

annual report 2002

EXPLORING



BROADER HORIZONS



SOLID GROUP INC.

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MESSAGE TO STOCKHOLDERS

To Our Stockholders

SGI faced a difficult business environment in 2002. The Philippine's economic difficulties as well as the depressed international market demand forced most of SGI businesses into untenable market situations where tight competition has squeezed profit margins. However, SGI remains committed to its mission of investing and developing business undertakings that capitalize on Filipino expertise in strategic Philippine industries.

To achieve our mission in these difficult times, the company acted to minimize the impact of the negative business conditions and realign corporate resources to support new business growth drivers. We aimed at lowering costs by consolidating manufacturing related businesses with limited growth opportunities. This enabled us to free some assets for other potential uses and to raise cash for new investment opportunities.

One of the results of our consolidation efforts is the strengthening of our balance sheet, which will provide the platform for long-term viability. Despite the decline in revenues, the company increased its cash level to ₱2.054 Billion in 2002 which is a 33% increase from 2001. Efforts to raise operation efficiency resulted in a 14% gross profit to revenue ratio. This enabled the company to improve its gross profit in 2002 by 4% against 10% reported in 2001.


We focused on growth businesses such as the Broadband Cable Services offered by the Destiny Group of Companies. While Destiny's cable television business growth was hindered by the abrupt loss of key program channels, we will continue our efforts to protect the Filipino cable industry and consumers by providing quality programs. Destiny's Broadband Data Businesses, both Satellite and Cable, delivered revenue growth and will be further supported by strategic investments in infrastructure upgrades and efficient service operations that will produce more value for our customers.

While we remain optimistic about the future, we also acknowledge that the challenges of 2002 have neither abated nor have been resolved. However, we are encouraged by the recent decisive actions of the Department of Transportation and Communication and the National Telecommunications Commission, which clearly indicate that stronger regulatory actions will soon be taken to protect Destiny and all other cable operators from unfair business practices of program and content providers.

In these difficult times, we will continue to exercise prudence and apply financial discipline to our operations without sacrificing our ability to provide the best quality of service to our customers and partners. But we also expect the forecasted weakness in the Philippine and Asian region economy and other mitigating circumstances will continue the pressure on our corporate revenues.

Our answer to these difficult times is to further strengthen both our board of directors and professional management team that has worked with focus and perseverance to steer SGI through difficult times and position it for future growth. I am proud to be a part of the SGI management team and I am confident that it will continue to build the value of our company.

Sincerely,



DAVID S. LIM
PRESIDENT & CHIEF EXECUTIVE OFFICER

REVIEW OF OPERATIONS

Management Discussion

I. BROADBAND SERVICES

In accordance with the approval given by the Company stockholders on November 21, 2002, Management has pursued the acquisition of the Destiny Group. On May 15, 2003, government approval for the transaction was obtained which allowed the consummation of this transaction. While the results of this new investment are not yet included in SGI's 2002 results, we present below a discussion of Destiny's operations.

Cable Television

The arbitrary pullout of key program channels of the STAR Group weighed heavily on Destiny Cable's sales efforts and brought down 2002 subscriber numbers to the same level of year-end 2001. Despite this, revenues reached P581 Million, with a 20% growth against P480 Million in 2001. However, profitability was also pressured by an increase in cost of programs being charged by foreign program providers. In response to these difficult conditions, management pursued an aggressive cost reduction program, which included a reduction of the company's outstanding debt from the US Eximbank, postponed major capital investments and reduced employees and contractual hires. This has significantly conserved company's resources, which will serve as the platform for new marketing plans and activities for 2003.

Broadband Internet and Corporate Services

Destiny's Broadband Internet and Data services achieved significant growth in data traffic that it required a major upgrade to a DS-3 level (45 MB) International Private Line (IPL) connection to meet the growing subscriber demand. Consumer Internet subscribers level grew by more than 50%, which firmly established Destiny as the leader in broadband cable Internet services in the country. Gross revenues also grew by the same rate and delivered more than ₱118 Million. Corporate Services accounts, which is a new business group focusing on high value customers, also grew by more than 50%. This was achieved despite a growth strategy for this business segment that has been cautious and controlled owing to the numerous undefined parameters that affect the bandwidth quality in the local cable infrastructure as subscriber numbers and usage increase.

Satellite Services

The Destiny Satellite group performance contracted in terms of number of customer accounts due to a strategic business reorganization, which refocused this business group on the key service of VSAT (Very Small Aperture Terminal) and supporting services of Fiber Leased lines and ISAT services. However, this refocusing resulted in a 23% improvement over budgeted revenues which reached ₱67.8 Million.

II. CONSUMER ELECTRONICS

Marketing & Distribution

Solid Distributor's (SDI) main concern for the year was the negative effects brought about by the corporate restructuring of its principal supplier Aiwa Japan, which eventually merged with Sony Corporation of Japan in November 2002. The market uncertainty on the brand's direction and future caused SDI's dealers to reduce orders drastically. In addition, the discontinuance of the NTSC television line-up for the Philippine market limited SDI's sales to primarily audio products, a category which has been experiencing shrinking demand. The result was a sales achievement of ₱482 Million, 50% less than that of 2001, and a net loss before tax of ₱73 Million in 2002.

