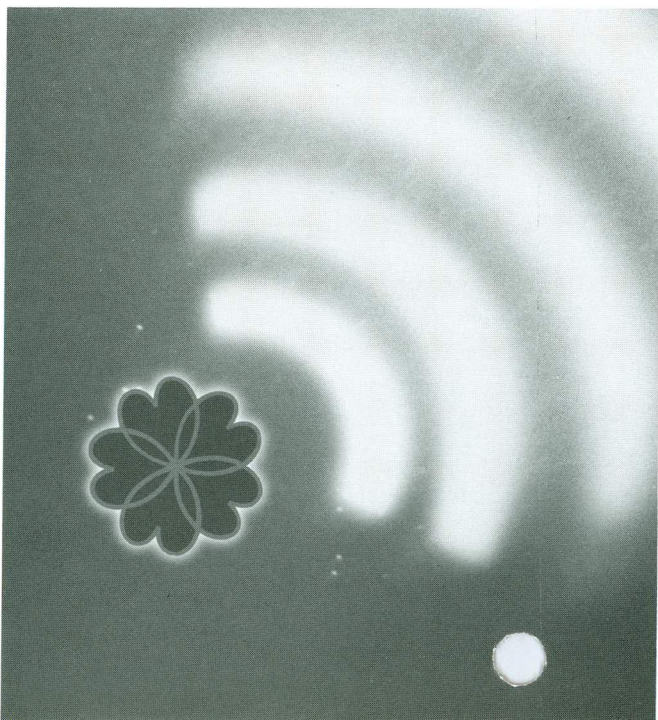


SOLID GROUP INC.
1997 ANNUAL REPORT



our cover

*In a challenging environment,
we're streamlining and gearing up for
expansion, diversification, and consolidation.
On our cover: Relentlessly expanding
waves of energy, waves of growth.
Solid Group's thrust in 1997 and beyond.*



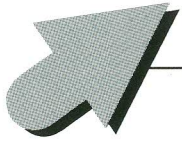
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FINANCIAL HIGHLIGHTS

	1997	1996	1995
<i>Amounts in thousands of pesos (except Earnings Per Share)</i>			
Sales	P 8,213,164	P 7,768,599	P -
Royalty Income	-	-	4,852
Gross Profit	1,189,718	1,576,688	-
Income from operations	345,808	1,046,481	3,387
Net Income	431,279	620,584	7,751
Earnings Per Share	0.21	0.62	0.01
Current Assets	6,614,770	6,602,751	38
Total Assets	11,048,267	10,704,328	38
Current Liabilities	3,588,616	3,380,243	25,768
Stockholders' Equity	7,333,552	7,206,918	(25,730)



REPORT TO SHAREHOLDERS

The story of 1997 was dominated by the foreign exchange crisis that saw the peso stumble almost helplessly against the US dollar and soaring interest rates. While your company was not spared the effects of the Asian contagion, we are glad to report that the crisis has not deterred Solid Group Inc. from pursuing its vision of growth and stability. Not only did we manage to preserve our strengths in 1997, but the year also marked certain strategic milestones in the corporate development of SGI. Our in-depth review of our core business and processes has enabled us to identify future areas for growth and we have initiated the moves towards the implementation of new corporate directions.

One significant event was your company's joint venture with Sony Corporation of Japan in May 1997, even before the financial crisis set in, for the domestic marketing and distribution of Sony consumer electronic products in the Philippines. This move is expected to give SGI access to Sony's global organization. The joint venture precedes what will certainly be a very competitive consumer electronics market.

With the joint venture, SGI and certain subsidiaries signed manufacturing and after-sales service agreements with Sony Philippines, Inc.. These agreements virtually assure SGI the exclusive right to manufacture Sony products for the Philippine market, and to provide exclusive after-sales service through its extensive nationwide service center network. In an industry which will soon be practically unprotected by tariffs, the strategic partnership with Sony will provide SGI the continuity and guaranteed capacities it needs to meet the efficiencies and product innovations required by an increasingly sophisticated market.

The consumer electronics market grew modestly in 1997. While some of our dealers were hit hard by high interest rates and soft consumer demand, our dealer network continues to be strong as we maintain our strict dealer selection process and evaluation. The liquidity and the quality of our accounts continue to have higher

priority over mere sales growth. In a period of high interest rates, we have managed to maintain a highly liquid position while we assess the prospects and opportunities for 1998.

