

ONE

ONE

**Year One
One Vision**

ONE

The 1996 Report



SOLID GROUP INC.

OUR COVER

ONE.

1996. Our first year as Solid Group Inc.

Our YEAR ONE under the new corporate structure.

Customer satisfaction, continued growth and diversification.

The unifying perspective. Our ONE VISION.

CONTENTS

Financial Highlights	5
Report to Stockholders	6
Statement of Management's Responsibility	15
Report of Independent Public Accountants	16
Consolidated Balance Sheet	17
Consolidated Statement of Income and Retained Earnings	18
Consolidated Statement of Cash Flows	19
Notes to Consolidated Financial Statements	20
Board of Directors and Corporate Officers	26
Investor Information	27

FINANCIAL HIGHLIGHTS

	1996	1995	1994
<i>Amounts in thousands of pesos</i>			
Sales	P 7,768,599	P -	P -
Royalty Income	-	4,852	6,049
Gross profit	1,576,688	-	-
Income from operations	1,046,481	3,387	5,306
Net income	899,545	7,751	936
Earnings per share	0.62	0.01	0.00
Current assets	6,602,751	38	1,265
Total assets	10,704,328	38	3,354
Current liabilities	3,380,243	25,768	36,835
Stockholders' equity	7,206,918	(25,730)	(33,481)

REPORT TO STOCKHOLDERS



continued to improve at a robust pace. The consolidated results for 1996 show improved financial position, results of operations and cash flows.

While continuing to focus on its core businesses in the intermediate future, Solid Group Inc. and subsidiaries also share a common vision of continued growth and diversification. The consumer electronics industry will continue to grow at a healthy pace in all major product categories (color television, video, and audio products). With two name brands and superior product quality, Solid Group Inc. is confident of maintaining its market

leadership in all categories.

With the company's restructuring in 1996 improving its financial position, Solid Group Inc. is poised to meet the challenges of an even more competitive industry in the coming years.

The acquisition of seventeen companies in the core business of consumer electronics products manufacturing and marketing marked our Year One as a holding company. These companies had a record-breaking year in 1996, as the economy

Innovation, service, and quality ("ISQ") will continue to be the guiding principles in all our business processes as we prepare for the challenges of a dynamic environment.

Financial Highlights

A comparison of the company's financial position at the end of, and results of operations for the year, 1996 (which already include the consolidated results of the companies acquired in 1996) show significant increases in



assets, liabilities, stockholders' equity, revenues and expenses. Cash and cash equivalents at the end of 1996 was P2.91 billion (P38 thousand and P893 thousand in 1995 and 1994, respectively).

Significant increases in current assets and liabilities, total assets, and stockholders' equity also mark the 1996 results primarily coming from the acquisition of the subsidiaries and subsequent sale of an additional 524,475,000 shares of the company's capital stock. Cash flows from operations for 1996 amounted to P498 million,

further boosting the company's improved working capital position. The company had no long-term debt at the end of 1996.

The company's total revenues in 1996 amounted to P8.02 billion on sales of P7.77 billion and other income of P251.11 million. These numbers are significantly higher compared to the results in 1995 and 1994 (gross revenues of P15.43 million and P6.06 million, respectively) prior to the acquisition. Gross margins improved to 20% in 1996 due to significant reductions in the tariff rates on imported raw materials and



decrease in the price of certain raw materials. Operating expenses of P530 million accounted for 7% of sales. Net income in 1996 amounted to P899.54 million, including the pre-acquisition portion of P278.9 million, representing the net income of the subsidiaries acquired in 1996 from the beginning of the year to June 18, the date SEC approved the corporate restructuring. In 1995, these subsidiaries had combined sales of P4.8 billion and net income of P216 million.

Marketing

The company's products under the Sony and Aiwa brand names continued their dominance of the industry accounting for combined shares of 25%, 50%, and 40% of the TV, video, and audio markets, respectively. TV sales accounted for 63% of total, followed by audio (20%) and video (18%). The continued pace of economic growth and corresponding increase in consumer spending are expected to contribute to market growth, estimated at 35% annually in terms of volume. The relatively low TV penetration market (estimated at 10 persons per 1 TV set) will continue to spur demand for the product.

