2000 ANNUAL REPORT

SOLID GROUP, INC.

Table of Contents

Life amplified.

SGI is about Life Amplified. Diligent study and painstaking research enables us to find technology that is relevant and affordable to our customers. We pursue technology that enables our customers to better their lives, ensure their families' future and build the larger community.

SGI's wide range of businesses is focused on helping people live their life more fully. Its history of products and services has helped people reach beyond their normal limitations. From Television and Audio, to Real Estate, and now to Broadband, SGI provides technology that empowers people to realize and achieve their potential.

SGI's audio-visual products have enabled people to watch the world's events unfold in front of their very eyes and listen to music that soothes the heart and the soul. It has employed and provided people with the means to better their standard of living through livelihood opportunities in its industrial estates and manufacturing business. SGI's broadband capabilities have provided people with the means to access information and the power to communicate anywhere in the world.

By embracing Technology, SGI has enabled people to realize their dreams and goals; and raised not only their quality of living but also their quality of being.

This is Life Amplified.

Message to Stockholders

To Our Stockholders

In our previous year's report, we presented the business positioning that Solid Group Incorporated (the "Company") was to take in order to maintain sustainable growth in its consolidated revenues into the future. The results of the Company's performance for the year 2000 has confirmed its directions to maximize current strengths in consumer electronics and further build new businesses in wired and wireless broadband connectivity services. Specifically, we have made significant progress in creating a substantial new business platform for cable television, Internet access and open access services for the wide spectrum of private network applications.

Local political and economic conditions made 2000 a difficult year for the Company. The year was marked by a terrible combination of factors including a weakened Philippine peso, increased oil prices and an unstable political condition of the government of then President Estrada. The economic consequences of these factors were higher interest rates, decreased foreign investments in infrastructure projects and a weak equity market. This, in turn, resulted in weak domestic demand for both local and imported products. To make matters worse, Philippine business had to cope with the GATT imposed reduction of tariff protection for various local industries, which gave rise to heightened price competition, lower profits and in many cases, business closures.

The Company's performance was naturally affected by the abovementioned conditions but despite this, was still able to report a consolidated net income of Pesos 116,533,091 for the year, a 125% growth over the same period in 1999. This also resulted in positive performances in retained earnings at Pesos 935,376,585 and earnings per share of Pesos 0.06, double of the previous year. This financial performance was delivered by the positive performances from three main areas of our operations: the export sales of Kita Corporation, revenues gained from the property sales of Starworld and judicious financial management that resulted in foreign exchange gains and interest earnings.

However it is important to note that these areas of operation as well as the other manufacturing operations are not expected to deliver the same level of profit in the year 2001. This is due to the continuous tariff reduction program being implemented by the Philippine government in compliance to GATT and AFTA. These tariff reductions will negate previous cost advantages of local assembly and manufacturing. The Company's consumer electronics manufacturing operations will also be reduced dramatically this year as Kita Corporation is closed due to the lack of sufficient orders from Aiwa for their international markets. Furthermore, slow economic growth will weigh down industrial estate sales as well as domestic demand for consumer electronics.

The Company will fully implement its acquisition of the broadband infrastructure of Destiny Incorporated, which includes the satellite connectivity services of Destiny Satellite, a wholly owned subsidiary of Destiny Incorporated. This acquisition will contribute Pesos 761 Million in revenues for year 2001 primarily from the sales of VSAT (Very Small Aperture Terminal), leased line and technical services. However, because of the large scale investments used to support Destiny's infrastructure requirements and the long-term nature of business cycles in broadband data networks, Destiny will not return a profit in 2001 due to non-cash expenses such as depreciation and amortization.

Consistent but controlled growth is expected for services offered via the Destiny broadband infrastructure. Cable television services will continue to grow as the strong market alternative to the larger competitors, creating a niche through better services and creative sales programs. Growth is also expected from revenues derived from open network services that enable the subscriber to access his preferred menu of services including choosing his own ISP to provide Internet access. Destiny has already established itself as the leading proponent of online games with DOGZ (Destiny's Online Game Zone), the fastest growing game playing community in the country and is currently developing more interactive content to further support its growing online community. For the institutional and industrial markets, corporate data networks are increasingly converting to Destiny's TCP/IP (Transmission Control Protocol/ Internet Protocol) platform to maximize the broadband functionalities for their private and public data communications.

Destiny Satellite has already established itself as the leading provider of video uplink services via satellite for broadcast companies that require nationwide distribution of its broadcast signal. It has also established inroads in corporate and industrial markets in providing cost-efficient data links nationwide. Using advanced VSAT technology, it has provided customers with multiple sites that have the ability to link up their data networks for quicker and more efficient data management.

We recognize that the outlook for 2001 remains uncertain in the light of continuing difficult economic conditions and political changes occurring in the country. But SGI remains confident in the business directions it has set. It will continue to pursue high growth potential businesses particularly in the area of wired and wireless broadband services using the TCP/IP platform. Whenever feasible, we will pursue strategic joint ventures with strong local and foreign partners to facilitate quicker achievement of business goals. We will further pursue other initiatives that will develop businesses in other high growth areas and will maximize the use of other resources of the Company. Prevailing market conditions will make significant growth difficult so we temper our forecast for 2001 with caution but submit to you our full commitment to achieve it and overcome potential difficulties.

We take this opportunity to express our thanks to you our stockholders, for your support this past year, to our hardworking management and staff and for the wonderful relationship we have had with our customers, suppliers, bankers and other business partners.

Most of all, we would like to thank the Almighty for His Providence and Guidance that has kept us strong and faithful to our duties and goals.

Elena S. Lim
President
Chief Executive Officer

Solid Group Inc. (SGI) is a holding company with business interests in broadband cable and satellite services, marketing and distribution, electronics and after-sales services, information technology, and industrial real estate development.

SGI is a major manufacturer and wholesale distributor of color televisions in the Philippines. It manufactures color televisions for sale in the Philippines under license from Sony Corporation under the "SONY" brand name, as well as for AIWA Co. Ltd. under the "AIWA" brand name. It further provides contract-manufacturing services for various other consumer electronics brands. Corollary to its manufacturing operations, it also provides after-sales service for consumer electronic products, logistics services and consumer financing. Furthermore, SGI also has substantial real estate holdings and is involved in the development of industrial parks and other real estate in the country.

The businesses that comprise SGI were first established by Joseph and Elena Lim in 1965 and began distributing SONY products in the Philippines. In the 1970's, SGI began manufacturing SONY electronics products. A few years after the manufacturing business had begun, SGI commenced distribution of AIWA consumer electronics products. In the 1990's, Kita Corporation was established for commercial production for export of color televisions for Aiwa Co., Ltd.