Sony products continue to be our leading brand in the domestic market, contributing approximately 81% of total domestic sales (85% in 1996). Our domestic sales of Aiwa products continue to increase dramatically, contributing 19 percent of total domestic revenues, from a hefty 41% increase over 1996 domestic sales. The continued strength of these two brands guarantees your company's continued market dominance in the consumer electronics market. Color television continues to account for the major revenue source with 42% followed by video and audio at 19% and 31% respectively. With their competitive prices and quality, Aiwa products are poised to make significant, yet distinctive niche in the domestic market, eventually making Sony and Aiwa the two most popular consumer electronics brand. The sale of Aiwa color TV sets in the local market is expected to be a significant growth segment.

Your company continues to be the only local exporter of color TV sets. The export of Aiwa color TV sets to Japan, South America, and the Middle East out of Kita Corporation's Clark factory was lower by 14% in 1997 (P2,043 in 1997; P2,387 in 1996). With most of its production problems (brought about by the introduction of 9 new models early in 1997) behind it, Kita Corporation expects better productivity and efficiencies in 1998 as well as increased sales from a broader product range. Overall, the export activity contributed P26 million pesos to consolidated net income. Combined export and domestic sales of color TV accounted for approximately 56% of total revenues (63% in 1996).

We also continue to be the major supplier of professional broadcast equipment to the TV and broadcast industry, as well as to the medical and allied services, with more than 90% of the market. We expect to lock on to this market dominance with the introduction of new, versatile, price-competitive digital equipment.

The company also started in 1997 serious efforts towards streamlining its manufacturing and operating efficiencies with the permanent closure of the company's original and oldest manufacturing facility which is located north of Metro Manila. Established in the late 1960s for the production of consumer electronic products, the facility has become relatively inefficient to meet current requirements. Other facilities are also under review for possible consolidation of manufacturing activities in one factory. This should increase the capacity utilization of remaining factories without adversely affecting the company's capability to supply or service its customers. ISO 9000 certification is expected in 1998 for Solid Laguna Corporation's state-of-the-art factory in Laguna.

The plastic injection molding factories in Paranaque and Clark continue to operate at or near their rated capacities. The efficiencies of these facilities, which provide plastic cabinets to the main TV manufacturing plants, contribute to overall cost improvements and also allow better quality control and faster turnaround time. One factory is working on its ISO 9002 certification. Other than the plastic injection molding and the styrofoam project (which will start operations by May 1998; operations was delayed because of changes in Aiwa molds), backward integration does not promise to be a viable production strategy at present. The emergence of reliable, price-competitive alternative suppliers, and anticipated changes in tariff structure, make us rethink our capital expenditures commitment.

Our industrial estate project, the Calamba Premier International Park is currently in its first phase (65 hectares) of development of which 48 hectares are now available for sale. All government approvals have been obtained for CPIP, except for the presidential proclamation declaring the estate as a Philippine Export Zone Authority Area, entitling the project to certain tax and other fiscal incentives. As of December 31, 1997, 18 hectares have been sold, the proceeds of which will be substantially adequate to complete first phase development. This industrial estate will contribute to net operating results in 1998 and 1999.

The operating results of SGI for 1997 showed a net income of ₱ 431 million, 30% off the 1996 results of ₱ 620 million. While total sales in 1997 increased by 6% to ₱ 8,213 million, gross profit was down to

₱ 1,189 from ₱ 1,576 in 1996, a drop of 6 percentage points in the gross profit rate. The decline in gross profit was mainly due to the increase in manufacturing costs as a result of the peso devaluation. Increasing competition, decline in consumer purchasing power, and tight liquidity prevented corresponding price adjustments that would have offset increased costs.

Operating expenses increased to ₱ 844 million in 1997 primarily due to higher advertising and promotional expenses. Higher freight costs, increased manpower costs due to mandated wage increases, provisions for inventory obsolescence and doubtful accounts also contributed to increase operating expenses. Operating expenses are expected to drop significantly next year since a major operating segment consisting of the sales and marketing function for Sony products have been transferred to Sony Philippines, Inc., effective October 1, 1997.

Net interest income amounted to ₱ 201 million in 1997 (₱ 48 million in 1996), largely due to proceeds from fixed income investments. Loss on foreign exchange as a result of the peso devaluation and charged to operations amounted to ₱ 315 million, of which ₱ 179 million was charged to cost of goods sold.

