,614	P 6,084,430
Cost of listed securities sold		(11,556,258)	(4,707,966)
	P	827,356	P 1,376,464

4. *Related Party Transaction*

Transaction with a related party pertains to the liability to SLAMC arising from management and service fees as described in Note 1.

5. *Net Assets*

The Company's net assets consist of:

	2002		2001	
Capital stock - P 1 par value				
Authorized - 200,000,000				
Issued and outstanding -				
168,628,181 shares in 2002				
and 160,314,053 shares in 2001	P	168,628,181	P	160,314,053
Additional paid-in capital		(12,583,178)		(10,750,413)
Retained earnings (see Note 6)		4,472,805		2,926,223
Unrealized depreciation of investments		(46,795,401)		(20,864,481)
	P	113,722,407	P	131,625,382
NAV per share	P	0.6744	P	0.8210

6. *Retained Earnings*

This account consists of:

	2002		2001	
Retained earnings at beginning of period	P	2,926,223	P	947,855
Net investment income		1,546,582		1,978,368
	P	4,472,805	P	2,926,223

7. *Income Taxes*

The Company's net deferred income tax asset is attributable to the following:

	2002		2001	
NOLCO	P	3,898,937	P	2,642,527
Less valuation allowance		3,898,937		2,642,527
	P	-	P	-

The current provision for income tax consists of the final tax on interest income. As mentioned in Note 2, a full valuation is provided where a tax benefit is not likely to be realized in the future since the Company's income is already subjected to final tax.

Details of the Company's NOLCO are as follows:

Year Incurred	NOLCO	Tax Effect	Expiry Date
2000	P 2,145,476	P 686,552	December 31, 2003
2001	6,112,423	1,955,975	December 31, 2004
2002	3,926,279	1,256,410	December 31, 2005
	P 12,184,178	P 3,898,937	

A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2002	2001
Statutory income tax rate	32.00%	32.00%
Tax effects of:		
Valuation allowance on DIT	55.10	44.53
Tax-paid income	(11.61)	(15.45)
Income subjected to final tax	(19.64)	(18.37)
Dividend income	(23.67)	(12.11)
Effective income tax	32.18%	30.60%

Sun Life Prosperity

Dollar Advantage Fund, Inc.

ANNUAL REPORT

Management Review & Outlook

FINANCIAL MARKET IN REVIEW

The second half of the year proved to be a challenging period for investors in the Philippine dollar bond market. The liquidity rally that pushed up bond prices during the first six months of the year had already run its course. Further run-up in bond prices required economic improvements, which were conspicuously absent. Instead, two negative developments surfaced and dictated the direction of the dollar bond market for the rest of the year.

The first one involved the country's fiscal deficit. By the middle of the year, it had become apparent that the government's deficit target of P130 billion for the full year was unachievable. The country's funding gap was expanding by an average of P 20 billion every month. As early as July, the fiscal gap had already breached the government's full year target, hitting P 133 billion. In the absence of any immediate solution, the government finally raised its deficit target for the year 2002 by as much as 72% to P 223 billion in October. Two credit rating agencies expressed their concern, downgrading the Philippines' credit outlook to negative from stable. Philippine bond prices received a respite in December when Moody's maintained its stable credit outlook for the country. Assurances from government officials that next year's funding gap would rely more on domestic sources provided some comfort to the dollar bond market. The government ended the year with a deficit of P 213 billion, significantly above the original P 130 billion target. With the weak fiscal numbers already discounted, dollar bond prices were able to recover some of its losses by the end of the year.

The other factor involved developments in another emerging market - Brazil. The Latin American country was set to hold its presidential election in October. With a left-wing candidate leading the opinion polls, investors were concerned over the consistency of future economic policies. This uncertainty weighed down bond prices in other emerging markets, particularly the Philippines. However, emerging bond prices bounced off from their lows following reports that the administration candidate was gaining ground against the leading left-wing candidate and that Brazil secured a US\$30bn package from the IMF. At the end of the presidential race, the left-wing candidate finished ahead of its rivals. By then, investors' concern had been partly assuaged by the moderate economic statements issued by the winning candidate. The event risk in Brazil heightened volatility in emerging bond markets, including the Philippines.