With the acquisition of Destiny Inc. in April 2000, SGI's broadband service business is focused on broadband cable and satellite connectivity. SGI aims to build new revenue potentials in multimedia and data services as well as enhance current business revenues using e-commerce platforms over the broadband cable infrastructure of Destiny Inc.

Solid Group, Inc.
Subsidiaries and Associated Companies

Broadband Services

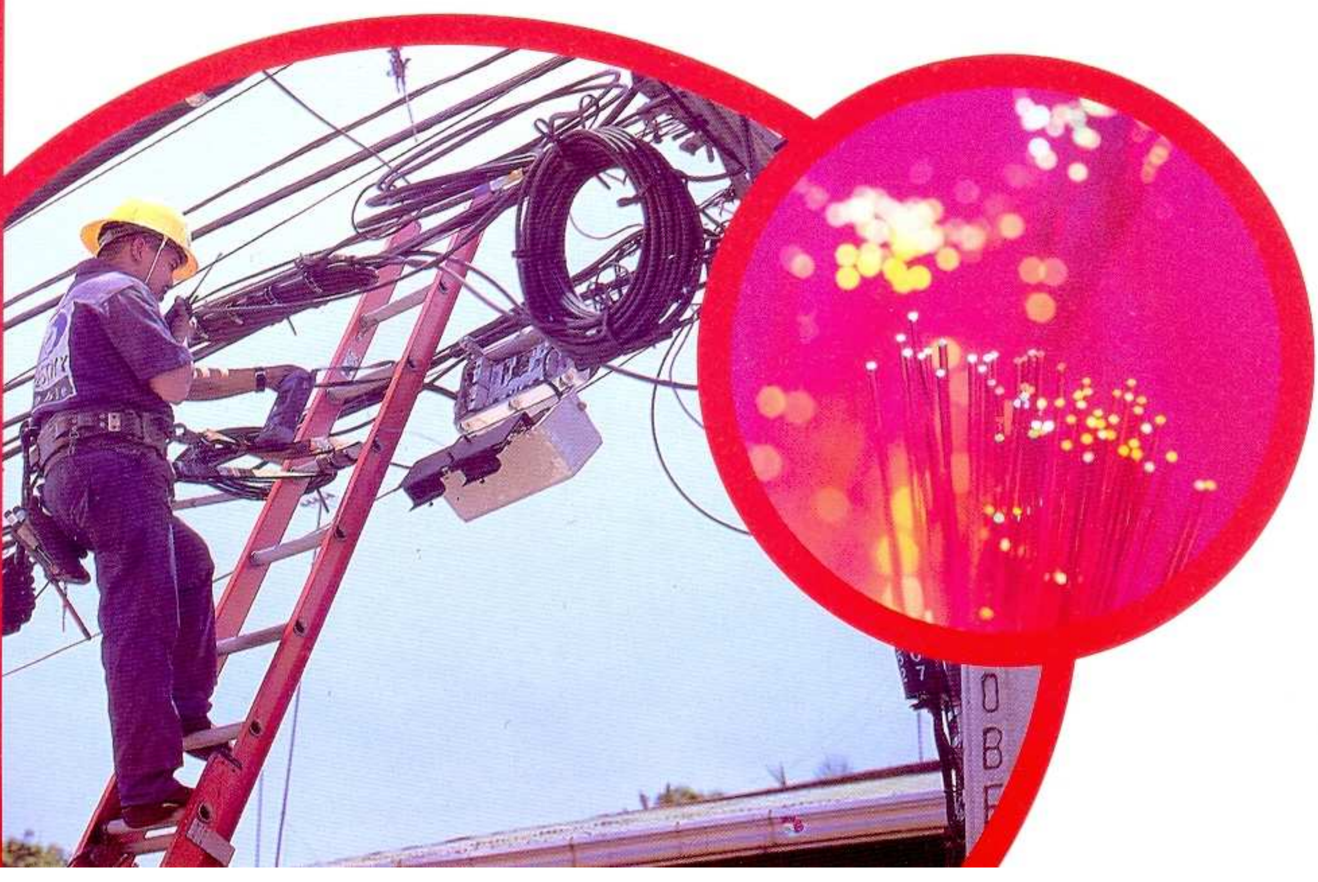
Destiny Inc.
Destiny Inc. made significant progress this year as seen in its impressive growth, with its revenues growing 141% to Php 102 Million in 2000. From a large net income loss in the previous year, Destiny bounced back and posted an income of Php 11.4 Million.

By the end of 2000, a total of 2,223 strand miles of cable were laid out with Destiny spending more than Php 745 Million to effect this rollout. This aggressive network rollout strategy strengthened Destiny's position as the single largest cable network in the country today with extensive network coverage as far north as Antipolo and Taguig and way down south as Las Piñas and Muntinlupa. This aggressive expansion strategy worked well in conjunction with its subsidiary, Destiny Cable, and the latter's marketing efforts for the year 2000.

In view of Destiny Cable's rapidly growing Internet subscriber base, and in anticipation of an immediate influx of subscribers for its online gaming service, DOGZ (Destiny's Online Game Zone),. Destiny Inc. is in the process of acquiring additional E1 lines to support the bandwidth requirements of its subscribers. It is also currently reviewing various software and hardware solutions, such as the Springtide IP switch of Lucent Technologies, to enhance its quality of service to its current subscriber base. Various caching solutions such as those offered by Akamai Technologies and Inktomi are being reviewed for possible integration into the network to help alleviate congestion of the IPL for subscribers who are accessing the World Wide Web.

Destiny Cable
Destiny Cable's aggressive marketing strategy led to an impressive 121% increase in its subscriber base to well over 40,000 by the end of 2000. The subscriber base for its broadband internet access service also increased substantially. Its customer base grew by 204% from its population in 1999. This substantial increase in the customer base is reflected in the revenue growth for 2000. Revenues for the Cable TV service rose by 37% to Php 297 Million while Broadband Internet Access revenues increased by 83% to Php 12 Million.

In 2000, Destiny Cable began meeting with key players in the IT industry as part of its initiative to explore the formation of strategic alliances to provide better value to the services that it offers to its subscribers. Late in the year, Destiny Cable began exploratory talks with



industry giant Microsoft Philippines to develop and establish a public access channel exclusively airing Microsoft seminars and other educational literature, targeting IT professionals and more importantly, the students and their respective schools and universities.

Following on the current trend in network gaming, Destiny Cable plans to launch its online gaming service within the first quarter of the year 2001. Called DOGZ (short for Destiny's Online Game Zone), it will be hosting online multiplayer FPS (First-Person Shooter) games as well as multiplayer strategy games. Current favorites such as Counterstrike and Quake Arena III as well as strategy games such as Red Alert 2 and Diablo II will be made available to subscribers of the service. Aware of the power of the Internet as a tool in community-building, Destiny Cable aims to form communities among its subscribers and online gamers wherein it can offer various value-added services that will not only strengthen customer loyalty but will attract additional customers to subscribe to its products and services.

