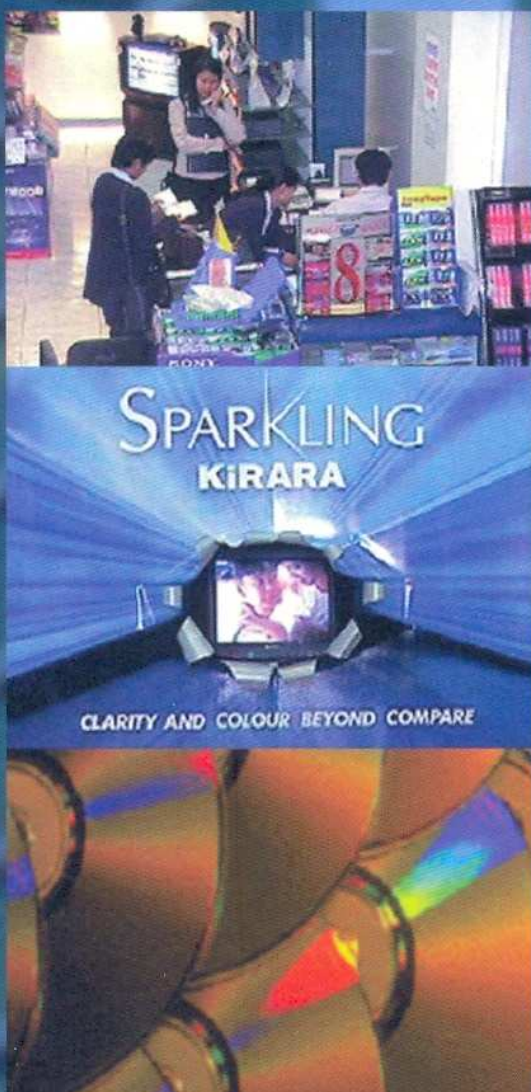


1998

ANNUAL  
REPORT



SOLID GROUP INC.



## Report to Shareholders

### CONTEXT

In 1997, we reported how the year was defined by the currency crises that engulfed the entire Asian region. In hindsight, it now appears that the turmoil in our currencies was a mere preview of tougher times ahead for business and industry. The year 1998 was easily the most difficult in recent memory for nearly everyone in every industry. The imbalances in the global economy and continuing adjustments to free trade resulted in the kind of crunch never before experienced by industries, particularly the manufacturing sector.

### EFFECTS

The consumer electronics industry was not spared, with the market shrinking by over 30%. While the market shrunk, there was no parallel reduction in the number of suppliers or competing products. The industry also had to contend with over 40% currency devaluation. Against this backdrop of an unwanted oversupply, average selling price increases were not enough to offset rising costs, resulting in reductions in our average gross margins.

Our joint venture partner, Sony Philippines Inc. (SPI), also had to contend with inventory obsolescence and high interest costs. For 1999, however, SPI is poised to reverse its previous year's results and expects significant improvement in profitability with new product line-ups, better margins, and improvement in its working capital position.

We are also continuing our efforts to improve our manufacturing efficiency in the light of slackening demand. These efforts are boosted

by the ISO 9002 certifications of our electronics factory and plastic injection moulding facility in Laguna and Metro Manila, respectively. We believe that our improved efficiency will have more enduring beneficial effects when the market recovers.

Domestic sales volume of Aiwa color television increased by 45% and the brand continued its dominance of the mini audio category. Export likewise continued to be a major contributor to revenues and income and we continue to be the leader in color television export to Japan, the Middle East, and the European Community.

### ACTIONS

Last year, we foresaw the need for caution, prudence, the need to preserve our gains, and to prepare for the future. We believe we have accomplished all of that and more.

Despite 1998's difficulties, Solid Group made Php 53.6 million in profits, made possible by prudent management decisions and improvement in business policies and directions. The company improved its liquidity position through better working capital management with receivables reduced by Php 600 million representing a 35% improvement over 1997 levels. Inventories were likewise reduced by 54% from the 2.96-billion-peso level in 1997. Together with decreases in current liabilities, these resulted in the improvement in current ratio to 2.6:1, compared to 1.84:1 in 1997.

The company's reported net income of Php 53.6 million is net of major adjustments in receivables, inventories, and other assets totaling Php 166 million in 1998.

The average gross profit rate for the year decreased by 10%, largely due to increased costs and reduction in sales volume. Operating expenses of Php 670 million in 1998 is 21% lower than in 1997. Interest income amounted to Php 168 million, while foreign exchange loss has been reduced to Php 8 million compared to Php 136 million in 1997.

Our proposed stock swap with Destiny, Inc. did not materialize because of uncertain economic conditions and the volatility of foreign currencies.

### DIRECTION

Considering the events of the past year, we still have enough reasons to be bullish about the future. The company has managed to preserve its position in the industry and is prepared to take advantage of opportunities in the future. Your board has approved investments in consumer financing and logistics management, two areas that offer synergies with and complementation to our existing businesses and resources. These investments totaling Php 70 million are expected to contribute close to Php 35 million in net annual revenues.