SGI maintained a healthy balance sheet through the whole of 1997 as a result of the public offering in 1996 and from continued profitable operations. Cash and cash equivalents at the end of 1997 amounted to ₱ 1,821 million compared to ₱ 2,909 million in 1996. The funds were mostly used in 1997 to finance additional inventories and other working capital (₱ 417 million), capital expenditures of ₱ 531 million and cash dividends of ₱ 305 million. The company's current ratio at the end of 1997 was at 1.84:1. We continue to keep a close watch on our receivables and inventory position and while we have seen a slight increase in collection period, we feel confident of the quality of our accounts. Nevertheless, management provided an additional ₱ 7 million in allowance for doubtful accounts. This represents less than one percent of the increase in sales for the year. Total stockholders' equity stood at ₱ 7,334 million as of December 31, 1997 (₱ 7,207 million in 1996), or a book value per share of ₱ 3.61 (₱ 3.55 in 1996). Debt to equity ratio was 0.51 at the end of 1997.

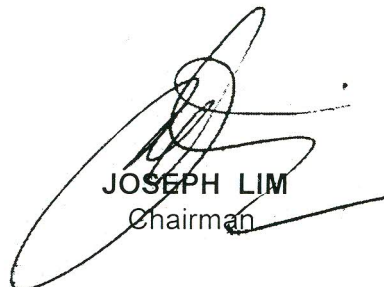
While the company ended 1997 with a relatively healthy balance

sheet, the prospects for the economy in general remains guardedly cautious and we expect the year to be a period of consolidation requiring prudence and sensitivity to threats and opportunities. We expect to preserve our gains and to maintain a healthy financial position, protect our market shares, streamline our operations, and train our people. We have succeeded this far and are very optimistic that when the next turn comes, we will be one of the first and strongest companies to make a strong bid for growth and increased profitability.


With this vision, your board approved on May 4, 1998, the company's investment in Destiny, Inc. with the latter becoming a wholly owned subsidiary. This investment is considered significant in many ways. We see synergies in bundling Destiny, Inc.'s multi-media services with our proven high-quality consumer electronic products. The consumer's renewed perception of our products and services is expected to develop incremental market niches which will become major revenue drivers in the years to come. Our proactive approach to market development will allow us to develop new areas for growth

not found in traditional distribution channels. With the investment in Destiny, we have taken the initial steps towards our transition from consumer electronics manufacturing to a fully integrated multi-media company. We will continue to exploit the equity we built in manufacturing, sales, and distribution while establishing a strong forward linkage to the multi-media industry.

As we approach 1998 with our customary brand of enthusiasm and optimism, we wish to thank our stockholders for their support and continued confidence.



JOSEPH LIM
Chairman



ELENA S. LIM
President



STATEMENT OF MANAGEMENT'S RESPONSIBILITY


The management of Solid Group Inc. is responsible for all information and representations contained in the financial statements as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the estimates and informed judgment of management with an appropriate consideration for materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, have examined the financial statements of the Company and have expressed their opinion in a report shown in the succeeding page.


ELENA S. LIM
President
Chief Executive Officer


VINCENT S. LIM
Vice President
Chief Financial Officer

SGV & Co

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

**The Stockholders and the Board of Directors
Solid Group Inc.**

We have audited the accompanying consolidated balance sheets of Solid Group Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. 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. The financial statements of Solid Group Inc. as of December 31, 1995 were audited by other auditors whose report dated January 29, 1996 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial positions of Solid Group Inc. and Subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

SGV & Co.

Makati City, Philippines
March 31, 1998

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996

	1997	1996
ASSETS		
Current Assets		
Cash and cash equivalents	P 1,820,506,306	P 2,909,065,630
Receivables – net (Note 3)	1,692,608,648	1,632,328,537
Inventories – net (Note 4)	2,961,448,580	1,990,588,251
Other current assets (Note 8)	140,206,714	70,768,429
Total Current Assets	6,614,770,248	6,602,750,847
Investments (Notes 1 and 5)	463,705,585	431,738,284
Property, Plant and Equipment - net (Note 6)	3,902,071,819	3,604,735,515
Other Assets – net (Note 8)	67,719,131	65,103,434
	P 11,048,266,783	P 10,704,328,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 7)	P 596,624,000	P 328,698,665
Accounts payable and accrued expenses (Note 8)	963,671,341	1,535,442,333
Trust receipts and acceptances payable (Note 4)	1,951,498,847	1,240,149,175
Income tax payable	76,821,423	275,953,212
Total Current Liabilities	3,588,615,611	3,380,243,385
Minority Interest	126,099,452	117,166,100
Stockholders' Equity (Note 1)		
Capital stock – P1 par value		
Authorized – 5 billion shares		
Issued – 2,030,975,000 shares	2,030,975,000	2,030,975,000
Additional paid-in capital	4,589,076,596	4,589,076,596
Retained earnings	713,500,124	586,866,999
	7,333,551,720	7,206,918,595
	P 11,048,266,783	P 10,704,328,080

See accompanying Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

(With Comparative Figures for 1995)