Destiny Satellite

Destiny Satellite posted a stellar performance for 2000, being the main contributor to the growth of the Destiny Group. Its revenues for 2000 went up by 251% to Php 104 Million. Its VSAT business, coupled with an aggressive marketing campaign, made an impressive leap from its slow performance in 1999. From a mere three clients in 1999, Destiny Satellite ended 2000 with more than 40 clients and over 50 VSAT operations in place. It made significant headway into the satellite business, which can clearly be seen in its impressive lineup of clients that include the Philippine National Bank, Department of Finance and Eastern Telecoms Philippines, Inc.

This sudden growth bolstered consumer confidence in Destiny Satellite allowing it to begin exploratory talks with major players in the banking and food and beverage industries for its VSAT services which the company sees as an indicator of an increase in business opportunities and subsequently, profits.

Our Key Initiatives

SGI aims to build the strengths of its diverse business holdings in a manner that will deliver higher quality products and services as well as significantly increase its consolidated revenue. It will continue to enhance its current business operations especially in the Marketing and Distribution industry, where room for growth and improvement can still be realized. SGI intends to achieve this by pursuing group-wide key initiatives that, taken together, will respond to the emerging concerns of the Filipino consumer. These key initiatives are as follows:

Consumer Electronics

Kita Corporation

The company experienced significant business growth in 2000 of more than 94% with total sales of Php 2.12 B. Export sales grew and contributed 77% to total sales, primarily based on export sales to Aiwa. Color television was the lead product type that fueled a 374% growth export volume growth. Despite this year's performance, projections for next year are bleak due to the lack of new manufacturing orders from Aiwa Co. Ltd.. Consequently, and in the best interests of the stockholders, management has decided to suspend Kita Corporation's manufacturing operations which has been properly disclosed to the Philippine Stock Exchange (PSE) and the general public.

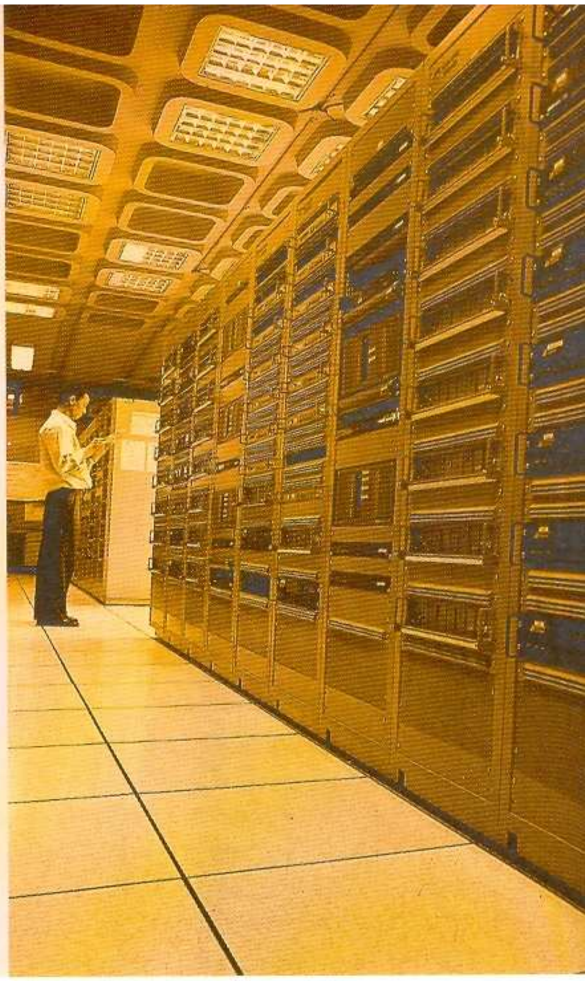
For details, please see Notes to Financial Statements # 14 and an attached copy of the Disclosure Notice to the Philippine Stock Exchange.

Solid Laguna Corporation

Solid Laguna's sales revenue of Php 791 Million was generated primarily by its business arrangement with Sony Philippines that is defined in their Manufacturing and Distribution Agreement. There was a major shift in this business model from a manufacturing service to toll manufacturing service: the former arrangement

Enhance Competitiveness in Broadband Cable and Satellite Services

To strengthen its broadband capability, SGI has acquired Destiny Inc., which controls a broadband cable network that covers most of Metropolitan Manila. Destiny is the first cable infrastructure that was built entirely to be completely ready for cable television, Internet access and data services including virtual private networks and leased line services. Its current system capacity can potentially serve up to 1,000,000 data users and cable television subscribers and will have a home pass of 500,000 cable television subscribers by the end of 2001. The infrastructure is also capable of supporting other services including web-based video conferencing, cable telephony and VOIP via broadband cable and satellite facilities operated by Destiny Satellite. The satellite services also include international video uplink, voice and data connectivity.



having Solid Laguna purchasing all parts from Sony designated suppliers (as provided for in the Component Supply Agreement) and selling the finished product to Sony Philippines while the latter model has Sony Philippines providing all the parts and kits and paying a fixed manufacturing fee. This explains the 177% increase in toll manufacturing income and its bigger production volume (139, 503 units) versus the manufacturing volume (100, 520 units). Despite increased efforts to market manufacturing capacities to other brand owners, a decline of 21% in production output is foreseen for the next year due to an increase of direct importation of finished goods. This was brought on by the lowering of tariffs on such finished goods to 10 percent effective January 1, 2001 under the CEPT of ASEAN. Because of the recent downturn in the manufacturing industry, management will be exploring initiatives that will rationalize group-wide manufacturing resources.

Solid City Industrial and Commercial Corporation
Solid City's plastic molding operations generated Php 51 Million sales revenues, a 54% increase versus previous year. This jump in revenue was fueled by the significant increase in orders of beer crates from San Miguel Corporation. Projected sales for next year will also grow by almost 80% due to the aggressive marketing campaign that will generate a wider customer base to produce a wider range of products for both industrial and consumer use.

Invest in Key Technologies To Provide Platforms For Business Growth

To complement its move into internet based services, SGI is in the process of forming strategic partnerships and alliances with key players in the Information Technology Industry as well as identifying investment opportunities in areas such as portal development, electronic mail, web hosting, internet telephony, video and audio streaming, video conferencing, gaming and distance education programs. In addition, SGI will merge the value of its current operations and extend it to a wider market using e-commerce solutions delivered over the broadband platform. With more than 30 years experience in consumer electronics manufacturing and marketing, SGI's approach to its e-commerce business development is to work with its traditional business partners including suppliers and retail dealers in a B-to-B (business to business) model then work together to service the customer requirements through a B-to-C (business to consumer) model.