Solid Video Corporation (SVC) also experienced a 25% decrease in revenues from Professional and Broadcast Equipment sales as the Philippine broadcast and production industry also suffered a significant slowdown in 2002. The company reported a net loss of ₱6 Million due to a significant write-down of deferred tax assets of ₱28 Million.

Manufacturing Services

The ongoing regional trade liberalization of AFTA led in the loss of Solid Laguna Corporation's (SLC) two principal customers, Sony Philippines and JVC, who shifted from local assembly to CBU importation. Consequently, management decided to cease the manufacturing operation of SLC's consumer electronics division in December 2002 to avoid losses from operations. Despite this, SLC still managed to earn

₱24.7 Million in net income from the residual manufacturing business in 2002. Notable was the ₱102 Million sales posted by SLC-Plastic Division principally boosted by new orders from a major exporter of office printers. Meanwhile, Clark Plastics Manufacturing Corporation posted a sales revenue of ₱ 75 million in 2002. Unfortunately, its largely unutilized capacity due to depressed demand in the Clark Industrial Zone pulled down profitability.

Combined service operations from Solid Electronics Corporation and Solid Electronics Services, Inc., (the only authorized Service Network for Sony and Aiwa in the country) resulted in gross revenues of ₱190 Million in 2002 which is slightly above the ₱184 Million of the previous year. However, cost cutting and productivity enhancement, as well as more efficient spare parts management improved gross income by 17%. Consequently combined net income amounted to ₱5 Million, improving over 2001's net income of ₱4 Million. The Solid Service network also completed the integration of Sony and Aiwa repair in its 32 Service Centers nationwide.

III. REAL ESTATE

Solid Manila Corporation (SMC) and other Solid Group Companies involved in real state, reported revenues of ₱124 Million in 2002, an increase of 30% from ₱95 Million in 2001. The increase in revenue and the improvement in net income was due to successful sales efforts to grow the rental business as well as lower direct and operations costs. For 2003, SMC looks forward to further increasing rental occupancy and disposal of non-strategic assets.

IV. OTHER SERVICES

Omni Logistics Corporation (OLC) revenues amounted to ₱36 Million, lower by ₱2 Million against 2001 due to decreased volume, an effect of the general slowdown in local consumer demand. OLC, however, managed to stay positive in net income despite higher costs of operation brought about by increased price of transportation fuel. OLC expects to expand to its service and clientele in areas such as third party warehousing; SKD Assembly and technical service.

Solid Manila Finance Inc. (SMFI) experienced a revenue decline of 19% in 2002, due to fewer loan availments as SMFI tightened credit screening. SMFI successfully cut its interest costs by 45% by liquidating selected loans. Hence, despite the decline in revenue, it was able to achieve a net income of ₱6 Million, 16% higher than previous year.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

ELENA S. LIM
DIRECTOR, CHAIRMAN EMERITUS



ELENA S. LIM

SUSAN L. TAN
DIRECTOR, CHAIRMAN OF THE BOARD



DAVID S. LIM

DAVID S. LIM
DIRECTOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER

JASON S. LIM
*DIRECTOR, SR. VICE PRESIDENT AND
CHIEF OPERATING OFFICER*



SUSAN L. TAN

VINCENT S. LIM
*DIRECTOR, SR. VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER*



WASHINGTON Z. SYCIP

JOSEPH LIM
DIRECTOR

WASHINGTON Z. SYCIP
DIRECTOR

GEORGE R. TAN
DIRECTOR

JAMES H. UY
DIRECTOR

ENRIQUE L. LIGERALDE
*SR. VICE PRESIDENT FOR
CORPORATE ADMINISTRATION AND CONTROL*

BEDA T. MANALAC
*VICE PRESIDENT FOR CORPORATE PLANNING
AND BUSINESS DEVELOPMENT*

IRENEO D. TUBIO
CHIEF ACCOUNTING OFFICER

LITA JOAQUIN
Treasurer

ROBERTO V. SAN JOSE
CORPORATE SECRETARY



JASON S. LIM



VINCENT S. LIM



GEORGE R. TAN



JAMES H. UY

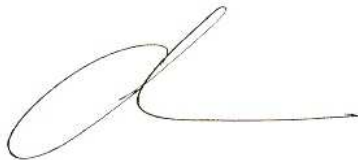
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Solid Group Inc. is responsible for all information and representation contained in the financial statements for the years ended December 31, 2002, 2001 and 2000. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflects amounts that are based on the best estimates and informed judgement 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 management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

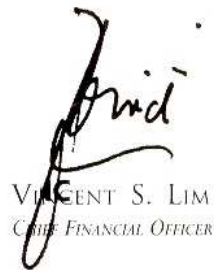
SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.



DAVID S. LIM
PRESIDENT AND CHIEF EXECUTIVE OFFICER



SUSAN L. TAN
CHAIRMAN OF THE BOARD



VINCENT S. LIM
CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT AUDITORS



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1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

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, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

As explained in Note 2 to the consolidated financial statements, the Company has given retroactive effect to the change in its consolidation policy to conform with the new financial accounting standard on consolidation.

A handwritten signature in black ink, appearing to read 'SyCip Gorres Velayo & Co.', written over the date 'March 21, 2003'.