The promising domestic market will likely spur fierce



competition among existing manufacturers. Competition will also come from new brands taking advantage of liberalized imports. In this multi-product, multi-brand competitive market, we foresee pricing to be a major marketing consideration. The company is prepared to withstand the pressure of a protracted price war, while maintaining reasonable profit margins. We will achieve this through corresponding cost savings coming from production efficiencies (economies of scale, localization, streamlined production, capacity maximization, and efficient distribution) and aggressive marketing efforts.

The company also intends to take advantage of this market growth by continuing to improve and expand its service and distribution network. A wider range of products as well as new models are slated for introduction to the market in 1997 with improvements in design and new features catering to constantly changing consumer tastes and preferences. There is a marked shift in customer preference for the bigger television screens, as well as an increasing demand in the mini and midi segments of the audio market. The company has the quality products to satisfy the needs of this significant market niche.

The company's existing dealers continue to be the major sales distribution network, ably supported by an extensive network of branches, warehouses, and service centers. The development of new dealers in new areas will continue to be pursued.

The exports of Aiwa color television made a significant contribution to revenues in 1996, accounting for 32% of sales. The products have found acceptance in its major markets in Japan, the Middle East, Europe, and South America due to its superior quality and competitive pricing. Exports are

expected to grow another 40% in 1997. The company is negotiating further exports of other consumer electronic products, in addition to the current line of TV sets.

Factory Operations

The company operates manufacturing facilities for the manufacture of consumer electronic products, both for the domestic and export markets, including plastic injection moulding factories for the production of plastic cabinets used in the company's products. The facilities for the domestic operations (principally under the Sony brand name) achieved



a combined production output of 580,000 sets in 1996 (an average of 3.6 sets per man-day), on a manpower complement of 530. The company's production operations are fully manned by Filipino managers, supervisors, and technicians who have consistently introduced innovations in production processes and techniques. In 1996, we started the in-house making of incircuit testing jigs and the chip mounting system of parts insertion. The production process now features a high-technology system for chip mounting. From the initial medium speed auto insertion introduced in 1996, we intend to upgrade to a high speed system in 1997. This step accounts for



approximately 70% of the entire manufacturing process and the technology, the only one of its kind introduced locally at present, allows for miniaturization, work simplification, improved product reliability and quality, and adaptability to local conditions. In March 1996, we started the production of video cassette recorders making us the only CKD (completely knocked down) producers of VCR in the entire Philippine electronics industry.

We are further reviewing opportunities for cost efficiencies and quality improvement including the rationality of consolidating

better work flow and logistics handling. In September, 1996, our factory at the Laguna International Industrial Park started research work and documentation towards achieving ISO 9000 certification in 1997.

The factory at the Clark Special Economic Zone also features state-of-the art technology and is the only major TV manufacturing facility serving Aiwa's worldwide television market, with total annual production capacity of one million TV sets a year. In September 1996, the facility was granted certification by the Japan Quality Assurance Organization, confirming its status as a world class manufacturer of consumer electronic products.

Significant improvements were also made in plastic injection moulding operations. Improved gas injection technology now allows less material inputs, lighter cabinet weight, and shorter cycle time. This has resulted in higher production and consistent quality.

In a move to further cut down costs and shorten production lead time, the company started construction in 1996 of a factory for the manufacture of expandable polystyrene. The factory,

located at the Clark Special Economic Zone, will serve the packaging requirements of the group and is expected to be operational in the first half of 1997.

Service

The company's service operations is a major support component credited in great measure with the company's market dominance. It has an extensive data bank of past customer complaints, diagnostics and repairs performed, and other technical information, the only one of its kind in the region. This data base of technical information enables our





the whole year round. The company's service centers operate on the network scheme, deviating from the industry practice of awarding service franchise to dealers and other service providers. The company believes that there is no shortcut to providing excellent product support. We intend to continue this philosophy.

