
“The dawning of the third millennium finds your company ready and able to move to the next level of competition – global, technological, interconnected.”



SOLID GROUP INC.

1999 ANNUAL REPORT

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OUR COVER

The vision of Solid Group Inc. for the next century is to become a fully integrated multimedia organization, capable of meeting its customers' needs in an interconnected world.

Although the Philippines has a long way to go before emerging from the Asian financial crisis of 1997 and 1998, the country has made strides toward recovery. Contrary to government and private-sector forecasts of ailing growth in business, the Philippines posted GNP and GDP growth rates of 3.6% and 3.2%, respectively. This, despite adversities including depressed market demand, debt workouts, and industrial restructuring.

The parallel contraction of the domestic and export markets for your company's products stimulated the search for strategic adjustments aimed, on one hand, at meeting the challenges to existing businesses and, on the other, at evolving itself into a company for the future.

We are pleased to report that SGI has been effective in carrying out these strategies.

Maintaining its Leadership in the Consumer Electronics Industry

Several developments in 1999 affected the markets for your company's products.

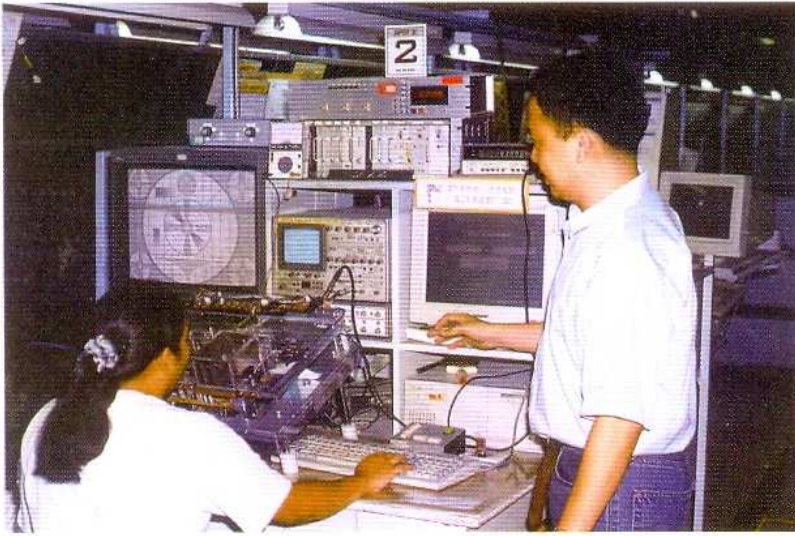
- *The Asian currency crisis that began in 1997 continued to undermine the growing economies in the region.* In the Philippines, the continued depreciation of the peso seriously diminished the competitiveness of industries requiring imported inputs. Furthermore, increases in world oil prices triggered a series of increases in local fuel prices. Such factors, while not significantly raising the consumer price index, dampened consumer spending particularly for durable goods. Your company's customers – households as well as industries such as broadcast and medical and allied services – cut back on expenditures. Consequently, the group's consolidated revenues decreased by 51.6%, from over P 6.2 billion in 1998 to barely over P 3 billion in 1999.

On the foreign scene, the economic debacle affected even previously strong economies like Japan, our main overseas market conduit. This translated into lower demand for the product lines exported by Aiwa Co. Ltd. sourced from Kita Corporation. The 75% drop in export sales to Aiwa Japan caused a 68% decline in the revenues of Kita, and subsequently in losses for Clark Plastics Manufacturing Corporation (CPM) and Solid City Industrial and Commercial Corporation (SCICC), both of which supply mainly Kita. CPM incurred a net loss of P 12.8 million in 1999 from a net income of P 43.6 million in 1998 while SCICC's loss increased further to P 35.6 million in 1999 from P 8.7 million in 1998.

Aiwa's efforts to generate market demand by producing a new model were not enough to reverse the downtrend in sales and production during the year.



Solid Laguna Corporation (SLC) production line



Solid Laguna Corporation (SLC) adjustment line

To utilize excess capacity, your company embarked on marketing programs to develop alternative manufacturing projects. Solid Laguna Corporation (SLC) has accepted orders to produce color television sets for other brands. This, and increased orders from Sony Phils, Inc. toward the end of the year, improved SLC's revenue and net income performance by 36% and 64%, respectively.