March 21, 2003

CONSOLIDATED BALANCE SHEETS

	December 31	
	2002	2001 (As restated - see Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	P2,054,145,384	P1,542,689,730
Receivables - net (Notes 4 and 12)	417,953,089	659,787,228
Inventories - net (Notes 5 and 17)	70,041,088	418,589,670
Land and development costs	579,920,458	547,413,564
Other current assets - net (Notes 6 and 16)	61,002,446	101,429,047
Total Current Assets	3,183,062,465	3,269,909,239
Noncurrent Assets		
Investments and advances (Notes 7 and 12)	926,132,210	841,262,763
Property, plant and equipment - net (Notes 8, 12 and 17)	2,981,545,772	3,213,013,121
Other noncurrent assets - net (Notes 9, 12 and 16)	184,215,630	211,643,306
Total Noncurrent Assets	4,091,893,612	4,265,919,190
	P7,274,956,077	P7,535,828,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 10, 15 and 16)	P337,839,784	P435,189,780
Estimated liability for development of land sold	40,756,998	43,169,920
Income tax payable	27,025,478	16,846,826
Total Current Liabilities	405,622,260	495,206,526
Minority Interest	407,513,418	411,977,234
Stockholders' Equity		
Capital stock	2,030,975,000	2,030,975,000
Additional paid-in capital	4,589,076,596	4,589,076,596
Retained earnings (deficit) (Notes 7 and 11)	(42,616,817)	123,423,235
	6,577,434,779	6,743,474,831
Treasury shares (Note 11)	(115,614,380)	(114,830,162)
Total Stockholders' Equity	6,461,820,399	6,628,644,669
	P7,274,956,077	P7,535,828,429

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

	2002	2001 (As restated- see Note 2)	2000 (As restated- see Note 2)
CONTINUING OPERATIONS:			
REVENUES			
Sales (Notes 12 and 18)	P708,176,206	P1,088,004,527	P1,951,783,422
Services (Notes 12 and 18)	220,250,133	285,352,228	314,574,582
	928,426,339	1,373,356,755	2,266,358,004
DIRECT COSTS			
Cost of goods sold (Notes 12, 13 and 15)	634,120,649	990,918,937	1,504,302,884
Cost of services (Notes 12 and 18)	159,854,699	243,989,215	187,508,584
	793,975,348	1,234,908,152	1,691,811,468
GROSS PROFIT	134,450,991	138,448,603	574,546,536
RENT INCOME	95,002,893	70,837,649	74,716,125
OPERATING EXPENSES (Notes 14 and 15)	(395,412,733)	(465,660,832)	(492,803,477)
OPERATING INCOME (LOSS)	(165,958,849)	(256,374,580)	156,459,184
OTHER INCOME (CHARGES) - Net			
Interest (Note 12)	75,668,477	90,093,142	136,325,079
Foreign exchange gain	725,123	7,803,137	260,023,257
Others	26,151,693	59,182	(4,266,497)
	102,545,293	97,955,461	392,081,839
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND MINORITY INTEREST			
	(63,413,556)	(158,419,119)	548,541,023
PROVISION FOR INCOME TAX (Note 16)			
Current	35,068,661	31,090,507	22,711,796
Deferred	11,918,455	4,292,966	95,812,795
	46,987,116	35,383,473	118,524,591
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST			
	(110,400,672)	(193,802,592)	430,016,432
MINORITY INTEREST	4,463,836	19,936,408	(139,643,601)
INCOME (LOSS) FROM CONTINUING OPERATIONS (Note 19)			
	(105,936,836)	(173,866,184)	290,372,831
DISCONTINUING OPERATIONS (Note 17)			
Loss from operations (net of income taxes)	(9,489,232)	(78,402,344)	(173,839,740)
Loss from disposal and impairment of assets (net of income taxes)	(50,613,984)	(559,684,822)	-
LOSS FROM DISCONTINUING OPERATIONS	(60,103,216)	(638,087,166)	(173,839,740)
NET INCOME (LOSS)	(P166,040,052)	(P811,953,350)	P116,533,091
Earnings (Loss) Per Share (Note 19)			
Continuing Operations	(P0.06)	(P0.10)	P0.16
Discontinuing Operations	(0.03)	(0.35)	(0.10)
	(P0.09)	(P0.45)	P0.06

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2002	2001	2000
CAPITAL STOCK - 1 par value (Note 7)			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares	P2,030,975,000	P2,030,975,000	P2,030,975,000
ADDITIONAL PAID-IN CAPITAL	4,589,076,596	4,589,076,596	4,589,076,596
RETAINED EARNINGS (DEFICIT) (Notes 7 and 11)			
Balance at beginning of year	123,423,235	935,376,585	818,843,494
Net income (loss)	(166,040,052)	(811,953,350)	116,533,091
Balance at end of year	(42,616,817)	123,423,235	935,376,585
TREASURY SHARES (Note 11)			
Balance at beginning of year	(114,830,162)	(96,448,501)	(89,640,679)
Treasury shares acquired during the year	(784,218)	(18,381,661)	(6,807,822)
Balance at end of year	(115,614,380)	(114,830,162)	(96,448,501)
	P6,461,820,399	P6,628,644,669	P7,458,979,680