Clark Plastics Manufacturing Corporation
Clark Plastics generated Php 121 Million in sales revenue, an increase of 148% from previous year. This growth was supported by additional customers but based mostly on sales orders from Kita Corporation for the plastic components of its export products. Projected sales for next year are expected to decline by about 40% is due to the closure of the Styropor (EPS) division, which serviced Kita Corporation packaging requirements. This division contributed Php 40 Million or 33% of Clark Plastics sales. With the loss of Kita Corporation business, management efforts will be focused on sales and marketing activities aimed at diversifying the company's customer base, particularly within the Clark special economic zone area.

Solid Electronics Corporation
AA Electronics Corporation
Solid Electronics Services, Inc.
Solid Electronics Corporation (SEC), AA Electronics Corporation and Solid Electronics Services, Inc (SESI) contributed sales revenues totaling Php 206 Million to SGI in the year 2000. In combination, these three companies as a group represent the biggest nationwide service facility for television, video and audio equipment in the country. The projection for next year will be a 15% growth over this year in service revenue or Php 237 Million in revenue. This will be generated from increasing service business for Sony products as well as Aiwa brand products nationwide.

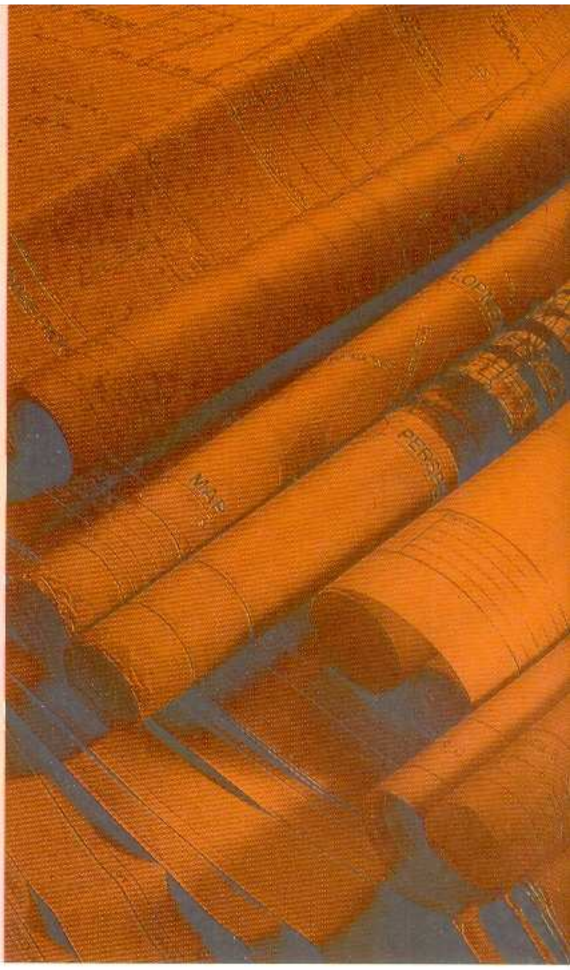
Marketing and Distribution

Solid Video Corporation
Solid Video Corporation, which distributes professional, broadcast and institutional media products and services, generated total revenue of 128 Million for 2000. This positive growth can be attributed to its sizable share of its product markets. The company projects an increase in its business volume by over 50% for the year 2001. This projected growth will be achieved through aggressive marketing campaigns and by diversifying into other markets beyond that of the broadcast and media fields, such as the medical technology field.

ASCOP, Inc.
Ascop Inc., distibutor of Aiwa consumer electronics products, posted a Php 1.27M increase for 2000, registering a flat growth versus the previous year. Product sales posted mixed results for the year 2000 with the volume of TV sales up by 21%, while VHS sales experienced a marked decrease this year with sales down by 74% and Audio product sales posting a decline by 6%. This occurred despite its products relatively steady hold in its respective markets. For the year 2001, sales is expected to go up 10%. This growth is expected to come from the increased sales of audio components with built-in DVD and CD players. Among the key initiatives for Ascop next year is to enhance customer service operations both for dealers and after-sales service end-users, as well as introduce new product lines.

Increase Profitability of Real Estate Business

Selected prime real estate assets will be developed for specific business and consumer oriented activities and services as an interim step for larger long-term development projects.

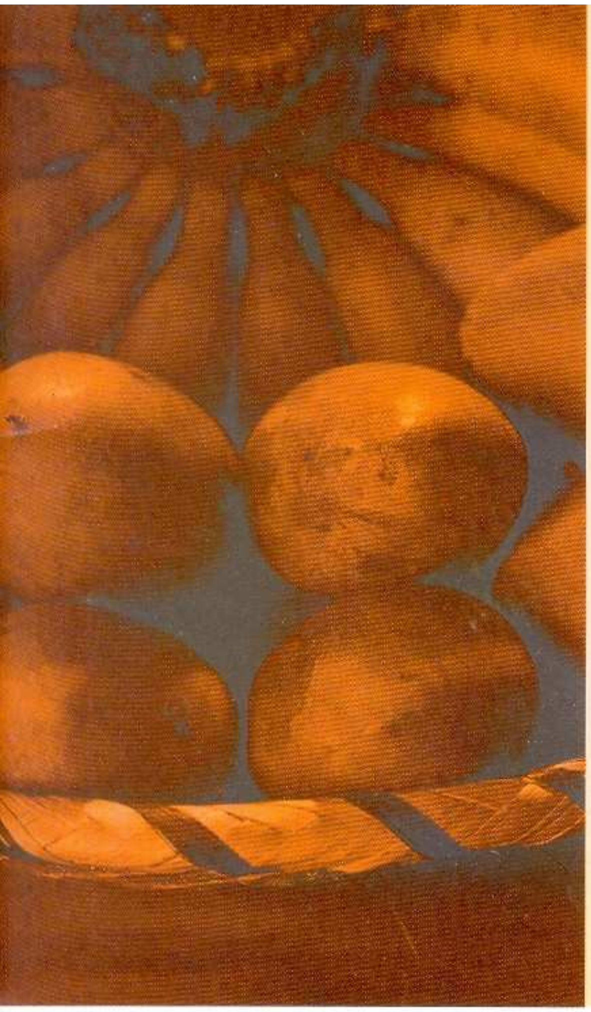


OMNI Logistics Corporation

OMNI Logistics reported a flat net income and revenue growth of Php 37 Million due to weak market conditions during the year. The forecast for next year is optimistic with projected revenues for 2001 expected to increase by 30%. Income before tax is projected to double from last year's performance due to aggressive marketing efforts that are targeted to diversify its current customer base, bringing in more clients and customers.

Solid Manila Finance Inc.

Solid Manila Finance posted an impressive Php 29M in revenues, compared to 1999, which was its initial year of operations, where it reported revenues amounting to Php 3 Million. The company also generated an increase in income amounting to Php 3.7 Million. Despite this growth, Solid Manila's forecast for 2001 is relatively conservative due to uncertain market conditions for consumer financing.