Kita Corporation has started to produce circuit boards for Sampo computer monitors and is looking into complete production of television sets, monitors and related products for Sampo Technologies of Taiwan.

CPM is already supplying several Korean and Taiwanese companies in Clark with plastic materials and expandable polystyrene packaging materials, a business that it hopes to expand.

Similarly, SCICC has also developed new accounts and customers for its products.

- *The domestic market for consumer electronics remained depressed.* Demand for major appliances of Philippine households has been declining. Between 1997 and 1998, sales of audio and video appliances decreased by 31% and 28%, respectively. In 1999, a 3% increase in overall personal consumption in general, and a 4.9% increase in the purchase of household furnishings failed to translate into higher revenues for your company, due largely to the tight credit situation for expenditures for durable consumer goods.

Although sales of ASCOP, Inc., the marketing company for Aiwa products, decreased by 5% from P 1.34 billion in 1998 to P 1.28 billion in 1999, its gross margins improved significantly to 19% from 1% in 1998 mainly through judicious management of receivables and better product and model



Solid Laguna Corporation (SLC) final assembly line

selection in its inventory to prevent losses due to obsolescence. As a result, it ended the year with a net income of P 59 million, a major improvement over the loss of P 195 million reported in 1998.

Adopting similar cost-efficiency as well as inventory management measures, Solid Video Corporation (SVC) likewise overturned a net loss of P 69 million in 1998 to end the year with a net income of P 25 million in 1999, in spite of a 23% reduction in revenues.

Despite the difficulties in the market, your company has preserved its leadership position in the consumer electronics industry. Its recognized manufacturing capability is bolstered by its comprehensive after-sales service rendered through Solid Electronics Corporation (SEC), a service center network consisting of over 30 branches nationwide.

- *Counterbalancing the contraction of existing markets, the potential of market expansion is growing because of rapidly evolving technologies and changing purchasing behavior. Your company enjoys competitive advantage in distribution and service.*



Sony Service Center

Capitalizing on this, SGI acquired, in December 1999, Omni Logistics Corporation, a company engaged in inventory management including warehousing and distribution. Together, Omni and SEC form a ready infrastructure for SGI's envisioned entry into the marketplace of e-commerce.



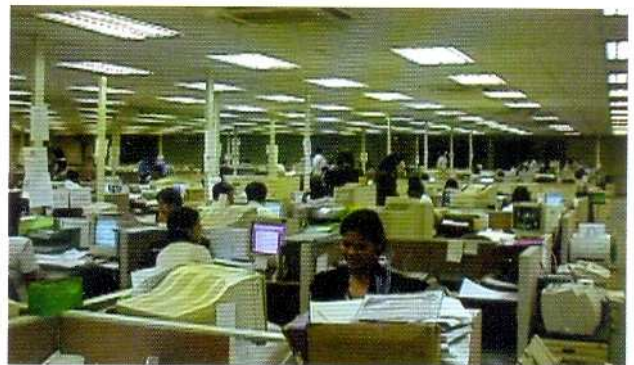
Omni Logistics Corporation

As an integral part of its customer service network and in response to the serious need for more consumer credit, SGI also incorporated a consumer financing company, Solid Manila Finance, Inc. The finance company, which started operations in September 1999, ended the year with P 3.5 million in revenues and P 1.9 million in net income.

Moving Toward Leadership in Multimedia Technologies

Even as your company responded to present challenges, it primed itself to pursue new directions indicated by global advancements. The most prominent of these is the convergence of communication and information technologies.