From its existing network 33 service centers nationwide, the company plans to further strengthen and expand service operations by increasing the number to 50 nationwide, with seven to be added in 1997.

technicians even in the remotest area to render fast, reliable, and expert service. In 1996, the service group attended to an average of 18,000 units a month nationwide, with color TV sets accounting for approximately 42% of total volume, followed by VCR and audio products at 25% each. Service revenues amounted to P139 million in 1996.

The service centers are staffed by highly trained personnel who have undergone various training programs conducted by the company's own technical school. A major component of service operations is continuous training conducted



Human Resource Development

The company is committed to the development of its human resources, emphasizing the threefold values of integrity, competence, and capability. In-house and off-site training programs were conducted during the year for managers, support staff, and technical personnel. Corporate outings, sports programs, and fellowships are regular features in our human resources development effort. The benefits our employees enjoy are competitive with industry and we are confident we have provided a wholesome working environment for all our employees who are constantly challenged to uphold the values upon which our company is built.

The coming years will present new challenges and demands for human resource management and the development of the manager of the future starts now. Towards this end, we are strengthening our human resource management, with a responsible executive in charge of redefining the company's human resource strategy and implementing plans to further strengthen all aspects of human resources development, beginning with recruitment and selection.

Looking Ahead

Solid Group Inc. will continue to pursue its core business of consumer

electronics manufacturing and distribution. It shall maintain its dominant position in the Philippine consumer electronics market and expand its export markets through efficiencies in production, extensive dealer and service support, and introduction of new models.

The company will continue to enhance existing relationships with its technology and brand principals and seek further alliances with suitable partners to gain access to latest technologies. It shall likewise keep ahead of competition by continuously improving production processes



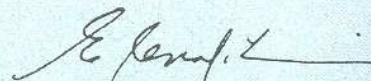
and raw materials sourcing, and developing new markets. Harmonious and long-term relationship with dealers shall continuously be nurtured and will remain an integral part of the company's marketing efforts.

While all these are done in the medium term, the company will also seek investment opportunities for growth

and profit maximization, pursuing sound investment policies that will ensure consistent fair returns to our shareholders.



JOSEPH LIM
Chairman



ELENA S. LIM
President



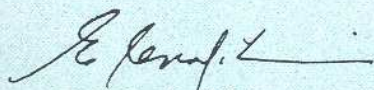
STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Solid Group Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 1996, 1995, and 1994. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and judgment of management with an appropriate consideration to 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.

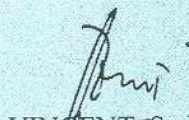
Sycip, Gorres, Velayo & Co. (for the year ended December 31, 1996) and Joaquin Cunanan & Co. (for the years ended December 31, 1995 and 1994), the independent auditors appointed by the stockholders, have examined the financial statements of the company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in their reports to stockholders dated February 18, 1997, January 29, 1996, and March 23, 1995, respectively.



ELENA S. LIM

President

Chief Executive Officer



VINCENT S. LIM

Vice President

Chief Financial Officer

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

We have audited the accompanying consolidated balance sheet of Solid Group Inc. and Subsidiaries (formerly United Paracale Mining Company) as of December 31, 1996, and the related consolidated statements of income and retained earnings and cash flows for the year 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 audit. The financial statements of United Paracale Mining Company as of December 31, 1995 and 1994 were audited by other auditors whose report dated January 29, 1996 and March 23, 1995, respectively, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 1996, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

Sylvia S. Hanes, Valenzuela & Co.