INVESTMENT APPROACH

The strategy of the Dollar Fund has to take into consideration its valuation method (i.e., marked-to-market) as well as the irregular cashflow (that is a general characteristic of mutual funds). Given these factors, the portfolio contained liquid sovereign credits, which allowed the execution of buy and sell orders at prevailing market prices. Corporate issues, despite their higher yields over sovereign credit, were excluded because their illiquidity constrained trading activity and were also riskier credits.

In the face of the Philippines' burgeoning fiscal deficit and Brazil's presidential election, the Dollar Fund took a defensive position early on. The objective was to protect the downside of the portfolio by taking an overweight position in the short-end of the curve. The short bonds benefited from strong local support and were less susceptible to any Brazil-related sell off. Towards the end of the year, some long bonds were added to the portfolio as the uncertainties in Brazil dissipated. The higher yields from the long bonds allowed the Dollar Fund to increase its return from coupon payments during the remaining months of the year.

2002 PERFORMANCE REVIEW

The Dollar Fund lagged its benchmark during the first six months of its existence. The under-performance of the Dollar Fund was largely due to the absence of higher yielding corporate issues and lower exposure to long-term bonds. The Dollar Fund's bias towards short bonds helped cap the capital losses from falling bond prices.

	Dollar Fund	Benchmark
Accrued interest	3.30%	4.33%
Capital gains (losses)	0.09%	0.12%
Gross return before taxes and fees	3.39%	4.45%
Less: Taxes and Fees	(1.82%)	(0.69%)
Net return*	1.57%	3.76%

Note: Dollar Fund was launched on 30 June 2002. Review Period covers 1 July 2002 to 31 December 2002. Benchmark refers to the JP Morgan Asia Credit Index (JACI).

**Net return of the Dollar Fund deducts taxes and management expense from the gross return. Only taxes are deducted from the gross return of the benchmark to get its net return.*

LONG-TERM PERFORMANCE OVERVIEW

Heightened volatility will continue to characterize the dollar bond market. The country's fiscal position remains a major influence in the bond market. While expectations are already low, opportunities to disappoint still exist. The government's fiscal performance in the first few months of the year will be crucial in setting the tone for the rest of the year. Signs that the government will be hard pressed to meet its already huge deficit target of P 202 billion for 2003 may be enough to push the international credit rating agencies to finally downgrade the Philippines' rating. In addition, the unfolding of the US-Iraq conflict should keep global markets preoccupied.

The volatility in bond prices will provide trading activities for the Dollar Fund. Efforts will be focused on locking in marginal gains. At the same time, the contribution from coupon payments will augment portfolio return.

Directors and Executive Officers

ESTHER C. TAN

Mrs. Tan, 57 years old, Filipino, is Chairperson and President of the Fund as well as of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc. and Sun Life of Canada Prosperity Philippine Equity Fund, Inc. She is also the Chairperson of the Board of Sun Life Asset Management Company, Inc. as well as the President of Sun Life of Canada (Philippines), Inc. She was appointed in May 1995 as Vice-President for Philippine Operations and in 1997 as Vice-President and General Manager (Philippines) of Sun Life Assurance Company of Canada. Mrs. Tan joined Sun Life in 1981 as an Agent, and rose from the ranks with exemplary performance, including being instrumental in pushing the Company's performance to an enviable rank in the industry with premium income growing dramatically by 517%, from CDN\$ 35 million in 1989 to CDN\$ 181 million in 2001, as Sales Director (1990), Sales and Marketing Director (1991), and Vice-President, Marketing for the Asia Pacific Region, and now as President. As the Regional Vice-President for Marketing, she also contributed to the Company's operations in Hong Kong and Indonesia.

Mrs. Tan graduated from the University of the Philippines in 1969 with a degree in B.S. Nutrition. She earned MBA units from the Ateneo de Manila University, and completed the Advanced Management Program for International Executives at the Harvard Business School in 1998. She has also earned the following industry designations: Chartered Life Underwriter Diploma (1987); Chartered Financial Consultant Diploma (1990); Fellow, Life Management Institute Diploma (1993, with distinction) and Associate, Customer Service Diploma (1993, with honors). She is an Executive Board member of the Life Insurance Marketing and Research Association, Phils. (LIMRA Philippines), Member of the Philippine Life Insurance Association (PLIA), Insurance Institute for Asia and the Pacific (IIAP), Makati Business Club, Management Association of the Philippines and American Management Association (AMA), and Member and Past President of the Council of Life Underwriters Association of the Philippines (LUAP).