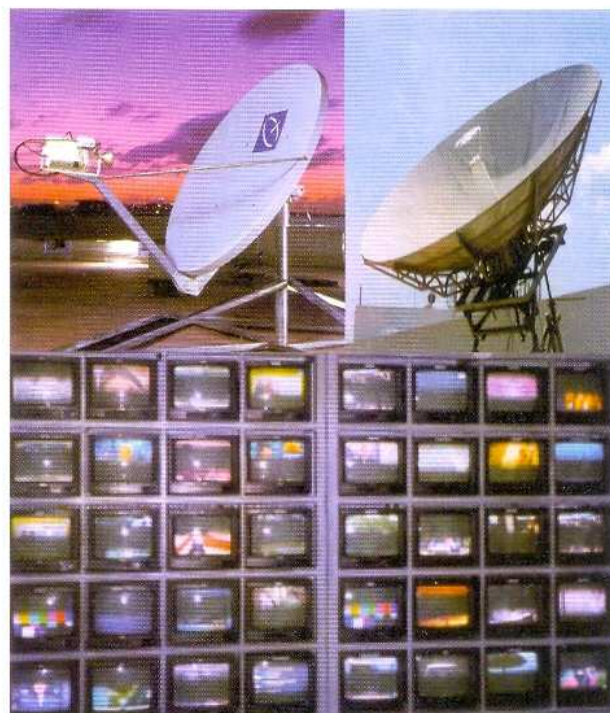
In 1998, the possibility of your company's investing in Destiny, Inc., the multimedia company owned by the Lim family, was presented to the SGI Board. Armed with a 25-year franchise from the government to engage in cable TV, data linkage, and related businesses, Destiny, Inc. launched in November 1997 an integrated multimedia business strategy called "Destiny ONE" that stands for "One Network for Everyone." Its vision is to provide the average Filipino with affordable multimedia facilities — cable TV, video-on-demand, e-mail, internet, and other on-line services — through a broadband, interactive multimedia network capable of transmitting data at very high speed.



Destiny Inc.

Arrangements for SGI's investment in Destiny, Inc. were finalized in 1999, thereby ushering your company into the world of digital communications with its vast horizon of integrated multimedia products and services. Today, with Destiny as its vanguard, SGI is prepared to evolve itself into the country's premier integrated multimedia company — the country's **first true internet company** offering the following products and services, among others:

- internet access directly to customers or through internet kiosks and access stations
- nationwide virtual private network (VPN) offerings and wide area network (WAN) offerings
- specialized communication solutions for large entities
- database services for government and the private sector
- e-marketing and e-commerce portals and support
- e- and mobile or m-commerce alliances
- connectivities
- creation of cybercommunities.



SGI's vision: an interconnected world

SGI will quickly develop this business through two strategies: building up in-house capabilities and resources and acquiring or partnering with established industry leaders.



Solid Laguna Corporation main assembly line

Involvement in multimedia technologies is a logical option for SGI for these reasons:

- SGI's capability and experience in manufacturing world-class consumer electronic durables may be harnessed effectively to manufacture new customer premises equipment (CPE) such as television and radio sets, set-top boxes, and other internet appliances. Your company's strong relationship with leaders in the consumer electronics industry, both global and local, ensures expanding market possibilities.
- SGI's extensive marketing and distribution network, that includes warehousing and delivery, is an established platform out of which your company can expand its businesses through technology. The investment in Destiny, Inc. provides the company with instant broadband connectivity through which it can undertake e-commerce transactions and other internet and information-handling services.

- SGI's proven expertise in developing business estates located in prime growth areas of the country complements its manufacturing capability. Your company is uniquely equipped to establish centers of multimedia activities in the country.

As in its other businesses, SGI will accelerate the growth of its integrated multimedia operations by forging alliances with other entities that offer strategic capabilities in the following areas:

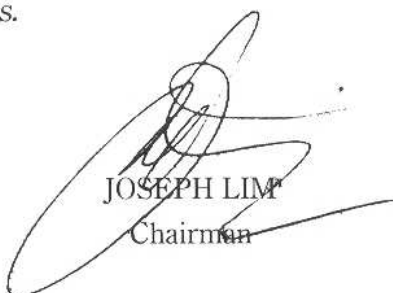



The Solid Laguna Corporation plant at the Laguna International Industrial Park, the group's first property development project

- **Connectivity technologies and services**, such as providers of virtual private networks, data leased lines, both on broadband cable and wireless applications, and others.
- **Multimedia services**, specifically companies with good track record in creating and managing electronic commerce platforms and other online applications. This would include companies with experience in portal development, electronic business applications, electronic mail, web hosting, internet telephony, video and audio streaming services such as video conferencing.
- **Content creation and management** including companies engaged in visual arts, publishing, video programming, and distance education.

Through a two-pronged strategy of building up its core competencies while seeking synergistic relationships in multimedia businesses, SGI is demonstrating its adaptability to the new business environments of the imminent digital information age.

The dawning of the third millennium finds your company ready and able to move to the next level of competition — global, technological, and interconnected. We thank you, our stockholders, for making this possible, and we solicit your continued support as we step into the threshold of the world of multimedia technologies.