	1997	1996	1995
SALES (Note 7)	P 8,213,164,061	P 7,768,598,799	P —
COST OF GOODS SOLD (Notes 4, 6 and 10)	7,023,445,773	6,191,910,284	—
GROSS PROFIT	1,189,718,288	1,576,688,515	—
ROYALTY INCOME	—	—	4,852,810
	1,189,718,288	1,576,688,515	4,852,810
OPERATING EXPENSES (Notes 6 and 10)	843,910,121	530,207,821	1,465,612
INCOME FROM OPERATIONS	345,808,167	1,046,480,694	3,387,198
OTHER INCOME (CHARGES) – Net			
Interest	201,175,229	47,746,774	(3,166,443)
Services	78,908,920	138,811,687	—
Equity in net earnings of investees (Note 5)	22,675,582	9,737,004	—
Foreign exchange loss	(136,155,877)	—	—
Rentals and others	69,637,171	54,814,272	10,579,945
	236,241,025	251,109,737	7,413,502
INCOME BEFORE INCOME TAX, MINORITY INTEREST AND PREACQUISITION INCOME	582,049,192	1,297,590,431	10,800,700
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 8)			
Current	155,789,915	388,425,831	3,049,442
Deferred	(13,953,450)	(2,161,720)	—
	141,836,465	386,264,111	3,049,442
INCOME BEFORE MINORITY INTEREST AND PREACQUISITION INCOME	440,212,727	911,326,320	7,751,258
MINORITY INTEREST	8,933,352	11,780,560	—
INCOME BEFORE PREACQUISITION INCOME	431,279,375	899,545,760	7,751,258
PREACQUISITION INCOME (Note 9)	—	278,962,166	—
NET INCOME	431,279,375	620,583,594	7,751,258
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR (Note 1)	586,866,999	(33,716,595)	(41,467,853)
Cash dividend – P0.15 per share	(304,646,250)	—	—
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	P 713,500,124	P 586,866,999	(P 33,716,595)
Earnings Per Share	P 0.21	P 0.62	P 0.01

See accompanying Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996
(With Comparative Figures for 1995)

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	₱ 431,279,375	₱ 620,583,594	₱ 7,751,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	200,239,444	97,616,736	—
Equity in net earnings of investees	(22,675,582)	(6,923,461)	—
Benefit from deferred income tax	(13,953,450)	(1,907,417)	—
Provisions for:			
Doubtful accounts	6,764,956	3,938,801	—
Inventory obsolescence	16,222,546	2,075,361	—
Minority interest share in net income	8,933,352	8,491,952	—
Loss on sale of property, plant and equipment	2,454,919	—	—
Amortization of preoperating expenses	254,108	1,331,216	—
Income from assignment of assets	—	—	(10,546,656)
Changes in assets and liabilities net of effects			
From purchase of subsidiaries in 1996 as enumerated in Note 1 to the financial statements:			
Decrease (increase) in:			
Receivables	3,353,473	(508,664,354)	1,003,998
Inventories	(715,265,816)	(82,119,966)	—
Other current assets	(56,444,207)	27,317,973	—
Increase (decrease) in:			
Accounts payable and accrued expenses	(571,770,992)	22,177,575	—
Trust receipts and acceptances payable	492,589,073	159,612,683	—
Income tax payable	(199,131,789)	154,449,004	1,447,089
Payable to an affiliate	—	—	(510,804)
Net cash provided by (used in) operating activities	(417,150,590)	497,979,697	(855,115)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(530,554,866)	(161,617,587)	—
Decrease (increase) in investments	(9,291,719)	(249,113,259)	—
Proceeds from sale of property, plant and equipment	30,524,199	—	—
Decrease (increase) in other assets	(1,910,433)	18,513,834	—
Cash acquired from purchase of subsidiaries	—	281,846,909	—
Decrease in advances to affiliates	—	225,116,617	—
Net cash provided by (used in) investing activities	(511,232,819)	114,746,514	—

(Forward)

	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans	1,278,146,947	489,698,665	—
Payments of bank loans	(1,133,676,612)	(1,169,024,856)	—
Payments of dividends	(304,646,250)	—	—
Increase (decrease) in minority interest	—	39,750,000	—
Proceeds from issuance of capital stock	—	2,935,877,666	—
Collection of subscription receivable	—	—	180
Net cash provided by (used in) financing activities	(160,175,915)	2,296,301,475	180
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,088,559,324)	2,909,027,686	(854,935)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,909,065,630	37,944	892,879
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 1,820,506,306	P 2,909,065,630	P 37,944
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income tax	P 355,093,958	P 105,926,474	P 1,602,353
Interest	38,981,012	36,943,792	—
SUPPLEMENTAL INFORMATION ON NONCASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of investments in shares of stock by issuance of capital stock	P —	P 3,676,187,115	P —
Conversion of payable to an affiliate to additional paid-in capital	P —	P 24,310,142	P —