Pursue Business Opportunities In Food and Agriculture-Based Business

The food industry has been identified as an important growth sector for the Philippines and a significant investment opportunity for SGI. It intends to explore the development of B-to-B e-commerce platforms that can bring together agri-business suppliers, business partners and customers.

Real Estate

Solid Manila Corporation

Solid Manila Corp. concentrated on leasing activities and increased its tenant rentals by giving priority to servicing its existing tenant base.

The company's financial fundamentals remain basically unchanged. However, its balance sheet continued to be strong despite weak market conditions for property leasing. Total assets stood at Php 2.28 B. Cash reserves remained at Php 3.7 M while debt was kept at Php 577.47 M from Php 611.8 M of the previous year. The company forecasts a growth of over 15% for the year 2001.

Starworld Corporation

Starworld Corporation registered hefty gains for the year 2000 with a 93% increase in revenues and a significant jump in its net income from a loss of Php 6M in 1999 to a positive Php 223 M in 2000. Contribution to SGI's revenues posted a marked increase in its equity net earnings of Php 134 M from an equity net loss of Php 3M.

In spite of the slack in the real estate market, Starworld Corp. braised the uncertainties with renewed marketing efforts, which resulted in an increase in properties sold at the Calamba Premier International Park by 91%. The base revenue projections for Starworld Corp. in the year 2001 is expected to reach Php 375M as the remaining inventory of unsold lots at the Calamba Premier International Park are sold.

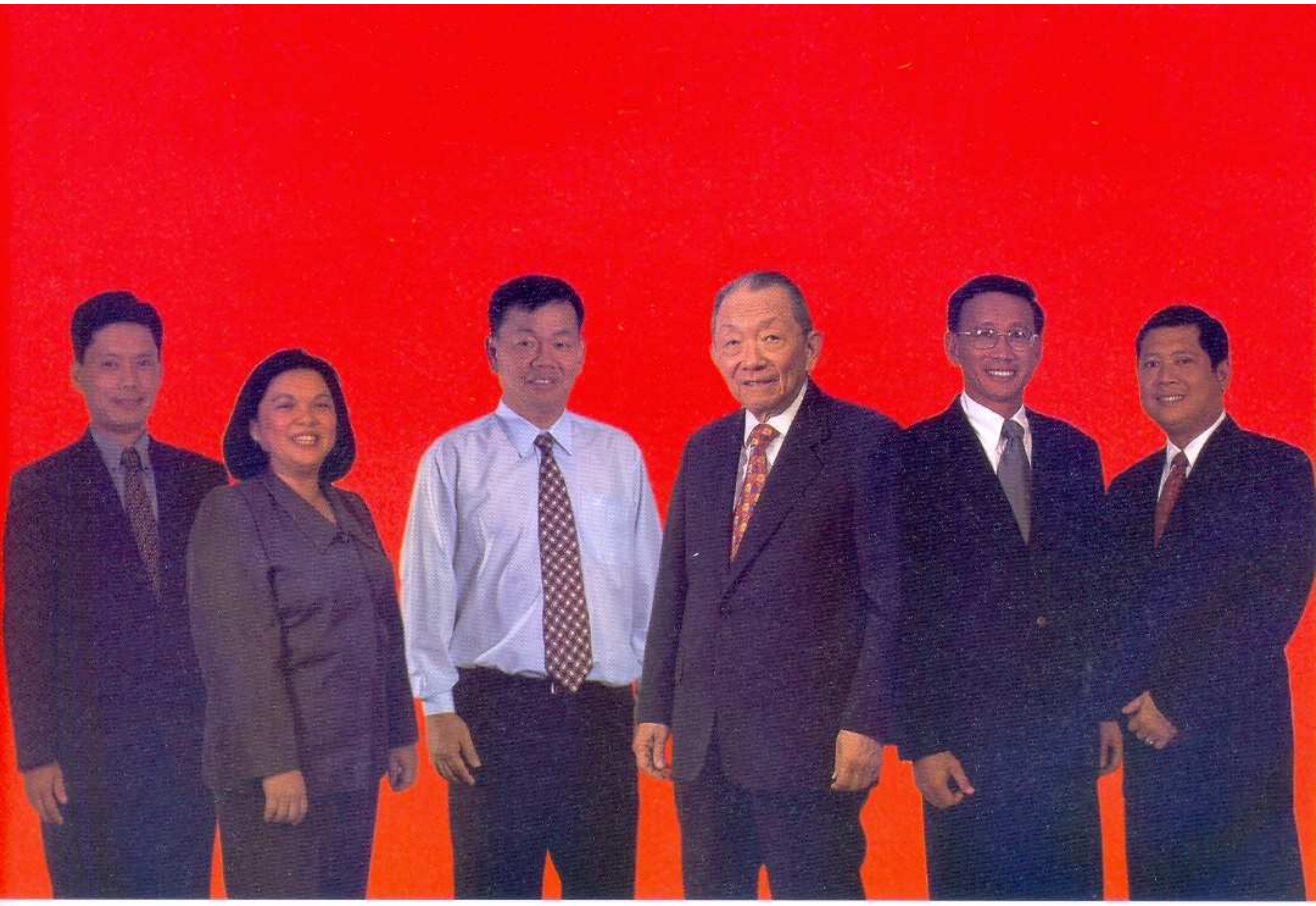
Management

Joseph Lim
Chairman

Elena S. Lim
President & CEO

Enrique Ligeralde
Vice-President, Chief Operating Officer

Vincent S. Lim
Director, Chief Financial Officer



Susan L. Tan
Director, Vice President

George R. Tan
Director

Jason S. Lim
Director

Lita Joaquin
Comptroller

Roberto V. San Jose
Corporate Secretary

David S. Lim
Director, Vice-President

Washington Z. SyCip
Director

James H. Uy
Director

Ireneo D. Tubio
Chief Accounting Officer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Solid Group Inc. is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2000 and 1999 and for each of the three years ended December 31, 2000. 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 consolidated 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 consolidated 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.

Elena S. Lim
President
Chief Executive Officer

Vincent S. Lim
Chief Financial Officer

SGV & Co

SyCip Gorres Velayo & Co.
A member firm of Arthur Andersen
6760 Ayala Avenue
1226 Makati City
Philippines

Tel 632 891 0307
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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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the Philippines. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the Philippines.