 JOSEPH LIM
 Chairman


 ELENA S. LIM
 President & CEO


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Solid Group, Inc. is responsible for all information and representations contained in the financial statements as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999. 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 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., 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

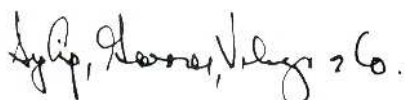
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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, 1999 and 1998, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 position of Solid Group Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.



March 13, 2000
Makati City

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	P1,844,875,335	P2,174,052,997
Receivables – net (Notes 2 and 3)	777,039,238	1,099,333,048
Inventories – net (Note 3)	1,138,246,834	1,351,556,477
Other current assets – net (Note 7)	102,419,691	258,243,353
Total Current Assets	3,862,581,098	4,883,185,875
Investments (Notes 4 and 9)	521,327,011	614,188,150
Property, Plant and Equipment – net (Note 5)	3,711,599,224	3,768,316,303
Other Assets (Note 7)	297,185,617	50,329,173
	P8,392,692,950	P9,316,019,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans	P –	P 332,732,500
Accounts payable and accrued expenses (Notes 6, and 8)	818,008,182	1,427,018,411
Trust receipts and acceptances payable (Note 3)	98,845,575	93,028,748
Income tax payable	13,056,831	23,642,788
Total Current Liabilities	929,910,588	1,876,422,447
Minority Interest	113,527,951	142,084,286
Stockholders' Equity		
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)	818,843,494	767,101,851
	7,438,895,090	7,387,153,447
Less cost of 162,043,000 shares held in treasury	89,640,679	89,640,679
	7,349,254,411	7,297,512,768
	P8,392,692,950	P9,316,019,501

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	1999	1998	1997
SALES (Notes 3 and 9)	P2,997,324,405	P6,226,655,323	P8,213,164,061
COST OF GOODS SOLD (NOTES 5 AND 9)	2,765,054,713	5,999,462,139	7,023,445,773
GROSS PROFIT	232,269,692	227,193,184	1,189,718,288
OPERATING EXPENSES (NOTES 5 AND 8)	434,320,820	670,497,120	843,910,121
INCOME (LOSS) FROM OPERATIONS	(202,051,128)	(443,303,936)	345,808,167
OTHER INCOME			
Interest – net	139,590,827	167,877,125	201,175,229
Services (Note 9)	53,124,267	21,735,279	78,908,920
Equity in net earnings (losses) of investees (Note 4)	(3,886,269)	123,281,246	22,675,582
Foreign exchange loss	(8,306,204)	(8,619,189)	(136,155,877)
Rentals and others	101,504,751	126,340,997	69,637,171
	282,027,372	430,615,458	236,241,025
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	79,976,244	(12,688,478)	582,049,192
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 7)			
Current	25,962,150	38,424,122	155,789,915
Deferred	7,647,586	(89,682,806)	(13,953,450)
	33,609,736	(51,258,684)	141,836,465
INCOME BEFORE MINORITY INTEREST	46,366,508	38,570,206	440,212,727
MINORITY INTEREST	(5,375,135)	(15,031,521)	8,933,352
NET INCOME	51,741,643	53,601,727	431,279,375
RETAINED EARNINGS AT BEGINNING OF YEAR	767,101,851	713,500,124	586,866,999
Cash dividend – 0.15 per share in 1997	–	–	(304,646,250)
RETAINED EARNINGS AT END OF YEAR	P818,843,494	P767,101,851	P713,500,124
Earnings Per Share (Note 10)	P 0.03	P 0.03	P 0.21