Makati City, Philippines

February 18, 1997



SOLID GROUP INC. AND SUBSIDIARIES

(Formerly United Paracale Mining Company)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1996

(With Comparative Figures for 1995 and 1994)

	1996	1995	1994
ASSETS			
Current Assets			
Cash and cash equivalents	P 2,909,065,630	P 37,944	P 892,879
Receivables - net (Note 4)	1,632,328,537	-	372,207
Inventories - net (Note 5)	1,990,588,251	-	-
Other current assets (Note 11)	70,768,429	-	-
Total Current Assets	6,602,750,847	37,944	1,265,086
Investments (Notes 1 and 6)	446,747,453	-	-
Property, Plant and Equipment - net (Note 7)	3,604,735,515	-	1,026,429
Other Assets - net	50,094,265	-	1,062,716
	P10,704,328,080	P 37,944	P 3,354,231

LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

Current Liabilities			
Bank loans (Note 8)	P 328,698,665	P -	P -
Accounts payable and accrued expenses	1,535,442,333	10,493	10,493
Trust receipts and acceptances payable (Note 5)	1,240,149,175	-	-
Payable to an affiliate (Note 9)	-	24,310,142	36,824,956
Income tax payable	275,953,212	1,447,089	-
Total Current Liabilities	3,380,243,385	25,767,724	36,835,449
Minority Interest	117,166,100	-	-
Stockholders' Equity (Capital Deficiency) (Notes 1 and 10)	7,206,918,595	(25,729,780)	(33,481,218)
	P10,704,328,080	P 37,944	P 3,354,231

See accompanying Notes to Consolidated Financial Statements.

**SOLID GROUP INC. AND SUBSIDIARIES**

(Formerly United Paracale Mining Company)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1996

(With Comparative Figures for 1995 and 1994)

	1996	1995	1994
SALES	P 7,768,598,799	P —	P —
COST OF GOODS SOLD (Note 7)	6,191,910,284	—	—
GROSS PROFIT	1,576,688,515	—	—
ROYALTY INCOME	—	4,852,810	6,049,483
	1,576,688,515	4,852,810	6,049,483
OPERATING EXPENSES (Note 7)	530,207,821	1,465,612	743,849
INCOME FROM OPERATIONS	1,046,480,694	3,387,198	5,305,634
OTHER INCOME (CHARGES) - Net			
Services	138,811,687	—	—
Interest	47,746,774	(3,166,443)	(3,166,442)
Equity in net earnings of investees (Note 6)	9,737,004	—	—
Rentals and others (Note 9)	54,814,272	10,579,945	6,785
	251,109,737	7,413,502	(3,159,657)
INCOME BEFORE INCOME TAX, MINORITY INTEREST AND PREACQUISITION INCOME	1,297,590,431	10,800,700	2,145,977
PROVISION FOR INCOME TAX (Note 11)			
Current	388,425,831	3,049,442	1,209,897
Deferred	(2,161,720)	—	—
	386,264,111	3,049,442	1,209,897
INCOME BEFORE MINORITY INTEREST AND PREACQUISITION INCOME	911,326,320	7,751,258	936,080
MINORITY INTEREST	11,780,560	—	—
INCOME BEFORE PREACQUISITION INCOME	899,545,760	7,751,258	936,080
PREACQUISITION INCOME (Note 12)	278,962,166	—	—
NET INCOME	620,583,594	7,751,258	936,080
DEFICIT AT BEGINNING OF YEAR (Note 1)	(33,716,595)	(41,467,853)	(42,403,933)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	P 586,866,999	(P 33,716,595)	(P 41,467,853)
Earnings Per Share	P 0.62	P 0.01	P —

See accompanying Notes to Consolidated Financial Statements.



SOLID GROUP INC. AND SUBSIDIARIES

(Formerly United Paracale Mining Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1996

(With Comparative Figures for 1995 and 1994)