ROLANDO A. ROBLES

Mr. Robles, 44 years old, Filipino, is a Director of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Prosperity Dollar Advantage Fund, Inc. He is also the President and a Director of Sun Life Asset Management Company, Inc. He was the Director for Group Insurance of Sun Life Assurance Company of Canada. He has had eighteen years of progressively responsible positions in agency development, sales, and marketing management in the life insurance and pre-need industries. He was, at various times, Vice-President for Group Marketing Operations, Great Pacific Life Assurance Corporation; First Vice-President for Agencies, Philippine Life; First Vice-President, Megapolis Marketing Operations, Pacific Plans, Inc.; and Regional Manager, Northwest Luzon Sales Region, Great Pacific Life Assurance Corporation.

He obtained his B.S. Physics for Teachers under the NSDB Scholarship Program in 1979, graduating Cum Laude, from the Philippine Normal College and the De La Salle University. He has earned MBA units from the De La Salle University Graduate School for Business.

TONY TAN CAKTIONG

Mr. Tan Caktiong, 49 years old, Filipino, is a Director of the Fund. He is the Chairman, President and CEO of Jollibee Foods Corporations. He holds a degree in BS Chemical Engineering from the University of Sto. Thomas and has attended the Owner/ President Management (OPM) Program at Harvard University and the Top Management Program at the Asian Institute of Management (AIM).

OSCAR REYES

Mr. Reyes, 55 years old, Filipino, is a Director of the Fund. He was the Chairman and Chief Executive Officer of the Shell Companies in the Philippines and remains a Director of Pilipinas Shell Petroleum, Shell Philippines Exploration B.V., and various other Philippine corporations. He holds a degree in Economics (Cum Laude) from Ateneo de Manila University, completed the academic requirements for a Master of Business Administration (MBA) from Ateneo Graduate School of Business, and completed the Program for Management Development at the Harvard Business School. Mr. Reyes held various progressively responsible positions with Shell Philippines and the Philippine Petroleum Corporation.

DR. PONCIANO S. INTAL, JR.

Dr. Intal, 52 years old, Filipino, is a Director of the Fund. He is a Professor of Economics at the Department of Economics at the Department of Economics, College of Business and Economics of the De La Salle University and Executive Director of the Angelo King Institute for Economic and Business Studies, De La Salle University. Dr. Intal holds a PhD in Economics from Yale University, two Master of Arts in Economics Degrees from Yale University and the University of the Philippines, and a Bachelor of Science degree in Business Administration from the Mindanao State University. He held progressively responsible positions in Government including Deputy Director-General at the National Economic and Development Authority and as President of the Philippines Institute of Developmental Studies. He served as an alternate member for the Monetary Board and in various technical boards of Cabinet Clusters.

CAESAR P. ALTAREJOS, JR.

Mr. Altarejos, 52 years old, Filipino, is the Treasurer of the Fund as well as of Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc. and Sun Life of Canada Prosperity Philippine Equity Fund, Inc. He is also the Director and Treasurer of the Sun Life Asset Management Company, Inc. He is the Vice-President for Finance, Sun Life of Canada (Philippines), Inc. He has had over ten (10) years of experience in managerial capacity with both multinational and local companies in all phases of financial management. He began his career at the Bank of the Philippine Islands; worked as Senior Bank Examiner for the Central Bank of the Philippines; progressed to the position of Senior Representative at Freight Conference Services, Inc.; and successfully became Senior Manager for Accounting at Rocha Y Cia, Inc.; Financial Accounting Manager at Telefunken Semiconductors Philippines, Inc.; Controller of International Flavors and Fragrances Phils, Inc, and Assistant Vice-President for Finance at Sun Life Assurance Company of Canada.

A Certified Public Accountant, Mr. Altarejos obtained his B.S.B.A. in Accounting at the University of the East in 1972, graduating Magna Cum Laude, landed in the Top 30 in the board exams, and went on to complete his Master in Business Administration at the De La Salle University.

He is currently a member of the Financial Executives Institute of the Philippines, Inc.; Tax Management Association of the Philippines; Philippine Institute of Certified Public Accountants, Marriage Encounter Foundation of the Philippines, Inc.; and the Brotherhood of Christian Businessmen & Professionals. He has also traveled extensively to the United States, Canada, Korea, Hong Kong, Thailand, China, and Indonesia.