See accompanying Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

Solid Group Inc. (Company), formerly United Paracale Mining Corporation (UPMC), and a publicly listed company in the Philippine Stock Exchange (PSE), was incorporated on October 9, 1933 to engage primarily in gold mining. On March 28, 1996, UPMC agreed to convert its accounts payable as of March 31, 1996 amounting to ₱24,310,142 into additional paid-in capital to restructure its capital stock and eliminate its deficit. The agreement was effected in the books of the Company as of March 31, 1996.

After the aforementioned conversion, UPMC was acquired by a new set of stockholders which, on April 16, 1996, approved the change in UPMC corporate name to Solid Group Inc. and its primary purpose to that of a holding company; the increase in the par value of its shares from ₱.01 to ₱1; the declassification of its class A and class B capital stock; and, the increase in its authorized capital stock from ₱20 million, divided into 1.2 billion class A shares and 0.8 billion class B shares, to ₱5 billion, divided into 5 billion shares all of one class. These amendments were approved by Securities and Exchange Commission (SEC) on June 18, 1996. Further, pursuant to a tax-free exchange, the Company's new majority stockholders executed on May 31, 1996 deeds of assignment transferring to the Company their investments in shares of stock of the companies enumerated in Note 2 as full payment for their subscriptions to 1.5 billion shares of the Company's capital stock. The Company recorded the assignment of the shares and the investment based on the net book values of the subsidiaries of ₱3,676,187,115 as of June 18, 1996, the date SEC approved the assignment of the shares. The net book values as of June 18, 1996, consisted of the transfer price indicated in the deeds of assignment of ₱3,520,973,766, which was based on the net book values of the subsidiaries as of March 15, 1996, and the net income of the subsidiaries totaling ₱ 155,213,349 for the period March 15, 1996 to June 18, 1996. The statements of income and retained earnings and cash flows for the year ended December 31, 1995 pertain to the accounts of UPMC only.

On September 4, 1996, an additional 524,475,000 of the Company's shares of stock were offered to the public and listed in the PSE. The proceeds of the public offering were mainly intended to finance planned expansion activities and repay portions of outstanding loans of certain subsidiaries.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Investments

The consolidated financial statements include the accounts of Solid Group Inc. and its wholly owned subsidiaries. The subsidiaries are:

Solid Corporation and Subsidiaries
Solid Video Corporation
Ascop, Inc.
Kita Corporation
Solid Laguna Corporation
Solid Distributors, Inc.
Solid Electronics Corporation
AA Electronics Corporation
Solid Manila Corporation and Subsidiary

Solid Corporation and Subsidiaries include:

	Percentage of Ownership
Clark Plastics Manufacturing Corporation	100.0
Solid City Industrial and Commercial Corporation	100.0
Solid Electronics Services, Inc.	100.0
SSEC, Inc.	67.5
Interstar Holding Company, Inc.	60.0

The account of Solid Manila Corporation and Subsidiary includes 75%-owned Skyworld Corporation.

The Company's 33% investment in Sony Philippines, Inc. (SPH), acquired in 1997, and Solid Corporation's 22.5% investment in Laguna International Industrial Park, Inc. are carried under the equity method. Under the equity method, the cost of investments is adjusted for the Company's equity in net earnings or losses of the investees and for dividends received since the dates of acquisition. All significant intercompany accounts and transactions are eliminated.

Other investments are stated at cost.

Cash Equivalents

The Company and certain subsidiaries consider all highly liquid debt instruments purchased with a maturity of three months or less from date of acquisition to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Cost is generally determined by the moving average method.

Property, Plant and Equipment

Land, buildings and improvements, and machinery and equipment of certain subsidiaries acquired prior to March 15, 1996, are stated at appraised values as determined by an independent firm of appraisers in April 1996. Subsequent

acquisitions and all other property, plant and equipment are stated at cost. The net appraisal increment resulting from the revaluation was credited to the "Revaluation increment in property" account as shown under the Stockholders' Equity section of the balance sheets of the subsidiaries. There is no corresponding Revaluation increment in property in the Stockholders' Equity section of the parent company and the consolidated accounts since the revaluation was made before the Company's acquisition of the subsidiaries and the Company shares issued in exchange for the subsidiaries' shares of stock were valued at the subsidiaries' book values which already included the revaluation increment.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or over the term of the lease, in case of leasehold improvements, whichever is shorter. Depreciation on the appraisal increase is not a tax deductible expense.

