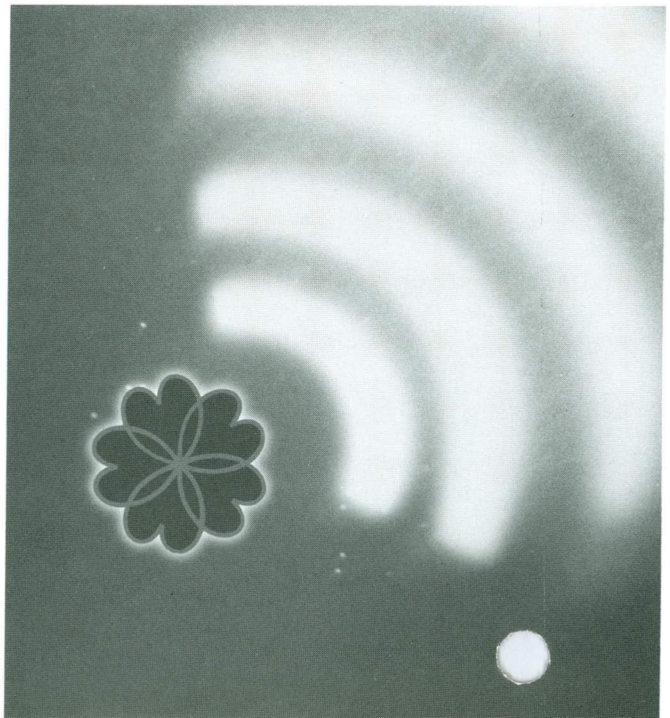
SOLID GROUP INC.

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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	1997	1996	1995
Amounts in thousands of pesos (except Earnings Per Share)			
Sales	₱ 8,213,164	₱ 7,768,599	₱ -
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)

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 (₱2,043 in 1997; ₱2,387 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 ₱26 million pesos to consolidated net income. Combined export and domestic sales of color TV acccounted 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