ATTY. AMOR M. DATINGUINO

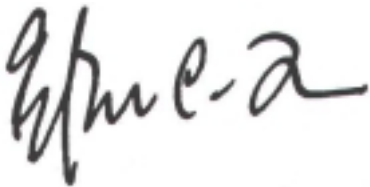
Atty. Datinguino, 33 years old, Filipino, is the Secretary of the Fund as well as Sun Life of Canada Prosperity Bond, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc. and Sun Life Asset Management Company, Inc. She obtained her Bachelor of Science in Economics (Dean's List) from the School of Economics, University of the Philippines, Diliman (1991), and her Bachelor of Laws from the College of Law, University of the Philippines, Diliman (1996). She placed 9th in the 1996 Bar Exams. Before joining Sun Life, she worked as an Associate with Carpio Villaraza & Cruz Law Offices, and the Sebastian Dado Cruz &

Statement of Management's Responsibility for Financial Statements

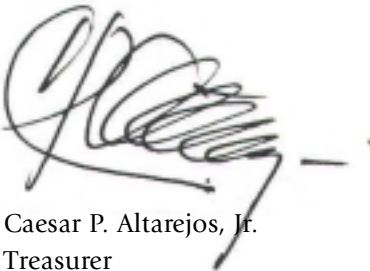
The management of Sun Life Prosperity Dollar Advantage Fund, Inc. is responsible for all information and representations contained in the statements of assets and liabilities of Sun Life Prosperity Dollar Advantage Fund, Inc. as of December 31, 2002 and the related statements of operations, changes in net assets and cash flows for the period February 13 to December 31, 2002. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration of materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal control to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal control that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the shareholders of the Company. SyCip, Gorres, Velayo & Co., the independent auditors appointed by the shareholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of the presentation upon completion of such audit, in their report to the shareholders and the Board of Directors.



Esther C. Tan
Chairperson and President



Caesar P. Altarejos, Jr.
Treasurer

Report of Independent Public Accountants

SGV & Co is a member practice of Ernst & Young Global

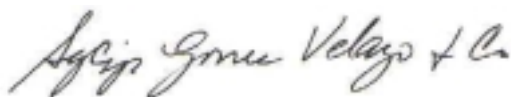
The Shareholders and the Board of Directors
Sun Life of Canada Prosperity Balanced Fund, Inc.
10th Floor, Tower II, The Enterprise Center
6766 Ayala Avenue, Makati City

We have audited the accompanying statements of assets and liabilities of Sun Life Prosperity Dollar Advantage Fund, Inc. (an open-end investment company) as of December 31, 2002 and the related statements of operations, changes in net assets and cash flows for the period February 13 to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company was incorporated on February 13, 2002 and started commercial operations on July 1, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun Life Prosperity Dollar Advantage Fund, Inc. as of December 31, 2002, and the results of its operations, changes in net assets and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the Philippines.



R. D. DIZON
Partner
CPA Certificate No. 46047
PTR No. 7612853
January 2, 2003
Makati City

January 14, 2003

Financial Statements

Statements of Assets and Liabilities

	December 31, 2002	
	Philippine Pesos	US Dollars
ASSETS		
Cash	P 2,240,538	\$ 42,250
Investment in Fixed Income Securities (Note 3)	69,455,593	1,309,742
Accrued Interest Receivable	1,956,839	36,901
Organization Costs - net of accumulated amortization of P53,403 or \$1,024	480,620	9,254
	74,133,590	1,398,147
LIABILITIES		
Accounts Payable and Accrued Expenses	535,109	10,148
Payable to Fund Manager (Note 4)	144,404	2,723
	679,513	12,871
NET ASSETS (Note 5)	P 73,454,077	\$ 1,385,276

See accompanying Notes to Financial Statements.

Statements of Operations

for the period Feb. 13 to Dec. 31,2002

	Philippine Pesos	U.S. Dollars(Note 2)
INVESTMENT INCOME		
Interest - net	P 2,473,430	\$ 47,344
Others	(44,326)	(892)
	2,429,104	46,452
EXPENSES		
Management fee (Note 4)	536,317	10,231
Custodian and transfer agent fees	92,782	1,757
Amortization of organization costs	53,403	1,024
Directors fees	40,000	800
Taxes and licenses	5,976	82
Others	3,061	56
	731,539	13,950
INVESTMENT INCOME BEFORE INCOME TAX	1,697,565	32,502
PROVISION FOR INCOME TAX (Note 6)	468,578	8,883
NET INVESTMENT INCOME	P 1,228,98	\$ 23,619

*The Company was incorporated on February 13, 2002 and started commercial operations on July 1, 2002.