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

	2002	2001 (As restated- see Note 2)	2000 (As restated- see Note 2)
CONTINUING OPERATIONS:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations before income tax and minority interest	(P63,413,556)	(P158,419,119)	P548,541,023
Adjustments for:			
Depreciation and amortization	99,840,428	204,792,639	137,154,853
Interest income	(57,457,638)	(90,093,142)	(116,957,907)
Provisions for:			
Inventory losses	13,186,398	25,222,955	4,486,465
Doubtful accounts	5,789,094	20,949,649	16,179,171
Loss (gain) on sale/retirement of property and equipment	3,244,051	(145,167)	12,562,995
Unrealized foreign exchange gain	-	(85,729)	(4,409,848)
Interest expense	-	-	2,138,333
Operating income before working capital changes	1,188,777	2,222,086	599,695,085
Decrease (increase) in:			
Receivables	148,786,206	189,086,559	(325,833,141)
Inventories	238,358,799	239,689,182	(50,721,463)
Land and development costs	(32,506,886)	-	-
Other current assets	83,108,559	2,980,949	(4,206,950)
Increase (decrease) in:			
Accounts payable and accrued expenses	(61,658,931)	(37,161,644)	28,007,007
Estimated liability on land and property developments	(2,412,921)	(22,096,053)	56,674,621
Trust receipts and acceptances payable	-	-	(195,354,137)
Cash generated from operations	374,863,603	374,721,079	108,261,022
Cash paid during the year for income tax	(25,658,561)	(21,617,462)	(24,345,110)
Net cash provided by operating activities	349,205,042	353,103,617	83,915,912
CASH FLOWS FROM INVESTING ACTIVITIES			
Additional investments and advances	(84,869,447)	(337,134,874)	(451,637,332)
Interest received	57,457,638	90,093,142	116,957,907
Reduction in (additions to) other assets	28,685,181	84,931,095	(6,957,634)
Additions to property and equipment	(13,926,557)	(28,097,666)	(121,487,540)
Proceeds from sale/retirement of property and equipment	3,244,051	1,167,714	38,876,751
Net cash used in investing activities	(9,409,134)	(189,040,589)	(424,247,848)
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	(784,218)	(18,381,661)	(6,807,822)
Payments of dividends	-	(100,000,000)	-
Net cash used in financing activities	(784,218)	(118,381,661)	(6,807,822)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
CONTINUING OPERATIONS	339,011,690	45,681,367	(347,139,758)
DISCONTINUING OPERATIONS (NOTE 17)	172,443,964	(16,972,760)	(24,805,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,542,689,730	1,513,981,123	1,885,926,219
CASH AND CASH EQUIVALENTS AT END OF YEAR	P2,054,145,384	P1,542,689,730	P 1,513,981,123

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. General

Solid Group Inc. (Parent Company) and its subsidiaries (collectively, the Company) were incorporated in the Philippines and are engaged mainly in manufacturing, tolling, trading and rendering of services related to consumer electronics and leasing of real estate properties. The principal activities of the Company are described in Note 21. On a consolidated basis, the number of employees was 631 and 922 as of December 31, 2002 and 2001, respectively. The Company's registered office address is Solid House, 2285 Don Chino Roces Avenue (formerly Pasong Tamo Extension), Makati City.

The Company's core consumer electronics business has been severely affected by the intense competition from imported products as a result of import liberalization which made it more cost efficient to import complete sets than to manufacture locally. Moreover, the Company's manufacturing agreements with Sony Philippines Inc. (SPH) and Aiwa Singapore, Ltd. (Aiwa) expired and were not renewed. Thus, the Company closed the consumer electronics operations of its major subsidiaries Solid Corporation (SC), SSEC, Inc. (SSEC) and Kita Corporation (Kita) prior to 2002 and Solid Laguna Corporation (SLC) in 2002.

Amidst the declining trend in consumer electronics, several subsidiaries were consolidated to streamline the organizational structure to sustain operational efficiency. Solid Distributors, Inc. (SDI) was merged with Ascop, Inc. with SDI as the surviving company. Solid Electronics Corporation (SEC) absorbed the operations of eight provincial service operations and SLC was merged with Solid City Industrial and Commercial Corporation with SLC as the surviving entity.

The Company is currently pursuing the acquisition of the Destiny Group of Companies (Destiny Group), a group engaged in broadband cable and satellite services, in accordance with the stockholders' approval in November 2002. The Company is currently considering business alliances with other companies, which will enhance the value of its investment in the Destiny Group. The Company also expects its service business to further improve in the future.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the Philippines and under the historical cost convention.

Adoption of New Statements of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS)

To conform with SFAS 27/IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries," the Company, effective January 1, 2002, consolidated 50% owned Starworld Corporation (Starworld) and 45% owned Laguna International Industrial Park, Inc. (LIIP), whose financial and operating policies are controlled by the Company. The Company previously accounted for the investments in Starworld and LIIP using the equity method. Prior year consolidated financial statements were restated to include Starworld and LIIP's assets aggregating P873.3 million and liabilities aggregating P63.3 million. The restatement had no effect on stockholders' equity or consolidated net income (loss).

Adoption of the following other new standards in 2002 did not result in restatements of prior year financial statements. Additional disclosures required by the new standards, however, were included in prior year financial statements, where applicable.

- SFAS 16/IAS 16, "Property, Plant and Equipment;"
- SFAS 24/IAS 24, "Related Party Disclosures;"
- SFAS 28/IAS 28, "Accounting for Investments in Associates;" and
- SFAS 36/IAS 36, "Impairment of Assets."

The Company early adopted the provisions of SFAS 35/IAS 35, "Discontinuing Operations," in 2001.

New Accounting Standards Effective in 2003

The Accounting Standards Council has approved the following accounting standards which will be effective in 2003:

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events.
- SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items.