SyCip, Gorres, Velayo & Co

March 15, 2001

SOLID GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	**P 1,461,567,631**	P 1,844,875,335
Receivables - net (Notes 2 and 3)	**814,958,340**	777,039,238
Inventories - net (Note 3)	**900,127,333**	1,138,246,834
Other current assets - net (Note 8)	**96,987,504**	102,419,691
Total Current Assets	**3,273,640,808**	3,862,581,098
Investments and Advances (Notes 4 and 7)	**1,094,943,919**	521,327,011
Property, Plant and Equipment - net (Note 5)	**3,558,197,015**	3,711,599,224
Other Assets - net (Note 8)	**278,384,465**	297,185,617
	P 8,205,166,207	P 8,392,692,950
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 6, 8 and 9)	**P 594,433,579**	P 818,008,182
Trust receipts and acceptances payable (Note 3)	**1,073,389**	98,845,575
Income tax payable	**10,083,922**	13,056,831
Total Current Liabilities	**605,590,890**	929,910,588
Minority Interest	**140,595,637**	113,527,951
Stockholders' Equity		
Capital stock - 1 par value (Note 7)		
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)	**935,376,585**	818,843,494
	7,555,428,181	7,438,895,090
Less cost of 166,943,000 shares in 2000 and 162,043,000 shares in 1999 held in treasury	**96,448,501**	89,640,679
	7,458,979,680	7,349,254,411
	P 8,205,166,207	P 8,392,692,950

See accompanying Notes to Consolidated Financial Statement.

SOLID GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years Ended December 31		
	2000	1999	1998
REVENUES			
Sales (Note 10)	**P 3,782,856,175**	P 2,997,324,405	P 6,226,655,323
Services (Note 10)	**366,359,992**	302,922,498	209,113,558
Foreign exchange gain - net	**254,086,063**	13,311,906	–
Equity in net earnings of investees (Note 4)	**134,753,501**	–	123,281,246
Interest	**105,640,285**	151,299,241	215,175,923
Rentals	**74,378,533**	77,765,989	29,262,364
Others	**50,324,814**	87,957,797	136,228,783
	4,768,399,363	3,630,581,836	6,939,717,197
COSTS AND EXPENSES			
Cost of goods sold (Notes 5, 9 and 10)	**3,570,610,371**	2,765,054,713	5,999,462,139
Cost of services (Notes 5, 9 and 10)	**190,636,192**	202,063,030	109,491,062
Operating	**678,568,894**	482,055,764	748,384,337
Interest	–	11,708,414	47,298,798
Equity in net losses of investees (Note 4)	–	3,886,269	–
Foreign exchange loss	–	–	8,619,189
Others	**63,251,511**	85,837,402	39,150,150
	4,503,066,968	3,550,605,592	6,952,405,675
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	**265,332,395**	79,976,244	(12,688,478)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 8)			
Current	**27,509,422**	25,962,150	38,424,122
Deferred	**94,222,196**	7,647,586	(89,682,806)
	121,731,618	33,609,736	(51,258,684)
INCOME BEFORE MINORITY INTEREST	**143,600,777**	46,366,508	38,570,206
MINORITY INTEREST	**(27,067,686)**	5,375,135	15,031,521
NET INCOME (Note 11)	**116,533,091**	51,741,643	53,601,727
RETAINED EARNINGS AT BEGINNING OF YEAR	**818,843,494**	767,101,851	713,500,124
RETAINED EARNINGS AT END OF YEAR (Note 4)	**P 935,376,585**	P 818,843,494	P 767,101,851
Earnings Per Share (Note 11)	**0.06**	0.03	0.03

See accompanying Notes to Consolidated Financial Statement.

SOLID GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**P 116,533,091**	P 51,741,643	P 53,601,727
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Unrealized foreign exchange gain	**(226,595,694)**	(21,683,182)	2,960,666
Depreciation and amortization	**226,847,635**	205,847,218	232,241,675
Provisions for:			
Inventory obsolescence	**156,612,103**	22,670,987	65,635,085
Doubtful accounts	**16,179,171**	42,387,898	46,153,974
Equity in net losses (earnings) of investees	**(134,753,501)**	3,886,269	(123,281,246)
Provision for (benefit from) deferred income tax	**94,222,196**	7,647,586	(89,682,806)
Loss (gain) on sale of property and equipment	**33,067,245**	(9,182,526)	3,301,233
Minority interest share in net income (loss)	**27,067,686**	(5,375,135)	(15,031,521)
Dividends received from investees	–	108,127,200	–
Write-off of receivables	–	14,517,088	–
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(51,092,674)**	267,208,922	546,996,588
Inventories	**81,507,398**	190,638,656	1,544,257,018
Other current assets	**3,642,790**	147,139,976	(28,353,833)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(289,872,431)**	(609,010,229)	463,347,070
Trust receipts and acceptances payable	**(97,772,186)**	5,816,827	(1,858,470,099)
Income tax payable	**(2,972,909)**	(10,585,957)	(53,178,635)
Net cash provided by (used in) operating activities	**(47,380,080)**	411,793,241	790,496,896
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	**(162,295,489)**	(151,929,602)	(102,126,452)
Proceeds from disposal of property and equipment	**55,782,818**	12,000,277	339,060
Decrease (increase) in:			
Investments and advances	**(438,863,407)**	(19,152,330)	(27,201,319)
Other assets	**(7,590,993)**	(245,838,632)	17,389,958
Net cash used in investing activities	**(552,967,071)**	(404,920,287)	(111,598,753)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Treasury shares	**(6,807,822)**	–	(89,640,679)
Bank loans	–	(332,732,500)	(263,891,500)
Increase (decrease) in minority interest	–	(23,181,200)	31,016,355
Net cash used in financing activities	**(6,807,822)**	(355,913,700)	(322,515,824)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**223,847,269**	19,863,084	(2,835,628)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(383,307,704)**	(329,177,662)	353,546,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,844,875,335**	2,174,052,997	1,820,506,306
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P 1,461,567,631**	P 1,844,875,335	P 2,174,052,997

See accompanying Notes to Consolidated Financial Statement.

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	
	2000	1999
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**	100
Omni Logistics Corporation	**100**	100
Solid Broadband Corporation (preoperating company)	**100**	–

The subsidiaries of Solid Corporation include:

Clark Plastics Manufacturing Corporation	**100**	100
Solid City Industrial and Commercial Corporation	**100**	100
Solid Electronics Services, Inc.	**100**	100
SSEC, Inc.	**67**	67
Interstar Holdings Company, Inc.	**60**	60

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

All significant intercompany accounts and transactions are eliminated.

The Company's 33% investment in Sony Philippines, Inc. (SPH), and 45% 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.

Other investments are stated at cost.

Cash Equivalents

All highly liquid short-term investments with maturities of three months or less from dates of acquisition are considered as 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 MarchÊ15, 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 sheets. 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 minor repairs and maintenance is expensed as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost, appraisal increase and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or 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 a financing subsidiary is recognized when earned. However, in accordance with the Financing Company Act of 1998, interest income on loan receivables that remain outstanding beyond their maturity dates is recognized only 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 sheets and are being amortized over five years.