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	P 620,583,594	P 7,751,258	P 936,080
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	97,616,736	-	-
Minority interest share in net income	8,491,952	-	-
Equity in net earnings of investees	(6,923,461)	-	-
Provisions for:			
Doubtful accounts	3,938,801	-	-
Inventory obsolescence	2,075,361	-	-
Amortization of:			
Preoperating expenses	1,331,216	-	-
Deferred charges	-	-	86,166
Income from assignment of assets	-	(10,546,656)	-
Deferred income tax	(1,907,417)	-	-
Changes in assets and liabilities net of effects from purchase of subsidiaries as enumerated in Note 2 to the financial statements:			
Decrease (increase) in:			
Receivables	(508,664,354)	1,003,998	438,310
Inventories	(82,119,966)	-	-
Other current assets	27,317,973	-	-
Increase (decrease) in:			
Accounts payable and accrued expenses	22,177,575	-	-
Trust receipts and acceptances payable	159,612,683	-	-
Payable to an affiliate	-	(510,804)	(1,542,827)
Income tax payable	154,449,004	1,447,089	-
Net cash provided by (used in) operating activities	497,979,697	(855,115)	(82,271)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(161,617,587)	-	-
Acquisitions of investments	(249,113,259)	-	-
Cash acquired from purchase of subsidiaries	281,846,909	-	-
Decrease in advances to affiliates	225,116,617	-	-
Decrease in other assets	18,513,834	-	-
Net cash provided by investing activities	114,746,514	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in minority interest	39,750,000	-	-
Proceeds from bank loans	489,698,665	-	-
Payments of bank loans	(1,169,024,856)	-	-
Proceeds from issuance of capital stock	2,935,877,666	-	-
Collection of subscription receivable	-	180	937,196
Net cash provided by financing activities	2,296,301,475	180	937,196
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,909,027,686	(854,935)	854,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	37,944	892,879	37,954
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 2,909,065,630	P 37,944	P 892,879
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income tax	P 105,926,474	P 1,602,353	P 1,209,897
Interest	36,943,792	-	-
SUPPLEMENTAL INFORMATION ON NONCASH INVESTING AND FINANCING ACTIVITY			
Acquisition of investments in shares of stock by issuance of capital stock	P 3,676,187,115	P -	P -
Conversion of payable to an affiliate to additional paid-in capital	P 24,310,142	P -	P -

See accompanying Notes to Consolidated Financial Statements.



SOLID GROUP INC. AND SUBSIDIARIES

(Formerly United Paracale Mining Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

Solid Group Inc. (Company), formerly United Paracale Mining Company (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 offset 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 the Company's 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 P.01 to P.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 consists of the transfer price indicated in the deeds

of assignment of ₱3,520,973,766, which is 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 financial statements as of and for the years ended December 31, 1995 and 1994 pertain to the accounts of the parent company only (UPMC).

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

Solid Corporation carries its 22.5% investments in shares of stock of Laguna International Industrial Park, Inc. 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. The account of Solid Manila Corporation and Subsidiary includes 75%-owned Skyworld Corporation.

Other investments are stated at cost.

Cash Equivalents

The Company considers 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. 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 sheet 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 Solid Group Inc.'s acquisition of the subsidiaries and the Company shares issued in exchange for the subsidiaries' stocks were valued at the subsidiaries' book values which already included the revaluation increment.

Depreciation and amortization are computed on 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 income for the period.

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

All expenses incurred prior to the start of commercial operations are deferred and are generally amortized up to 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.

Foreign Exchange Transactions

Exchange gains or losses arising from foreign currency transactions are credited or charged to current operations.

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. Exclusive and Non-Exclusive Agreements

The Company, through its subsidiaries, has existing exclusive and non-exclusive agreements with Sony Corporation (Sony) and Aiwa Co. Ltd. (Aiwa) for the manufacture and distribution of their products.

Under the Manufacturing Agreement with Sony, Solid Corporation was granted an exclusive license to manufacture and sell certain Sony products in the Philippines. The agreement with Sony has been renewed by Solid Corporation on calendar year to year basis since 1971.

Kita Corporation, under the License Agreement entered into in 1994 with Aiwa on a non-exclusive basis, was granted a non-transferable right and license to manufacture and assemble certain Aiwa products

and to sell such products to Aiwa. The initial term of the License Agreement with Aiwa shall be for a period of three years and automatically extended for another year.