The Company will adopt SFAS 10/IAS 10 and SFAS 37/IAS 37 in 2003 and, based on current circumstances, does not believe the effect of adoption will be material.

- SFAS 38/IAS 38, "Intangible Assets," which establishes the criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years. The new standard also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. This will result in a

retroactive adjustment to beginning retained earnings in 2003 of P19.9 million relating to reversal of unamortized portion of preoperating expenses as of December 31, 2002.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year, as follows:

	Percentage of Ownership
SC and Subsidiaries	100
Solid Video Corporation	100
Kita	100
SLC	100
SDI	100
SEC	100
AA Electronics Corporation	100
Solid Manila Corporation (SMC) and Subsidiaries	100
Solid Manila Finance, Inc.	100
Omni Logistics Corporation	100
Solid Broadband Corporation (preoperating company)	100

The subsidiaries of SC are as follows:

	Percentage of Ownership
Clark Plastics Manufacturing Corporation (Clark)	100
Solid Electronics Services, Inc.	100
SSEC	67
Interstar Holdings Company, Inc.	60

The subsidiaries of SMC are as follows:

	Percentage of Ownership
Skyworld Corporation	75
Starworld	50
LIIP	45

The subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated.

Investment in Associate

The Company's 33% investment in SPH is accounted for under the equity method of accounting. This is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in SPH is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in net assets of SPH, less any impairment in value. The consolidated statements of income reflect the Company's share of the results of operations of the associate. Unrealized gains arising from transactions with the associate are eliminated to the extent of the Company's interest in the associate, against the investment in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment in the value of the assets transferred.

Investments - Others

Other long-term investments in shares of stock (included as part of "Other noncurrent assets" account in the consolidated balance sheets) are carried at cost less any impairment in value.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories are valued at the lower of cost or net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials, supplies and others - purchase cost on a moving average method;

Finished goods, merchandize inventories and work in process - determined on a moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Net realizable value for finished goods and work in process is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value for raw materials and supplies is the current replacement cost.

Land and Development Costs

Land is carried at cost. Expenditures for development and improvements of land are capitalized as part of the cost of the land.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	11 to 25 years
Machinery and equipment	5 to 10 years
Furniture, fixtures and office equipment	2 to 5 years
Transportation equipment	5 years
Leaschold improvements	2 to 15 years or over term of lease, whichever is shorter
Tools and equipment	1-2 years
Others	1-2 years

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress, included in property, plant and equipment, is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Starting January 1, 2002, the carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sales are recognized upon delivery and billing of goods to the customers.

Revenues from sale of land are accounted for under the full accrual method. Under this method, gain is not recognized until the earnings process is virtually complete and collectibility of the sales price is reasonably assured. The cost of land sold is determined on the basis of the acquisition cost of the land plus its full development costs, which includes estimated cost for future development works as determined by the Company's technical staff. The cost to complete the development of the sold portion of the subdivided lots is shown under "Estimated liability for development of land sold" account in the consolidated balance sheets.

Service income is recognized when services are rendered. 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 loans receivable that remain outstanding beyond their maturity dates is recognized only upon actual collection.

Other interest is recognized as the interest accrues.

Retirement Costs

The Parent Company and certain subsidiaries have funded, noncontributory retirement plans, administered by Trustee, covering their permanent employees. Retirement costs are actuarially 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. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. All differences are taken to the consolidated statements of income.

Income Tax

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

Earnings (loss) per share is computed by dividing net income (loss) for the year with 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.

3. Cash and Cash Equivalents

This account consists of:

	2002	2001
Cash on hand and in banks	P222,268,792	P249,475,974
Short-term deposits	1,831,876,592	1,293,213,756
	P2,054,145,384	P1,542,689,730

Cash in bank earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at short term deposit rates.

4. Receivables

This account consists of:

	2002	2001
Trade (see Note 12)	P343,706,680	P659,311,834
Finance receivables - current (see Note 12)	81,095,025	50,139,247
Others	108,482,926	66,820,862
	533,284,631	776,271,943
Less allowance for doubtful accounts	115,331,542	116,484,715
	P417,953,089	P659,787,228

5. Inventories

This account consists of:

	2002	2001
Finished goods and merchandise inventories	P92,437,879	P357,875,784
Work in process	6,639,892	22,732,075
Raw materials	14,358,927	674,353,796
Supplies and others	9,413,795	13,277,786
	122,850,493	1,068,239,441
Less allowance for inventory losses	52,821,820	661,179,643
	70,028,673	407,059,798
Goods and materials in transit	12,415	11,529,872
	P70,041,088	P418,589,670

6. Other Current Assets

This account consists of:

	2002	2001
Prepaid taxes	P32,174,649	P26,090,943
Prepayments	14,538,831	11,348,275
Input value added tax	5,461,194	2,027,503
Deferred tax assets - net (see Note 16)	2,357,286	47,257,832
Others	6,470,486	14,704,494
	P61,002,446	P101,429,047

7. Investments and Advances

The details of investments and advances are presented below.

	2002	2001
Investment in SPH - at equity		
Acquisition cost	P35,000,000	P35,000,000
Accumulated equity in net losses	(35,000,000)	(35,000,000)
Advances to related parties - net (see Note 12)	926,132,210	841,262,763
	P926,132,210	P841,262,763

Financial information of SPH is no longer presented because the investment is not considered significant.