We believe we have survived the worst and we approach the year with hopeful expectations. We will constantly seek improvement, new ideas, and opportunities and be prepared to explore new paradigms while adhering to the same age-old values that have kept us together.

We thank you for your continued confidence.

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31	
	1998	1997
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P 2,174,052,997	P 1,820,506,306
Receivables - net (Note 2)	1,099,333,048	1,692,608,648
Inventories - net (Note 3)	1,351,556,477	2,961,448,580
Other current assets - net (Note 8)	258,243,353	140,206,714
Total Current Assets	4,883,185,875	6,614,770,248
<b>Investments</b> (Note 4)	614,188,150	463,705,585
<b>Property, Plant and Equipment</b> - net (Note 5)	3,768,316,303	3,902,071,819
<b>Other Assets</b> - net (Note 8)	50,329,173	67,719,131
	<b>P 9,316,019,501</b>	<b>P 11,048,266,783</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 6)	P 332,732,500	P 596,624,000
Accounts payable and accrued expenses (Notes 7 and 10)	1,427,018,411	963,671,341
Trust receipts and acceptances payable (Note 3)	93,028,748	1,951,498,847
Income tax payable	23,642,788	76,821,423
Total Current Liabilities	1,876,422,447	3,588,615,611
<b>Minority Interest</b>	142,084,286	126,099,452
<b>Stockholders' Equity</b>		
Capital stock - 1 par value		
Authorized - 5,000,000,000 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 (Note 4)	767,101,851	713,500,124
	7,387,153,447	7,333,551,720
Less cost of 162,043,000 shares in treasury	89,640,679	-
	7,297,512,768	7,333,551,720
	<b>P 9,316,019,501</b>	<b>P 11,048,266,783</b>

See attached Financial Report.

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

	Years Ended December 31		
	1998	1997	1996
<b>SALES</b> (Note 6)	P 6,226,655,323	P 8,213,164,061	P 7,768,598,799
<b>COST OF GOODS SOLD</b> (Notes 3, 5 and 10)	5,999,462,139	7,023,445,773	6,191,910,284
<b>GROSS PROFIT</b>	227,193,184	1,189,718,288	1,576,688,515
<b>OPERATING EXPENSES</b> (Notes 5 and 10)	670,497,120	843,910,121	530,207,821
<b>INCOME (LOSS) FROM OPERATIONS</b>	(443,303,936)	345,808,167	1,046,480,694
<b>OTHER INCOME - Net</b>			
Interest	167,877,125	201,175,229	47,746,774
Services	49,306,222	78,908,920	138,811,687
Equity in net earnings of investees (Note 4)	123,281,246	22,675,582	9,737,004
Foreign exchange loss	(8,619,189)	(136,155,877)	-
Rentals and others	98,770,054	69,637,171	54,814,272
	430,615,458	236,241,025	251,109,737
<b>INCOME BEFORE INCOME TAX, MINORITY INTEREST AND PREACQUISITION INCOME</b>	(12,688,478)	582,049,192	1,297,590,431
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 8)			
Current	38,424,122	155,789,915	388,425,831
Deferred	(89,682,806)	(13,953,450)	(2,161,720)
	(51,258,684)	141,836,465	386,264,111
<b>INCOME BEFORE MINORITY INTEREST AND PREACQUISITION INCOME</b>	38,570,206	440,212,727	911,326,320
<b>MINORITY INTEREST</b>	(15,031,521)	8,933,352	11,780,560
<b>INCOME BEFORE PREACQUISITION INCOME</b>	53,601,727	431,279,375	899,545,760
<b>PREACQUISITION INCOME</b> (Note 9)	-	-	278,962,166
<b>NET INCOME</b>	53,601,727	431,279,375	620,583,594
<b>RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR</b>	713,500,124	586,866,999	(33,716,595)
Cash dividend - 0.15 per share in 1997	-	(304,646,250)	-
<b>RETAINED EARNINGS AT END OF YEAR</b> (Note 4)	P 767,101,851	P 713,500,124	P 586,866,999
<b>Earnings Per Share</b> (Note 12)	P 0.03	P 0.21	P 0.62

See attached Financial Report.

**Board of Directors**

**Chairman**  
Joseph Lim

**Directors**  
Elena S. Lim  
Washington Z. SyCip  
Susan L. Tan  
George R. Tan  
David S. Lim  
Jason S. Lim  
Vincent S. Lim  
James H. Uy

**Officers**

**Chairman**  
Joseph Lim

**President & CEO**  
Elena S. Lim

**Vice President & COO**  
Enrique L. Ligeralde

**Vice President & CFO**  
Vincent S. Lim

**Vice President**  
David S. Lim

**Corporate Secretary**  
Roberto V. San Jose

**Controller**  
Lita Joaquin

**Chief Accounting Officer**  
Ireneo D. Tubio, Jr.

**Legal Counsel**  
CASTILLO LAMAN TAN  
PANTALEON & SAN JOSE

**Auditor**  
SYCIP GORRES VELAYO & CO.

**Stock & Transfer Agent**  
RIZAL COMMERCIAL  
BANKING CORP.

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