Retirement Benefits
Retirement expense is generally determined using the projected unit credit method. This method reflects services 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 average 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.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the: (1) 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 and MCIT and NOLCO are expected to be applied. A valuation allowance is provided for deferred tax assets which are not reasonably expected to be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the year.

Earnings Per Share

Earnings per share is computed by dividing net income for the year by the weighted average number of outstanding shares during the year after giving retroactive effect to stock dividends or stock splits declared during the year, if any.

2. Receivables

This account consists of:

	2000	1999
Trade	**P 762,450,582**	P 728,464,143
Others	**153,352,048**	141,798,482
	915,802,630	870,262,625
Less allowance for doubtful accounts	**100,844,290**	93,223,387
	P 814,958,340	P 777,039,238

3. Inventories

This account consists of:

	2000	1999
Finished goods	**P 490,924,139**	P 349,915,221
Work in process	**71,435,045**	52,950,954
Raw materials	**482,333,953**	737,081,004
Supplies and others	**30,090,685**	41,312,795
	1,074,783,822	1,181,259,974
Less allowance for inventory obsolescence	**214,302,162**	62,446,588
	860,481,660	1,118,813,386
Goods and materials in transit	**39,645,673**	19,433,448
	P 900,127,333	P 1,138,246,834

Under the terms of the agreements 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 trusteed inventories or their sales proceeds.

4. Investments and Advances

Details of investments and advances are presented below.

	2000	1999
Investments in shares of stock		
At equity -		
Acquisition cost	**P 455,335,630**	P 455,335,630
Accumulated equity in net earnings:		
Balance at beginning of year	**40,866,820**	152,880,289
Equity in net earnings (losses) for the year	**134,753,501**	(3,886,269)
Dividends received during the year	–	(108,127,200)
Balance at end of year	**175,620,321**	40,866,820
	630,955,951	496,202,450
Others - at cost	**25,073,658**	25,124,561
	656,029,609	521,327,011
Advances to affiliates	**438,914,310**	–
	P 1,094,943,919	P 521,327,011

Undistributed earnings of subsidiaries and unconsolidated investees amounting to 1,160,422,508 in 2000 and 1,058,110,128 in 1999, which are included in the Company's retained earnings, are not currently available for dividend declaration.

Advances to affiliates mainly consist of advances to the Destiny Group (see Note 7).

5. Property, Plant and Equipment

This account consists of:

	2000	1999
At cost:		
Land	**P 530,939,609**	P 535,598,323
Buildings and improvements	**660,430,631**	643,366,921
Machinery and equipment	**628,232,143**	643,604,876
Furniture, fixtures and equipment	**108,444,364**	99,137,298
Leasehold improvements	**92,375,309**	74,394,419
Transportation equipment	**67,427,996**	54,170,055
Tools and equipment	**65,970,044**	61,198,655
Others	**33,237,836**	27,950,759
	2,187,057,932	2,139,421,306
Less accumulated depreciation and amortization	**851,400,117**	673,909,826
(Forward)	**1,335,657,815**	1,465,511,480

(Balance Forward)	**1,335,657,815**	1,465,511,480
Appraisal increase:		
Land	**1,789,641,133**	1,817,539,133
Buildings and improvements	**595,421,621**	595,421,621
Machinery and equipment	**54,783,661**	55,504,384
	2,439,846,415	2,468,465,138
Less accumulated depreciation and amortization	**252,221,791**	224,504,197
	2,187,624,624	2,243,960,941
Construction in progress	**34,914,576**	2,126,803
	P 3,558,197,015	P 3,711,599,224

Depreciation charged to operations amounted to 226,847,635 in 2000, 205,847,218 in 1999 and 232,241,675 in 1998 (including depreciation on appraisal increase of 28,113,559 in 2000, 25,086,594 in 1999 and 40,369,161 in 1998).

6. Accounts Payable and Accrued Expenses

This account consists of:

	2000	1999
Trade	**P 254,556,652**	P 457,084,794
Accrued expenses and others	**339,876,927**	360,923,388
	P 594,433,579	P 818,008,182

7. Capital Stock

On March 30, 2000, the Company's Board of Directors approved the acquisition of the Destiny Group comprising of Destiny Cable, Inc. (DCI) and Destiny, Inc. and its subsidiaries (DI), a group engaged in the multimedia business. The stockholders ratified the acquisition on May 12, 2000, which will involve the following:

a. issuance of 673,844,980 shares to acquire DI at its book value of 1,347,689,961 as of February 29, 2000.

b. issuance of 376,027,050 shares in exchange for bonds ("AV Bonds") at face value amounting to 752,054,100 to be floated by AV Value Sales Corporation, the parent company of DCI. The AV Bonds are convertible to the entire issued and outstanding shares of stock of DCI at the option of the Company.

The acquisition of DI will be accounted for under the pooling of interests method.

The following unaudited pro forma financial information reflects the financial position and results of operations that would have resulted if the acquisition of the Destiny Group had been consummated as of the beginning of the periods presented.

	2000	1999
Total assets	**P 10,595,523,861**	P 11,295,312,944
Total liabilities	**1,140,102,985**	1,926,093,791
Stockholders' equity	**9,455,420,876**	9,369,219,153
Income before income tax and minority interest	**P 159,213,777**	P 196,943
Income (loss) before minority interest	**27,067,686**	(33,412,793)
Net income (loss)	**13,230,245**	(28,037,658)
Earnings (loss) per share	**P 0.004**	(P 0.01)

On February 15, 2001, the Securities and Exchange Commission approved DI's application for exemption from the registration requirements of the Securities Regulation Code for the issuance of shares, which is a prerequisite for the acquisition of the Destiny Group by the Company.

8. Income Taxes

Certain subsidiaries of the Company are duly 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 enterprise which entitles these subsidiaries to tax and duty free importation of raw materials, capital goods, equipment, household and personal items, and exemption from national and local taxes. These subsidiaries shall pay to the government a certain amount equivalent to 5% of gross income as defined under the rules governing their registration.