Acquisition of the Destiny Group

On August 16, 2002, the Parent Company's board of directors approved to continue the acquisition of the Destiny Group comprising of Destiny Cable Inc. (DCI), Destiny, Inc. (DI) and their wholly owned subsidiaries, through the issuance of 1,026,000,000 shares with a par value of P1 a share. The acquisition was ratified by the Parent Company's stockholders on November 21, 2002. The agreements are still pending clearance and approval by regulatory bodies.

The Parent Company is currently evaluating possible business alliances with other companies which will enhance the value of its investments in the Destiny Group.

Advances to Related Parties

Advances to related parties mainly consist of advances to the Destiny Group in line with its plan to acquire the Destiny Group. These advances are collateralized by DI's shares of stock.

Undistributed Retained Earnings of Subsidiaries

Undistributed earnings of subsidiaries amounting to P677,905,847 in 2002 and P739,810,334 in 2001, are not currently available for dividend declaration.

8. Property, Plant and Equipment

This account consists of:

	Balance at January 1, 2002	Additions	Disposals/ Retirements	Balance at December 31, 2002
Cost:				
Land	P2,333,385,861	P3,231,302	P-	P2,336,617,163
Buildings and improvements	1,243,693,924	1,789,456	-	1,245,483,380
Machinery and equipment	662,986,886	1,156,379	(223,616,532)	440,526,733
Furniture, fixtures and office equipment	173,187,072	6,255,808	(14,498,987)	164,943,893
Transportation equipment	105,592,728	1,205,220	(7,205,914)	99,592,034
Leasehold improvements	66,551,269	839,365	(11,333,527)	56,057,107
Tools and equipment	23,314,999	265,080	(2,711,386)	20,868,693
Others	7,601,926	523,628	(2,744,863)	5,380,691
	4,616,314,665	15,266,238	(262,111,209)	4,369,469,694
Accumulated depreciation and amortization and impairment loss:				
Buildings and improvements	589,461,118	143,774,898	-	733,236,016
Machinery and equipment	499,986,529	12,780,967	(158,283,542)	354,483,954
Furniture, fixtures and office equipment	137,521,845	10,069,294	(10,867,718)	136,723,421
Transportation equipment	87,825,017	5,824,616	(7,168,765)	86,480,868
Leasehold improvements	63,246,254	4,608,938	(11,485,873)	56,369,319
Tools and equipment	18,838,955	1,100,911	(2,679,049)	17,260,817
Others	7,016,620	93,100	(2,744,863)	4,364,857
	1,403,896,338	178,252,724	(193,229,810)	1,388,919,252
Construction in-progress	594,794	4,005,36	-	995,330
	P3,213,013,121 (P162,585,950)	(P68,881,399)		P2,981,545,722

Impairment loss on assets relating to building and improvements and machinery and equipment of discontinuing operations amounted to P46,442,459 in 2002 and P559,684,822 in 2001.

9. Other Noncurrent Assets

This account consists of:

	2002	2001
Finance receivables - net of current portion (see Note 12)	P58,568,426	P128,410,102
Pre-operating expenses	19,950,250	16,290,037
Deferred tax assets - net (see Note 16)	16,908,135	3,991,411
Others - net (see Note 16)	88,788,819	62,951,756
	P184,215,630	P211,643,306

10. Accounts Payable and Accrued Expenses

This account consists of:

	2002	2001
Trade	P201,548,172	P284,001,369
Accrued salaries and directors' fees	33,796,877	12,021,075
Accrued incentives	23,619,287	9,966,933
Output tax	22,888,619	23,581,577
Refundable deposits	22,071,219	19,979,058
Deferred tax liabilities - net (see Note 16)	14,866,368	48,716,637
Others	19,049,242	36,923,131
	P337,839,784	P435,189,780

11. Treasury Shares

Retained earnings corresponding to the treasury shares amounting to P115,614,380, P114,830,162 and P96,448,501 as of December 31, 2002, 2001 and 2000, respectively, are not currently available for dividend declaration. Changes in number of treasury shares are as follows:

	2002	2001	2000
Balance at beginning of year	206,913,000	166,943,000	162,043,000
Treasury shares acquired during the year	2,520,000	39,970,000	4,900,000
Balance at end of year	209,433,000	206,913,000	166,943,000

12. Related Party Transactions

The Company, in the normal course of business, has transactions with companies that are owned by its ultimate majority stockholders. These are summarized as follows:

- Sale of goods and services aggregating P345 million in 2002, P321 million in 2001 and P153 million in 2000;
- Lease of properties aggregating P4.4 million in 2002, P5.1 million in 2001 and P4.5 million in 2000;
- Sale of machinery and equipment, with a carrying value of P19.2 million, to a foreign company owned by the majority shareholders for P22.5 million in 2002;
- Extension of business loans which bear interest at 11% in 2002, 2001 and 2000. These loans are secured by surety agreements with the shareholders of the affiliates; and
- Extension/availment of non-interest bearing cash advances to/from the Destiny Group, which is being acquired by the Company (see Note 7).

Outstanding receivables arising from these transactions that are included in the consolidated balance sheets are summarized below.