See accompanying Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	P 51,741,643	P 53,601,727	P 431,279,375
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	205,847,218	232,241,675	200,493,552
Dividends received from investees	108,127,200	-	-
Provisions for:			
Doubtful accounts	42,387,898	46,153,974	6,764,956
Inventory obsolescence	22,670,987	65,635,085	16,222,546
Loss on receivable write-off	14,517,088	-	-
Provision for (benefit from) deferred income tax	7,647,586	(89,682,806)	(13,953,450)
Equity in net (earnings) losses of investees	3,886,269	(123,281,246)	(22,675,582)
Minority interest share in net income (loss)	(5,375,135)	(15,031,521)	8,933,352
Loss (gain) on sale of property and equipment	(9,182,526)	3,301,233	2,454,919
Changes in assets and liabilities:			
Decrease (increase) in:			
Receivables	265,388,824	547,121,626	3,353,473
Inventories	190,638,656	1,544,257,018	(715,265,816)
Other current assets	147,139,976	(28,353,833)	(56,444,207)
Increase (decrease) in:			
Accounts payable and accrued expenses	(609,010,229)	463,347,070	(571,770,992)
Trust receipts and acceptances payable	5,816,827	(1,858,470,099)	492,589,073
Income tax payable	(10,585,957)	(53,178,635)	(199,131,789)
Net cash provided by (used in) operating activities	431,656,325	787,661,268	(417,150,590)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	12,000,277	339,060	30,524,199
Additions to property and equipment	(151,929,602)	(102,126,452)	(530,554,866)
Decrease (increase) in:			
Investments	(19,152,330)	(27,201,319)	(9,291,719)
Other assets	(245,838,632)	17,389,958	(1,910,433)
Net cash used in investing activities	(404,920,287)	(111,598,753)	(511,232,819)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Bank loans	(332,732,500)	(263,891,500)	(1,133,676,612)
Treasury shares	-	(89,640,679)	-
Dividends	-	-	(304,646,250)
Increase (Decrease) in minority interest	(23,181,200)	31,016,355	-
Proceeds from bank loans	-	-	1,278,146,947
Net cash used in financing activities	(355,913,700)	(322,515,824)	(160,175,915)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(329,177,662)	353,546,691	(1,088,559,324)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,174,052,997	1,820,506,306	2,909,065,630
CASH AND CASH EQUIVALENTS AT END OF YEAR	P1,844,875,335	P2,174,052,997	P1,820,506,306

See accompanying Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation and Investments

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

	Percentage of Ownership	
	1999	1998
Solid Corporation and Subsidiaries	100	100
Solid Video Corporation	100	100
Ascop, Inc.	100	100
Kita Corporation	100	100
Solid Laguna Corporation	100	100
Solid Distributors, Inc.	100	100
Solid Electronic Corporation	100	100
AA Electronics Corporation	100	100
Solid Manila Corporation and Subsidiary	100	100
Solid Manila Finance, Inc.	100	-
Omni Logistics Corporation	100	-

Solid Corporation and Subsidiaries include:

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

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

The Company's 33% investment in Sony Philippines, Inc. (SPH), 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 dates 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 subsidiaries' balance sheet. There is no corresponding "Revaluation increment in property" in the Stockholders' Equity section of the consolidated balance sheets since the revaluation was made before the Company's acquisition of the subsidiaries through the issuance of Company's shares of stock in exchange for the subsidiaries' shares of stock. The Company's shares of stock issued were valued at the subsidiaries' book values, including 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 repairs and maintenance is charged to operation as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost of the appraisal increase and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is charged to current operations.

Revenue Recognition

Sales are recognized upon delivery and billing of goods to the customers. Service income is recognized upon rendering of services. Rental income is recognized using the accrual method based on the existing lease agreements. Interest income on loans and finance receivables of Solid Manila Finance, Inc. is recognized when earned. However, Section 9(5)(e) of Republic Act 8556 (Financing Company Act of 1998) provides that interest income shall not be recognized on loans receivables that remain outstanding beyond their maturity dates. Interest income on these loans is recognized upon actual collection.

Preoperating Expenses

Expenses incurred by certain subsidiaries prior to the start of commercial operations were deferred and included under "Other assets" account in the consolidated balance sheet and are generally being amortized over five years.

Retirement Plan

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

Foreign Exchange Transactions

Exchange 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.

Income Taxes

Deferred tax assets and liabilities are recognized for: (1) the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases; (2) carryforward benefit of the minimum corporate income tax (MCIT); and, (3) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely that some portion or all of the deferred tax assets will not be realized.

Earnings Per Share

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

2. Receivables

Receivables consist of:

	1999	1998
Trade	P728,464,143	P 947,133,202
Others	141,798,482	234,357,844
	870,262,625	1,181,491,046
Less allowance for doubtful accounts	93,223,387	82,157,998
	P777,039,238	P1,099,333,048

The trade receivables include secured loans extended by a financing subsidiary to related parties at prevailing interest rates.