The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in current operations.

Royalty Income

Royalty income is recognized upon shipment by the operator of the minerals using the exchange rate prevailing at the time of shipment.

Preoperating Expenses

Expenses incurred by certain subsidiaries prior to the start of commercial operations were deferred and are generally amortized over five years.

Income Tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets and liabilities are measured using the tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Pension Plan

Pension expense is generally determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporate assumptions concerning employees' projected salaries. Unrecognized experience adjustments and past service costs are amortized

over the expected working lives of employees, in compliance with Accounting Standard Council's Statement No. 24, Retirement Benefit Costs.

Foreign Exchange Transactions

Gains or losses arising from foreign currency-denominated transactions are generally credited or charged to current operations, except from the restatement of foreign currency-denominated liabilities related to the importation of inventories at the closing rate, which are included as part of the carrying value of inventories.

Earnings Per Share

Earnings per share are computed based on weighted average number of outstanding shares after giving retroactive effect to any stock dividends declared during the year.

3. Receivables

Receivables consist of:

	1997	1996
Trade	₱1,507,793,764	₱1,602,079,687
Others	220,818,908	59,487,918
	1,728,612,672	1,661,567,605
Less allowance for doubtful accounts	36,004,024	29,239,068
	₱1,692,608,648	₱1,632,328,537

4. Inventories

Inventories consist of:

	1997	1996
Finished goods	₱1,085,432,629	₱ 685,712,603
Work in process	409,488,821	148,161,870
Raw materials	1,219,074,977	975,334,285
Supplies and others	47,913,460	37,136,037
	2,761,909,887	1,846,344,795
Less allowance for inventory obsolescence	19,201,998	2,979,452
	2,742,707,889	1,843,365,343
Goods and materials in transit	218,740,691	147,222,908
	₱2,961,448,580	₱1,990,588,251

Foreign exchange losses included as part of inventories amounted to about ₱271.5 million as of December 31, 1997. Net foreign exchange losses charged to cost of goods sold amounted to about ₱178.9 million in 1997.

Under the terms of the agreement covering trust receipts, certain imported merchandise have been released to some subsidiaries in trust for the banks.

These subsidiaries are accountable to the banks for the trusted merchandise or their sales proceeds.

5. Investments

Investments consist of:

	1997	1996
Acquisition cost	P428,134,311	P420,792,592
Accumulated equity in net earnings:		
Balance, beginning of year	6,923,461	—
Equity in net earnings for the year	22,675,582	6,923,461
Balance, end of year	29,599,043	6,923,461
	457,733,354	427,716,053
Others — at cost	5,972,231	4,022,231
	P463,705,585	P431,738,284

6. Property, Plant and Equipment

Property, plant and equipment consist of:

	1997	1996
Land	P 514,395,609	P 330,030,667
Machinery and equipment	728,170,848	562,778,560
Buildings and improvements	466,619,044	430,946,937
Furniture, fixtures and equipment	118,014,063	109,276,807
Transportation equipment	90,173,001	102,024,093
Tools and equipment	86,732,230	70,664,249
Leasehold improvements	51,030,619	42,445,942
Others	8,593,369	5,449,271
	2,063,728,783	1,653,616,526
Less accumulated depreciation and amortization	540,812,172	416,973,833
	1,522,916,611	1,236,642,693
Appraisal increase:		
Land	1,817,539,133	1,817,539,133
Buildings and improvements	636,337,412	636,337,412
Machinery and equipment	144,417,533	144,449,623
	2,598,294,078	2,598,326,168
Less accumulated depreciation and amortization	296,326,592	250,796,193
	2,301,967,486	2,347,529,975
Construction in progress	77,187,722	20,562,847
	P 3,902,071,819	P 3,604,735,515

Depreciation charged to operations (including depreciation on appraisal increase of **P46,928,440** in 1997 and **P36,482,046** in 1996) amounted to **P200,239,444** in 1997 and **P134,151,511** in 1996. Depreciation expense in 1996 includes

depreciation after June 18, 1996 based on appraisal increase of **P21,194,883** and on cost of **P76,421,853**.

7. Bank Loans

Bank loans represent peso- and dollar-denominated loans obtained from local banks with annual interest rates ranging from 6% to 22% in 1997 and 7% to 17% in 1996. Certain loans are secured by the assignment of a subsidiary's export proceeds.