See accompanying Notes to Financial Statements.

Statements of Changes in Net Assets
for the period Feb. 13 to Dec. 31,2002

		Philippine Pesos	U.S. Dollars(Note 2)
FROM INVESTMENTS			
Net investment income (Note 5)	P	1,228,987	\$ 23,619
FROM CAPITAL STOCK TRANSACTIONS			
Proceeds from issuance of capital stock - 679,814 shares (Note 5)		70,077,437	1,362,593
Payments made on redemption of capital stock - 990 shares		(106,769)	(2,001)
		69,970,668	1,360,592
UNREALIZED APPRECIATION OF BONDS		44,799	1,065
FOREIGN CURRENCY TRANSLATION ADJUSTMENT (Note 5)		2,209,623	-
NET ASSETS AT END OF PERIOD (Note 5)	P	73,454,077	\$ 1,385,276

*The Company was incorporated on February 13, 2002 and started commercial operations on July 1, 2002.

See accompanying Notes to Financial Statements.

Statements of Cash Flows

for the period Feb. 13 to Dec. 31,2002

	Philippine Pesos	U.S. Dollars(Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Investment income before income tax	P 1,697,565	\$ 32,502
Adjustment for amortization of organization costs	53,403	1,024
Operating income before working capital changes	1,750,968	33,526
Changes in operating assets and liabilities:		
Purchases of fixed income securities	(69,410,794)	(1,308,677)
Increase in:		
Accrued interest receivable	(1,956,839)	(36,901)
Organization costs	(534,023)	(10,278)
Accounts payable and accrued expenses	535,109	10,148
Payable to fund manager	144,404	2,723
Cash used in operations	(69,471,175)	(1,309,459)
Income tax	(468,578)	(8,883)
Net cash used in operating activities	(69,939,753)	(1,318,342)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	70,077,437	1,362,593
Payments made on redemption of capital stock	(106,769)	(2,001)
Net cash provided by financing activities	69,970,668	1,360,592
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	2,209,623	-
CASH AT END OF PERIOD	P 2,240,538	\$ 42,250

*The Company was incorporated on February 13, 2002 and started commercial operations on July 1, 2002.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Organization

Sun Life Prosperity Dollar Advantage Fund, Inc. (the Fund) is an open-end investment company engaged in the sale of its shares of stock, the proceeds from sales shall be invested in foreign exchange denominated fixed-income investments issued by Philippine, United States and other foreign government and corporations, common stocks and related securities such as preferred stocks, convertible securities, depository receipt, issued by Philippine and foreign corporations and US dollar-denominated deposits. As an open-end investment 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 office address of the Company is located at 10th Floor, Tower II, The Enterprise Center, 6766 Ayala Avenue, Makati City.

Sun Life Asset Management Company, Inc. (SLAMC), a wholly-owned subsidiary of Sun Life of Canada (Philippines), Inc., acts as the Company's fund manager. SLAMC serves as the manager, adviser, administrator, distributor and transfer agent of the Company and provides management, distribution and all required operational services. The aggregate annual fees of SLAMC for these services amount to one and a half percent (1.5%) of the daily average net assets managed.

The Company was registered with the Securities and Exchange Commission on February 13, 2002 and started commercial operations on July 1, 2002.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation and Functional Currency

The Company's financial statements have been prepared under the historical cost convention method and in accordance with accounting principles generally accepted in the Philippines. Financial statements are translated to the designated functional currency in U.S. dollars. The Philippine peso translation is included for compliance with the local statutory reporting requirements in the Philippines.

Adoption of New Accounting Standards

The Company adopted Statements of Financial Accounting Standards (SFAS) 1 (revised 2000), Presentation of Financial Statements and SFAS 22 (revised 2000), Cash Flow Statements and SFAS 24/IAS 24, Related Party Disclosures, effective July 1, 2002.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of financial statements. Actual results could differ from such estimates.