Significant components of deferred tax assets as of December 31, 2000 and1999 are as follows:

	2000	1999
Current deferred tax assets - (shown as part of "Other current assets")		
NOLCO	**P 75,144,553**	P 63,523,058
Allowance for doubtful accounts	**32,171,138**	29,732,449
Allowance for inventory obsolescence	**16,110,721**	16,683,641
MCIT	**2,010,275**	1,800,652
Accrued retirement	**2,104,471**	1,554,675
Accrued warranties	**1,760,570**	1,441,599
Others	**1,160,194**	644,238
	130,461,922	115,380,312
Less valuation allowance	**83,472,255**	70,245,897
	46,989,667	45,134,415
Less deferred tax liability - unrealized foreign exchange gain	**3,644,649**	–
	P 43,345,018	P 45,134,415

	2000	1999
Noncurrent deferred tax assets - (shown as part of "Other assets")		
NOLCO	**P 40,119,003**	P 50,420,970
MCIT	**10,151,870**	5,988,363
Unamortized past service costs	**1,902,034**	1,726,395
Others	**122,037**	–
	52,294,944	58,135,728
Less valuation allowance	**20,551,361**	–
	P 31,743,583	58,135,728

	2000	1999
Current deferred tax liabilities - (shown as part of "Accounts payable and accrued expenses")		
Unrealized foreign exchange gain	**P 68,575,110**	P 6,352,976
Advance rental from tenants	**(1,007,775)**	–
Accrued retirement	**(493,125)**	(246,562)
NOLCO	–	(5,153,188)
MCIT	–	(43,921)
Others	**(80,330)**	–
	P 66,993,880	P 909,305

The reconciliation of 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:

	2000	1999	1998
Income tax computed at statutory tax rates	**P 84,906,366**	P 26,392,161	(P 4,314,083)
Income tax effects of:			
Tax loss position	**62,462,604**	23,774,807	–
Equity in net losses (earnings) of investees	**(43,121,120)**	1,282,469	(41,915,624)
Interest income subjected to final tax	**(27,079,425)**	(44,074,972)	(68,292,769)
Depreciation on appraisal increase	**8,996,339**	8,278,576	13,725,515
Nondeductible expenses	**4,010,743**	11,095,288	–
Nontaxable gain	**(127,818)**	–	–
Others	**(2,093,790)**	700,719	(10,604)
Unallowable deductions as defined under R.A. No. 7227	–	–	32,967,877
Income of certain subsidiaries subjected to special tax rate of 5%	–	–	(53,792,900)
Change in valuation allowance	**33,777,719**	657,642	69,588,285
Adjustments due to change in applicable income tax rates for temporary differences in the expected years of recovery	–	5,503,046	785,619
Provision for (benefit from) income tax	**P 121,731,618**	P 33,609,736	(P 51,258,684)

9. Retirement Benefits

The Company and certain subsidiaries have a funded, noncontributory and actuarially computed retirement 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 2000, 1999 and 1998 amounted to about 8 million, 10 million, and 8 million, respectively.

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

10. Agreements

Joint Venture Agreement (JVA) with Sony Corporation (Sony)

On May 9, 1997, the Company entered into a JVA with Sony for a period of 8 years until 2005 to jointly invest and organize SPH, 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 SPH, which started commercial operations on October 1, 1997 at which date the Company and its subsidiary, Solid Corporation(SC), ceased all selling activities direct to dealers and transferred this activity to SPH. The Company and certain subsidiaries also entered into the following operating agreements with Sony's subsidiaries.

a. 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.

b. Component Supply Agreement which provides, among others, that the Company purchase from Sony International (Singapore) Ltd. the parts and components to be used in the manufacture of Sony products that are to be supplied by the Company to SPH, and that such purchases shall be invoiced to the Company in Philippine pesos. The agreement is effective until September 30, 2001.

c. After-Sales Service Agreement and Network Support Agreement which provide that Solid Electronics Corporation (SEC) shall provide in-warranty and out-of-warranty services for Sony products sold in the Philippines, in consideration of which SPH pays a fee to SEC based on a certain percentage of SPH sales. The After-Sales Service Agreement will expire on September 30, 2001. The renewal of the Network Support Agreement, which expired on October 1, 2000, is still being renegotiated.

Notwithstanding the limited term of the above agreements, Sony has assured the Company that 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 during the effectivity of the JVA.

Distributorship and Purchase Agreements with Aiwa

a. The Distributorship Agreement with Aiwa Co., Ltd., which granted Ascop, Inc. a non-exclusive distributorship in the Philippines of certain Aiwa products, excluding duty-free zones and shops, expired on March 31, 2000. Management is negotiating for the renewal of the agreement. However, despite the absence of a new agreement, Ascop, Inc. has continued to sell Aiwa products in the local market.

b. The Purchase Agreement which granted Kita Corporation (Kita) 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. (Aiwa) expired on April 1, 2000. The Agreement has not been renewed because Aiwa is in the process of restructuring all of its overseas manufacturing facilities. Sales of Kita from this agreement in 2000, 1999 and 1998 accounts for 43%, 24% and 46% of the total revenues, respectively. Net income (loss) of Kita included in the Company's net income in 2000, 1999 and 1998 amounted to (139) million, (59) million, and 49 million, respectively.

11. Earnings Per Share

Earnings per share is computed as follows:

	2000	1999	1998
Net income (a)	**P 116,533,091**	P 51,741,643	P 53,601,727
Weighted average shares outstanding (b)	**1,864,440,333**	1,868,932,000	1,986,830,750
Earnings per share (a/b)	**P 0.06**	P 0.03	P 0.03

12. Supplemental Disclosures of Cash Flow Information

	2000	1999	1998
Cash paid during the year for:			
Income tax	**P 30,202,673**	P 36,850,250	P 38,424,122
Interest	–	9,737,164	46,958,363

13. Contingencies

The Company and its subsidiaries are involved in litigation for certain claims which arise in the normal course of business. These include, among others, the following:

a. 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.

b. In 2000, the Video Regulatory Board (VRB) filed a complaint against officers of Solid Laguna Corporation (SLC) for alleged unauthorized video and audio reproduction. Relative to this complaint, VRB seized machinery and equipment owned by SLC and another affiliate with carrying book value of P54.5 million. On January 15, 2001, the complaint was dismissed by the Department of Justice for lack of evidence. However, VRB subsequently filed a motion for reconsideration to which the Company filed an opposition. The motion is still pending resolution.

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 the Company and its subsidiaries.

14. Other Matters

Kita's operation has been significantly affected by the decline in production orders from AIWA, its principal customer. As discussed in Note 10, the purchase agreement has expired and has not been renewed. Aiwa cannot give a definite timetable for the resumption of its production orders. Consequently, in March 2001, management decided to suspend the manufacturing operations of Kita for an indefinite period commencing April 15, 2001. Clark Plastics Manufacturing Corporation (Clark), which manufactures and supplies components to Kita also will suspend operations of its EPS (styropor) Division effective on the same date.

Meanwhile, management is currently looking for possible business opportunities. Both Kita and Clark will resume their manufacturing operations as soon as production volume becomes viable for their operations.

As a result of the suspension of the subsidiaries' operations, there are uncertainties that may affect the recoverability of the carrying amounts of the assets of both subsidiaries, which consist mainly of inventories and property, plant and equipment. However, management believes that the carrying amounts of the assets will be fully realized.

The financial statements do not include any adjustments that might result from these uncertainties. The related effects in the financial statements will be reported in the financial statements, as they become known and estimable.

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