On the other hand, Ascop, Inc. was appointed by Aiwa as a non-exclusive distributor of certain Aiwa products in the Philippines, excluding duty free zones and shops, under the Distributorship Agreement executed in 1993. The initial term of the Distributorship Agreement which expired on March 31, 1995 was renewed and extended up to March 31, 1998.

In 1995 and 1994, the Company had a management contract with Camarines Minerals, Inc. (CMI), an affiliate. The contract provided, among others, that CMI shall manage and supervise all the mine operations and activities relating to the maintenance, development and utilization of the properties of the Company for a period of ten years. During the effective period, the Company paid CMI a monthly fee of P5,000 and a 50% share of the royalties and other benefits derived from the operation of the Company's mining properties by United Paragon Mining Corporation.

4. Receivables

Receivables consist of:

	1996	1995	1994
Trade	P 1,602,079,687	P —	P 372,207
Others	59,487,918	—	—
	1,661,567,605	—	372,207
Less allowance for doubtful accounts	29,239,068	—	—
	P 1,632,328,537	P —	P 372,207

5. Inventories

As of December 31, 1996, inventories consist of:

Finished goods	P 685,712,603
Work in process	148,161,870
Raw materials	975,334,285
Supplies and others	37,136,037
	<u>1,846,344,795</u>
Less allowance for inventory obsolescence	2,979,452
	<u>1,843,365,343</u>
Goods and materials in transit	147,222,908
	<u>P 1,990,588,251</u>

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 trustee merchandise or their sales proceeds.

6. Investments

As of December 31, 1996, investments consist of:

At equity:

Acquisition cost of investments	P 420,792,592
Equity in net earnings of investees for the year	6,923,461
	<u>427,716,053</u>
Others - at cost	19,031,400
	<u>P 446,747,453</u>

7. Property, Plant and Equipment

Property, plant and equipment consist of:

	1996	1995	1994
Land	P 330,030,667	P -	P1,026,429
Machinery and equipment	562,778,560	-	-
Buildings and improvements	430,946,937	-	-
Furniture, fixtures and equipment	109,276,807	-	-
Transportation equipment	102,024,093	-	-
Tools and equipment	70,664,249	-	-
Leasehold improvements	42,445,942	-	-
Others	5,449,271	-	-
	<u>1,653,616,526</u>	-	<u>1,026,429</u>
Less accumulated depreciation and amortization	416,973,833	-	-
	<u>1,236,642,693</u>	-	<u>1,026,429</u>
Appraisal increase:			
Land	1,855,092,549	-	-
Buildings and improvements	580,693,342	-	-
Machinery and equipment	144,449,623	-	-
	<u>2,580,235,514</u>	-	-
Less accumulated depreciation and amortization	232,705,539	-	-
	<u>2,347,529,975</u>	-	-
Construction in progress	20,562,847	-	-
	<u>P 3,604,735,515</u>	<u>P -</u>	<u>P1,026,429</u>

Depreciation charged to operations (including depreciation on appraisal increase of P 36,609,343) amounted to P134,151,511 in 1996. Depreciation expense during the year includes depreciation after June 18, 1996 based on appraisal increase of P21,194,883 and on cost of P 76,421,853.

8. Bank Loans

Bank loans represent unsecured peso and dollar denominated loans obtained from local banks with annual interest rates ranging from 7% to 17%.

9. Payable to an affiliate

This account represents advances for expenses made to the Company by an affiliate with annual interest rate of 14% computed on the monthly balance of the principal.

On November 15, 1994, the Company's stockholders ratified the assignment of all of the Company's assets in favor of CMI, as partial settlement/payment of its outstanding obligations to the latter. The assets assigned to CMI consist of mineral properties and real properties located in Paracale, Camarines Norte and the operating agreement with United Paragon Mining Corporation. The transfer of assets was effected on April 6, 1995 and resulted to a net gain of ₱10,579,945 for that year.

As discussed in Note 1 to the consolidated statements, on March 28, 1996, the Company and CMI agreed to convert the accounts payable of the Company as of March 31, 1996 into additional paid-in capital to restructure its capital stock and offset its deficit. The agreement was effected in the books of the Company as of March 31, 1996.