	2002	2001
Trade	P63,758,952	P61,779,639
Finance receivables	147,158,600	173,896,262
	P210,917,552	P235,675,901

13. Cost of Goods Sold (Continuing Operations)

This account consists of:

	2002	2001	2000
Merchandise	P501,397,104	P660,414,200	P1,013,344,749
Raw materials used	49,743,985	144,661,743	67,025,879
Direct labor	17,089,528	32,988,837	17,010,396
Depreciation	12,667,153	96,731,409	26,314,045
Change in inventories	(405,022)	6,897,418	1,182,403
Land sold	-	-	267,290,797
Others (see Note 15)	53,627,901	49,225,330	112,134,615
	P634,120,649	P990,918,937	P1,504,302,884

14. Operating Expenses (Continuing Operations)

This account consists of:

	2002	2001	2000
Personnel costs (see Note 15)	P97,954,684	P92,642,996	P80,673,124
Depreciation and amortization	64,215,541	108,061,230	110,840,808
Advertising and promotions	52,326,995	62,552,161	62,897,296
Property maintenance, utilities and insurance	38,204,761	32,793,179	33,650,534
Taxes and licenses	30,327,990	19,727,079	23,282,003
Outside services	15,364,980	17,774,124	26,472,254
Provision for inventory losses	13,186,398	25,861,747	4,634,878
Transportation and travel	4,269,217	5,580,623	6,582,283
Provision for doubtful accounts	5,789,094	20,949,649	16,179,171
Others	73,773,073	79,718,044	127,591,126
	P395,412,733	P465,660,832	P492,803,477

15. Retirement Benefits

The Parent Company and certain subsidiaries have funded, noncontributory and actuarially computed retirement plans covering substantially all employees. The benefits are based on years of service and the latest compensation of employees. Total retirement expense for 2002, 2001 and 2000 amounted to P11 million, P9 million, and P8 million, respectively.

As of December 31, 2002, the latest actuarial valuation date, the actuarial present value of retirement benefits amounted to P103 million. The fair value of the plan assets and the unfunded present value of retirement benefits amounted to about P58 million and P45 million, respectively. The principal actuarial assumptions used to determine retirement benefits were annual salary increase of 10% and an annual return on plan assets of 8% to 10%. Actuarial valuation is made at least every two years. Annual contribution to the retirement plan consists of payments covering the current service cost for the year plus payments toward funding the actuarial accrued liability.

16. Income Tax

Certain subsidiaries 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 enterprises which entitle them 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 are taxed at 5% of gross income as defined under the rules governing their registration.

Significant components of deferred tax assets - net are as follows:

	2002	2001
Current deferred tax assets - (shown as part of "Other current assets" account)		
NOLCO	P17,068,228	P13,989,659
Allowance for doubtful accounts	29,363,374	38,391,179
Allowance for inventory losses	15,281,987	18,462,105
Accrued warranties	2,706,388	4,328,923
MCIT	2,274,208	2,733,337
Unrealized foreign exchange loss	610,457	-
Accrued retirement	417,695	2,029,999
Others	1,468,710	1,118,533
	69,191,047	81,053,735
Less valuation allowance	66,833,761	33,795,903
	P2,357,286	P47,257,832

	2002	2001
Noncurrent deferred tax assets - (shown as part of "Other noncurrent assets" account)		
NOLCO	P31,223,115	P27,724,446
Impairment loss	13,784,902	-
Unamortized past service costs	985,637	1,604,366
MCIT	11,500,262	14,941,146
Advance rental	1,999,681	1,490,947
Allowance for doubtful accounts	602,726	588,461
Others	455,825	875,954
	60,552,148	47,225,320
Less valuation allowance	43,644,013	43,233,909
	P16,908,135	P3,991,411

	2002	2001
Current deferred tax liabilities - (shown as part of "Accounts payable and accrued expenses" account)		
Unrealized foreign exchange gain	P16,077,033	P49,396,735
Accrued retirement	(600,550)	(601,200)
Others	(610,115)	(78,898)
	P14,866,368	P48,716,637

A reconciliation between the statutory tax rate and the effective tax rate on income (loss) from continuing operations before income tax and minority interest, follows:

	2002	2001	2000
Statutory tax rate	(32%)	(32%)	32%
Income tax effects of:			
Interest income subjected to final tax	(25)	(17)	(10)
Tax loss position	19	14	24
Depreciation on appraisal increase	14	14	4
Others	23	(5)	(30)
Change in valuation allowance	75	48	9
Effective tax rate	74%	22%	29%

17. Discontinuing Operations

Discontinuing operations pertain to the consumer electronics manufacturing business of the following subsidiaries:

Kita

The agreement granting Kita a non-transferable right and license to manufacture and assemble consumer electronic products bearing the trademark "Aiwa" and to sell the same to Aiwa Singapore Ltd. (Aiwa) expired on April 1, 2000. Kita stopped operations in April 2001. Kita's total assets (after impairment loss) and liabilities, amounted to P31.4 million and P2.2 million, respectively, as of December 31, 2002 and P155.2 million and P33.4 million, respectively, as of December 31, 2001.

SLC

The Manufacturing and Component Supply Agreements providing that SPH should purchase Sony products and related parts and components, as defined in the agreement, exclusively from the Parent Company were terminated on September 30, 2002. SLC shut down its operations in December 2002. SLC's total assets (after impairment loss) and liabilities, amounted to P369.4 million and P56.7 million, respectively, as of December 31, 2002 and P344.8 million and P32.9 million, respectively, as of December 31, 2001.