Valuation of Investments in Fixed Income Securities

For purposes of obtaining net asset value, investments in Philippine issued dollar-denominated fixed-income securities are valued using the average of the values from two major trading desks as separately obtained from Bloomberg at three in the afternoon every trading day, in the following order of application:

Done average cash price for the security; price of last transaction for the day; available last bid price; should the bid from one of the trading desks not be available, the Fund will utilize the available value obtained from the other trading desk; or lacking both bids, the previous day's value used in trading desk; or lacking both bids, the previous day's value used in computing the NAV per share.

Organization Costs

Organization costs and other expenses incurred prior to the start of commercial operations are capitalized and will be amortized on a straight-line basis over a period of five years.

SFAS 38/IAS 38 (as revised), "Intangible Assets", prescribes accounting and disclosure for intangible assets that are not specifically dealt with in other SFAS and expenditures on advertising, training, start-up and research and development activities. The Company will adopt the provisions of SFAS 38/IAS 38 which will become effective for financial statements covering periods beginning on or after January 1, 2003. On such date, the remaining balance of preoperating expenses will be adjusted retroactively to retained earnings and comparative financial statements will be restated.

Net Asset Value (NAV) Per Share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and outstanding at report date.

Sales and Redemptions of Shares of Stock

Sales of fund shares are recorded by crediting Capital Stock at par value and Additional Paid-in Capital for the amount received in excess of the par value; redemptions are recorded by debiting those accounts.

Deferred Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and the tax effect of net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be realized. A valuation allowance is provided for the portion of deferred tax assets, if any, which is not expected to be realized in the future. Any change in the valuation allowance on deferred tax asset is included in the computation of provision for deferred income tax for the year.

Foreign Currency Translations

The Company's accounting records are maintained in U.S. dollars and in Philippine pesos. Transactions denominated in U.S. dollars are translated to Philippine pesos using the current exchange rate as of the date they are reported.

- a. Assets and liabilities reported in the Statements of Assets and Liabilities are translated at the exchange rate as of the date following the last transaction date for the year.
- b. Revenue, expenses, gains and losses reported in the Statements of Operations are translated at the current exchange rates as of the date on which they are recognized.
- c. Capital stock is translated using historical rates.
The foreign currency translation adjustment that results from translating the Company's financial statements from functional currency to reporting currency are not included in the determination of the translated reporting currency Net Investments but are rather accumulated as a separate component of the Company's reporting currency net assets as Foreign Currency Translation Adjustment in the Statement of Changes in Net Assets.

3. Investments in Fixed Income Securities

Investments in Fixed Income Securities generally represent special savings accounts and investments in government securities. Details are as follows:

	Philippine Pesos	U.S. Dollars(Note 2)
Long-term	P 66,883,638	\$ 1,261,242
Special-savings	2,571,955	48,500
	P 69,455,593	\$ 1,309,742

4. Related Party Transactions

Transactions with a related party pertain to liability to SLAMC arising from management and service fees as described in Note 1.

5. Net Assets

The Company's net assets consist of:

	Philippine Pesos	U.S. Dollars(Note 2)
Capital stock - P1 par value		
Authorized - 2,000,000 shares		
Issued and outstanding 678,824 shares	P 678,824	\$ 13,334
Additional paid-in capital	69,291,844	1,347,258
Net investment income	1,228,987	23,619
Foreign currency translation adjustment	2,209,623	-
Unrealized bond appreciation	44,799	1,065
	P 73,454,077	\$ 1,385,276
NAV per share	P 108.2078	\$ 2.0407

6. Income Taxes

The provision for tax represents normal tax.

A reconciliation of statutory income tax rate to effective income tax rate follows:

Statutory income tax rate	32.00%
Tax effect of tax paid income - net	4.40
Effective income tax rate	27.60%

Contact Information

INVESTMENT MANAGER, PRINCIPAL DISTRIBUTOR, AND TRANSFER AGENT

Sun Life Asset Management Company, Inc.

10th Floor, Tower II, The Enterprise Center
6766 Ayala Avenue, Makati City

Phone: 849-9900
Fax: 849-9744

SUN LIFE PROSPERITY FUNDS

Sun Life of Canada Prosperity Bond Fund, Inc.
Sun Life of Canada Prosperity Philippine Equity Fund, Inc.

Sun Life of Canada Prosperity Balanced Fund, Inc.
Sun Life Prosperity Dollar Advantage Fund, Inc.

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