10. Stockholders' Equity (Capital Deficiency)

Stockholders' equity (capital deficiency) consist of:

	1996	1995	1994
Capital stock (see Note 1)			
Authorized - 5 billion shares at ₱1 par value per share			
Issued - 2,030,975,000 shares	₱2,030,975,000	₱ -	₱ -
Class "A"			
Authorized - 1.2 billion shares at ₱0.01 par value per share			
Issued - 304,979,100 shares	-	3,049,791	3,049,791
Subscribed - 85,020,940 shares (subscription receivable on which amounted to ₱51,209)	-	799,000	799,000
Class "B"			
Authorized - 800 million shares at ₱0.01 par value per share			
Issued - 199,253,100 shares	-	1,992,531	1,992,531
Subscribed - 60,746,820 shares (subscription receivable on which amounted to ₱103,982 in 1995 and ₱104,162 in 1994)	-	503,486	503,306
	2,030,975,000	6,344,808	6,344,628
Additional paid-in capital (see Notes 9 and 12)	4,589,076,596	1,642,007	1,642,007
Retained earnings (deficit) (see Note 1)	586,866,999	(33,716,595)	(41,467,853)
	₱7,206,918,595	(₱25,729,780)	(₱33,481,218)

11. 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 subsidiaries' current deferred tax assets as of December 31, 1996 are as follows:

Allowance for doubtful accounts	P10,233,674
Allowance for inventory obsolescence	1,042,808
Advance rental	226,252
Unrealized foreign exchange loss	177,922
	<u>P11,680,656</u>

The reconciliation of income tax on pretax income computed at the statutory tax rates to provision for income tax as shown in the consolidated statement of income and retained earnings is summarized as follows:

	1996	1995	1994
Income tax computed at statutory tax rates	P402,049,109	P3,780,245	P751,092
Income tax effects of reconciling items:			
Interest income subjected to final tax at a lower rate	(31,707,885)	(2,881)	—
Depreciation on appraisal increase	12,813,270	—	—
Unallowable deductions as defined under R.A. No. 7227	4,407,058	—	—

	1996	1995	1994
Equity in net earnings of investees	(3,407,951)	—	—
Tax loss position	2,091,327	—	1,366,227
Royalty income subjected to final tax at a lower rate	—	(727,922)	(907,422)
Others	19,183	—	—
Income tax computed at effective tax rate	P386,264,111	P3,049,442	P1,209,897

12. Preacquisition Income

The consolidated income statement 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.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

Board of Directors

Chairman

Joseph Lim

Directors

Elena S. Lim
David S. Lim
Vincent S. Lim
Washington SyCip
George R. Tan
Susan L. Tan

Officers

Joseph Lim
Elena S. Lim
Susan L. Tan
Vincent S. Lim
Roberto V. San Jose
Irineo D. Tubio, Jr.
Lita Joaquin

Chairman of the Board
President and CEO
Vice President and COO
Vice President, CFO and Treasurer
Corporate Secretary
Chief Accounting Officer
Controller

INVESTOR INFORMATION

Legal Counsel

CASTILLO LAMAN TAN PANTALEON & SAN JOSE

The Valero Tower
122 Valero Street
Salcedo Village, Makati City,
Metro Manila, Philippines
Telephone (632) 8176791 to 95/8104371 to 73

Auditor

SYCIP GORRES VELAYO & CO.

6760 Ayala Avenue, Makati City,
Metro Manila, Philippines
Telephone (632) 8910307

Stock & Transfer Agent

RIZAL COMMERCIAL BANKING CORPORATION

RCBC Building
333 Sen. Gil Puyat Avenue, Makati City,
Metro Manila, Philippines
Telephone (632) 8949000

Investor Inquiries:

Business Development Group
Solid Group Inc.
Solid House
2285 Pasong Tamo Extension, Makati City,
Metro Manila, Philippines
Telephone (632) 8431561
Fax (632) 8128273
E-mail: celmac@solid.sen.com.ph