8. Income Tax

Certain subsidiaries of the Company are registered with Clark Development Corporation under the Bases Conversion and Development Act of 1992 (Section 15 of Republic Act No. 7227, Section 5 of Executive Order No. 80 and Proclamation No. 163), as Clark Special Economic Zone (CSEZ) enterprises primarily engaged in the business of manufacturing consumer electronic products. As registered CSEZ enterprises, these subsidiaries are entitled to tax and duty free importation of raw materials, capital goods, equipment, household and personal items, and are exempted from national and local taxes. These subsidiaries shall pay to the government a certain amount equivalent to 5% of its gross income as defined under R.A. No. 7227 and its implementing regulations.

Significant components of the Company and subsidiaries' deferred tax assets and liability as of December 31, 1997 and 1996 are as follows:

	1997	1996
Other current assets:		
Allowance for doubtful accounts	P 12,241,368	P 10,233,674
Allowance for inventory obsolescence	6,528,680	1,042,808
Unrealized foreign exchange loss	6,050,939	177,922
Reserve for retirement benefits	2,738,541	—
Advance rental	85,670	226,252
	27,645,198	11,680,656
Other assets:		
Unamortized past service cost contribution	959,372	—
	P 28,604,570	P 11,680,656
Current liabilities:		
Unrealized foreign exchange gain	P 2,970,464	P —

The reconciliation of income tax on pretax income computed at the statutory tax rates to provision for income tax as shown in the consolidated statements of

income and retained earnings is summarized as follows:

	1997	1996	1995
Income tax computed at statutory tax rates	P 206,773,435	P 402,049,109	P 3,780,245
Income tax effects of:			
Interest income subjected to final tax at a lower rate	(80,129,468)	(31,707,885)	(2,881)
Depreciation on appraisal increase	16,355,031	12,813,270	—
Equity in net earnings of investees	(7,936,454)	(3,407,951)	—
Tax loss position	1,086,140	2,091,327	—
Unallowable deductions as defined under R.A. No. 7227	4,619,482	4,407,058	—
Adjustments due to change in applicable income tax rate for temporary differences in the expected years of recovery	879,513	—	—
Royalty income subjected to final tax at a lower rate	—	—	(727,922)
Others	188,786	19,183	—
	P 141,836,465	P 386,264,111	P 3,049,442

On December 11, 1997, Republic Act No. 8424 (Act) entitled "An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes," was passed into law effective January 1, 1998. Among others, the Act includes the following significant revisions to the current rules of taxation:

- Change in the corporate income tax rate to 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;
- Imposition of minimum corporate income tax of 2% of gross income, as defined;
- Imposition on the employer of final tax on the grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;
- Reduction of the interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999 and 38% starting January 1, 2000 and

onwards; and,

- Introduction of a three-year net operating loss carryover.

9. Preacquisition Income

The consolidated income statement in 1996 includes the results of operations of subsidiaries for the year ended December 31, 1996 as though these subsidiaries have been acquired at the beginning of 1996. As discussed in Note 1, the subsidiaries were actually acquired by the Company on June 18, 1996 ("Acquisition Date"). Statement of Financial Accounting Standards No. 21 issued by the Accounting Standards Council provides that the results of subsidiaries' operations from the beginning of the year up to Acquisition Date ("Preacquisition Income") may be deducted from net income and shown as a separate item in the statement of income to present results that are more indicative of the current status of the group and to facilitate future comparison with subsequent years. Preacquisition income has already formed part of additional paid-in capital and can be declared as stock dividends upon approval of SEC.

10. Pension Plan

The subsidiaries provide for the estimated retirement benefits required under RA No.7641 to qualified employees. Total pension expense for 1997 amounted to about P15.6 million. The pension benefits applicable to years prior to the effectivity of RA No. 7641 are amortized over 10 years, the approximate average life of employees. Based on the latest actuarial estimates computed under the projected unit credit method, the unfunded actuarial present value of pension benefits amounted to about P74.5 million.

In accordance with the Joint Venture Agreement (JVA) that the Company entered into with Sony Corporation on May 9, 1997, the Company transferred more than 120 employees to the joint venture company, Sony Philippines, Inc. (SPH), effective October 1, 1997. The Employee-Related Agreement that the Company entered into with SPH provides, among other things, that the transferred employees will be considered as having continuously worked for SPH from the time of their employment with the Company and that the Company is not required to pay SPH the provisions for retirement allowance corresponding to the service of such employees with the Company.