3. Inventories

Inventories consist of:

	1999	1998
Finished goods	P 349,915,221	P 514,464,638
Work in process	52,950,954	135,916,231
Raw materials	737,081,004	659,316,012
Supplies and others	41,312,795	35,564,475
	1,181,259,974	1,345,261,356
Less allowance for inventory obsolescence	62,446,588	84,837,083
	1,118,813,386	1,260,424,273
Goods and materials in transit	19,433,448	91,132,204
	P1,138,246,834	P1,351,556,477

Under the terms of the agreement covering trust receipts, certain inventories have been released to some subsidiaries in trust for the banks. These subsidiaries are accountable to the banks for the trusted inventories or their sales proceeds.

4. Investments

Details of investments as follows:

	1999	1998
Acquisition cost	P455,335,630	P455,335,630
Accumulated equity in net earnings:		
Balance, beginning of year	152,880,289	29,599,043
Equity in net earnings (losses) for the year	(3,886,269)	123,281,246
Dividends received during the year	(108,127,200)	–
Balance, end of year	40,866,820	152,880,289
	496,202,450	608,215,919
Others – at cost	25,124,561	5,972,231
	P521,327,011	P614,188,150

Undistributed earnings of subsidiaries and unconsolidated investees amounting to P40,866,820 in 1999 and P152,880,289 in 1998, which are included in the Company's retained earnings, are not currently available for dividend declaration.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

	1999	1998
At cost:		
Land	P 535,598,323	P 508,834,323
Buildings and improvements	602,724,526	592,871,041
Machinery and equipment	705,197,116	692,762,742
Leasehold improvements	113,450,871	56,060,089
Furniture, fixtures and equipment	107,490,622	115,787,794
Tools and equipment	90,491,480	94,702,777
Transportation equipment	75,356,461	87,332,588
Others	27,950,759	13,923,373
	2,258,260,158	2,162,274,727
Less accumulated depreciation and amortization	792,748,678	660,014,653
	1,465,511,480	1,502,260,074
Appraisal increase:		
Land	1,817,539,133	1,817,539,133
Buildings and improvements	595,421,621	595,421,621
Machinery and equipment	144,417,533	144,417,533
	2,557,378,287	2,557,378,287
Less accumulated depreciation and amortization	313,417,346	336,695,753
	2,243,960,941	2,220,682,534
Construction in progress	2,126,803	45,373,695
	P3,711,599,224	P3,768,316,303

Depreciation charged to operations (including depreciation on appraisal increase of P25,086,594 in 1999, P40,369,161 in 1998 and P46,928,440 in 1997) amounted to P205,828,930 in 1999, P232,241,675 in 1998 and P200,239,444 in 1997.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	1999	1998
Trade	P457,084,794	P 830,168,928
Accrued and others	360,923,388	596,849,483
	P818,008,182	P1,427,018,411

7. Income Taxes

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 (RA) 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 included under "Other current assets" and "Other assets" account in the balance sheets as of December 31, 1999 and 1998 are as follows:

	1999	1998
Other current assets:		
NOLCO	P119,097,216	P114,447,948
Allowance for doubtful accounts	29,732,449	27,112,139
Allowance for inventory obsolescence	16,683,641	27,996,237
MCIT	7,832,936	1,459,656
Unrealized foreign exchange loss	1,441,599	4,511,583
Accrued retirement	1,801,237	3,378,821
Advance rental from tenants	644,238	-
	177,233,316	178,906,384
Less deferred tax liability – unrealized foreign exchange gain	6,352,976	-
	170,880,340	178,906,384
Valuation allowance	(70,245,897)	(69,588,255)
	P100,634,443	P109,318,129
	1999	1998
Other assets –		
Unamortized past service cost	P1,726,395	P690,295

The reconciliation of income tax on income before income tax computed at the statutory tax rates to provision for (benefit from) income tax as shown in the consolidated statements of income and retained earnings is summarized as follows:

	1999	1998	1997
Income tax computed at statutory tax rates	P26,392,161	P(4,314,083)	P203,717,217
Income tax effects of:			
Interest income subjected to final tax	(44,074,972)	(68,292,769)	(80,129,468)
Tax loss position	23,774,807	-	-
Nondeductible expenses	11,095,288	-	-
Depreciation on appraisal increase	8,278,576	13,725,515	16,424,954
Change in valuation allowance	657,642	69,588,285	-
Equity in net losses (earnings) of investees	1,282,469	(41,915,624)	(7,936,454)
Unallowable deductions as defined under R.A. No. 7227	-	32,967,877	59,901,275
Income of certain subsidiaries subjected to special tax rate of 5%	-	(53,792,900)	(51,209,358)
Adjustments due to change in applicable income tax rates for temporary differences in the expected years of recovery	5,503,046	785,619	879,513
Others	700,719	(10,604)	188,786
	P33,609,736	P(51,258,684)	P141,836,465

8. Retirement Plan

The Company and certain subsidiaries have a funded, noncontributory and actuarially computed pension plan covering substantially all of its employees. The benefits are based on years of service and the latest compensation of employees. Total retirement expense for 1999, 1998 and 1997 amounted to about 10 million, 8 million, and 16 million, respectively.

As of December 31, 1998, the latest actuarial valuation, the actuarial present value of pension benefits amounted to 38 million. The fair value of the plan assets amounted to about 20 million. The unfunded present value of pension benefits amounted to about 18 million. The principal actuarial assumptions used to determine pension benefits were a discount rate of 10%, salary increases of 10% and a return of plan assets of 10%. Actuarial valuation is made at least every two years. The Company's and subsidiaries' annual contribution to the pension plan consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

9. Agreements

- a. On May 9, 1997, the Company entered into a Joint Venture Agreement (JVA) with 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, SPH, which 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 operating agreements:
1. Manufacturing Agreement which provides, among others, that SPH purchase Sony products, as defined in the agreement, exclusively from the Company. The agreement is effective until September 20, 2001.
 2. Component Supply Agreement which provides, among others, that the Company purchase from Sony International (Singapore) Ltd. (SONIS) the parts and components to be used in the manufacture of Sony products that the Company shall supply SPH, and that such purchases from SONIS shall be invoiced to the Company in Philippine pesos. The agreement is effective until September 30, 2001.
 3. After-Sales Service and Network Support Agreement which provides that Solid Electronics Corporation (SEC) shall provide in-warranty and out-of-warranty services for Sony products sold in the Philippines. SPH will pay SEC a percentage of sales as commission. The After-Sales Service Agreement and Network Support Agreement will expire on September 30, 2001 and 2000, respectively.

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 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.

- b. 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 Singapore Ltd. under a Purchase Agreement dated April 1, 1998. The term of this agreement is for period of one year and provides for automatic extension for another year unless a written notice to the contrary is made by either party.
- c. 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 which expired on March 31, 1998. The same Distributorship Agreement was executed on April 1, 1998 with an extended term until March 31, 2000.

10. Earnings Per Share

Earnings per share are computed as follows:

	1999	1998	1997
Net income (a)	P 51,741,643	P 53,601,727	P 431,279,375
Weighted average shares outstanding (b)	1,868,932,000	1,986,830,750	2,030,975,000
Earnings per share (a/b)	0.03	0.03	0.21

11. Supplemental Disclosures of Cash Flow

	1999	1998	1997
Cash paid during the year for:			
Income tax	P36,850,250	P38,424,122	P355,093,958
Interest	9,737,164	46,958,363	38,981,012

12. Other Matters

- a. On November 18, 1998, the Board of Directors of SSEC, Inc. approved the permanent closing of operations of its manufacturing plant located at EDSA, Balintawak, Quezon City effective November 30, 1998 in view of falling demand from its principal customer, SPH.
- b. SC 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. In order to supply or service its customers, Solid Laguna Corporation assumed SC's manufacturing activities in 1998. Consequently, SC retrenched its employees in 1999. Presently, SC generates revenue from its investments and from the lease of its properties to affiliates.
- c. SC is involved in litigation and dispute with a local bank concerning letters of credit issued in connection with shipments of electronic parts to SC. Management believes that the ultimate liability or loss, if any, with respect to such litigation will not materially affect the financial position and results of operation of SC.
- d. Solid Manila Corporation is involved in various litigation for certain claims which arise in the normal course of business. Management believes that none of these is expected to have a material adverse effect on the subsidiary's financial position.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

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 and Chief Executive Officer	Elena S. Lim
Vice President and Chief Operating Officer	Enrique L. Ligeralde
Vice President and Chief Finance Officer	Vincent S. Lim
Vice President	David S. Lim
Corporate Secretary	Roberto V. San Jose
Controller	Lita Joaquin
Chief Accounting Officer	Ireneo D. Tubio, Jr.

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