11. Agreements

On May 9, 1997, the Company entered into a joint venture agreement (JVA) with Sony Corporation (Sony) for a period of 8 years until 2005 to jointly invest and organize a joint venture corporation whose primary purpose is to sell and market in the Philippines certain consumer type electronic products bearing the trademark "Sony". The Company invested an equivalent share of 33% ownership in the joint venture corporation, Sony Philippines, Inc. (SPH), which

was incorporated on September 9, 1997 and has a fiscal year which ends on March 31. SPH started commercial operations on October 1, 1997 at which date the Company and Solid Corporation (SC) ceased all selling activities direct to dealers and transferred this activity to SPH in accordance with the JVA. On March 6, 1998, Sony transferred its entire 67% equity ownership in SPH to a wholly-owned Dutch subsidiary, Sony Holdings (Asia) B.V. Sony assured the Company that it will not transfer its investment in its Dutch subsidiary to any third party without the prior consent of the Company. As a result of the JVA with Sony, the Company and certain subsidiaries entered into the following agreements with SPH effective October 1, 1997:

- Manufacturing Agreement which has an initial term of 2 years and provides, among other things, that SPH purchase Sony products, as defined in the agreement, exclusively from the Company.
- Component Supply Agreement which has an initial term of 2 years and provides among other things, that the Company purchase from Sony International (Singapore) Ltd. (SONIS) the parts and components to be used in the manufacture of the Sony products that the Company shall supply SPH, and that such purchases from SONIS shall be invoiced to the Company in Philippine pesos.
- After-Sales Service and Network Support Agreements which provide that the Company and Solid Electronics Corporation (SEC) shall provide in-warranty and out-of-warranty services for Sony products sold in the Philippines. The initial terms of these agreements are 2 years and one year, respectively.
- Asset Purchase Agreement which covered the sale of certain assets of the Marketing Division of SC to SPH in accordance with the transfer of the sales and marketing activities from SC to SPH effective October 1, 1997.

Notwithstanding the limited term of the above agreements, Sony has assured the Company that during the tenure of the JVA, it has no intention of appointing anybody other than the Company and its subsidiaries to manufacture Sony products in the Philippines to be supplied to SPH nor of appointing anybody other than SEC or any subsidiary of the Company to perform after-sales service activities for SPH or for SPH to perform such service directly to end-users.

Prior to the JVA with Sony, the Company through its wholly-owned subsidiary, SC, was granted a manufacturing license by Sony since 1975 to manufacture and sell in the Philippines certain Sony products. This license had been renewed on an annual basis.

Kita Corporation had been granted a non-transferable right and license to manufacture and assemble certain consumer electronic products bearing the trademark "Aiwa" and to sell the same to Aiwa Co., Ltd. under a Purchase Agreement dated September 1, 1994 and a License Agreement dated December 1, 1995. The initial terms of these agreements are for periods of one year and three years, respectively. These agreements, however, provide for automatic

extension for successive one year periods unless a written notice to the contrary is made by either party.

Ascop, Inc. had been appointed by Aiwa Co., Ltd. as a non-exclusive distributor in the Philippines of certain Aiwa products, excluding duty free zones and shops, under a Distributorship Agreement executed in 1993. The Distributorship Agreement had been renewed and extended up to March 31, 1998. Subsequent extension of this agreement is currently being processed.

12. Recent Economic Events

The Philippines is experiencing an economic slowdown which has been characterized by volatile foreign currency exchange rates, high interest rates, and declining stock prices. The operations of the companies in the country have been affected, and will continue to be affected for the foreseeable future by the country's unstable economy caused by the currency volatility in the Asia Pacific region. Any effects of these economic events on future operations of the Company and its subsidiaries will be reported in the financial statements as they become known and estimable.

13. Other Matters

Solid Corporation, a wholly owned subsidiary of the Company, has permanently closed its manufacturing facility located in Valenzuela, Metro Manila effective May 3, 1997. The plant was established in late 1960's and manufactured consumer electronic products but had become relatively inefficient to meet the current requirements of the Company. The space in and layout of the facility no longer allows for efficient traffic and storage of raw materials and finished goods. This closure does not affect the ability of the Company as a whole to supply or service its customers.



BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

CHAIRMAN	Joseph Lim
DIRECTORS	Elena S. Lim Washington Z. SyCip Susan L. Tan Vincent S. Lim David S. Lim George R. Tan James H. Uy Lita Joaquin

CORPORATE OFFICERS

CHAIRMAN OF THE BOARD	Joseph Lim
PRESIDENT and CHIEF EXECUTIVE OFFICER	Elena S. Lim
VICE PRESIDENT and CHIEF OPERATING OFFICER	Susan L. Tan
VICE PRESIDENT and CHIEF FINANCIAL OFFICER	Vincent S. Lim
VICE-PRESIDENT	David S. Lim
COMPTROLLER	Lita Joaquin



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