The statements of income and cash flows of discontinuing operations in 2002, 2001 and 2000 are presented below:

	2002	2001	2000
Discontinuing operations: (Note 17)			
Sales (Note 18)	P592,441,917	P821,718,991	P2,347,516,052
Cost of goods sold (Note 18)	583,765,639	808,506,850	2,336,725,892
Gross profit	8,676,278	13,212,141	10,790,160
Operating expenses	18,276,459	72,033,068	214,038,544
Operating loss	(9,600,181)	(58,820,927)	(203,248,384)
Other income (charges)			
Impairment loss (Notes 8 and 17)	(46,442,459)	(559,684,822)	-
Others - net	(17,214,253)	(17,133,939)	34,068,418
	(63,656,712)	(576,818,761)	34,068,418
Loss from discontinuing operations before income tax	(73,256,893)	(635,639,688)	(169,179,966)
Provision for (benefit from) income tax			
Current	631,225	876,479	6,250,373
Deferred	(13,784,902)	1,570,999	(1,590,599)
	(13,153,677)	2,447,478	4,659,774
Net loss	(P60,103,216)	(P638,087,166)	(P173,839,740)

	2002	2001	2000
Discontinuing operations (Note 17)			
Net cash provided by (used in) operating activities	P127,177,836	(P23,701,089)	(P900,715)
Net cash provided by (used in) investing activities	45,266,128	6,728,329	(23,904,623)
Net increase (decrease) in cash and cash equivalents	P172,443,964	(P16,972,760)	(P24,805,338)

Kita and SLC wrote down carrying amounts of related property, plant and equipment and inventories to net realizable values. The write-down was charged to impairment loss in the consolidated statements of income.

18. Agreements

Agreement with Sony Corporation (Sony)

On May 9, 1997, the Parent Company entered into an agreement with Sony for a period of 8 years until 2005, to jointly invest and organize SPH, whose primary purpose is to sell and market in the Philippines certain consumer type electronic products bearing the trademark "Sony". The Parent Company invested an equivalent share of 33% ownership in SPH, which started commercial operations on October 1, 1997, at which date the Parent Company and SC ceased all selling activities direct to dealers and transferred this activity to SPH.

Relative to the agreement, the Parent Company and SEC entered into an after-Sales Service Agreement and Network Support Agreement which provide that 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 and Network Support Agreement were renewed and extended up to September 30, 2003. Notwithstanding the limited term of the above agreements, Sony has assured the Parent Company that it has no intention of appointing anybody other than SEC or any subsidiary of the Parent 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 agreement.

As discussed in Note 17, the Manufacturing and Component Supply Agreements with SPH were terminated in September 2002 which resulted in the closure of SLC's consumer electronics manufacturing operations.

Distributorship Agreement with Aiwa

The Distributorship Agreement with Aiwa Co., Ltd., which granted Ascop (merged with SDI in 2001) a non-exclusive distributorship in the Philippines of certain Aiwa products, excluding duty-free zones and shops, expired on August 31, 2002. Extension of the agreement is uncertain because of the ongoing business restructuring of AIWA. However, SDI still continues to distribute AIWA products.

19. Earnings (Loss) Per Share

Earnings (loss) per share is computed as follows:

	2002	2001	2000
Net income (loss) (a)			
Continuing operations	(P105,936,835)	(P173,866,184)	P290,372,831
Discontinuing operations	(60,103,217)	(638,087,166)	(173,839,740)
	(P166,040,052)	(P811,953,350)	P116,533,091
Weighted average shares outstanding (b)	1,823,642,000	1,824,062,000	1,864,440,333
Earnings (loss) per share (a/b)			
Continuing operations	(P0.06)	(P0.10)	P0.16
Discontinuing operations	(0.03)	(0.35)	(0.10)
	(P0.09)	(P0.45)	P0.06

20. Contingencies

Certain 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. The bank seeks payment of P154.5 million.

b. In 2001, a complaint was filed against SLC by a music company, before the Department of Justice for alleged infringement of copyrights on sound recording. Payment for damages of P148 million was being claimed by the music company. SLC has already filed counter-affidavits.

c. SC and SMC own parcels of land that are being subject to expropriation coverage under agrarian reform. These parcels of land have a carrying value of P68 million.

d. SMC has a parcel of land with a carrying value of P785 million that is subject to claims by third parties who filed court cases against SMC. The case is still pending with the Court of Appeals.

The above litigations are still pending resolution. Management believes that the ultimate liability or loss, if any, with respect to such litigations will not materially affect the financial position and results of operation of the Parent Company and its subsidiaries.

21. Segment Information

Consumer electronics comprises of trading and rendering of repair services. Real estate activities include leasing and development and sale of industrial estate.

Other activities include financing and logistics services.

Business Segments

The following tables present revenue and income information and certain asset and liability information regarding business segments for the years ended December 31, 2002 and 2001.

Year ended December 31, 2002	Consumer	Real Estate	Other	2002
	Electronics			Total
<i>(In Millions)</i>				
Revenue (continuing)				
Sales to external customers	P890	P95	P38	P1,023
Inter-segment sales	31	29	10	70
Total revenue	921	124	48	1,093
Result (continuing)				
Unallocated income	(P134)	P1	P7	(P126)
Minority interests				16
Net loss (continuing)				4
				(P106)
Assets and liabilities				
Segment assets	P865	P3,681	P187	P4,733
Unallocated assets				2,541
Total assets				P7,274
Segment liabilities				
Unallocated liabilities	P171	P169	P16	P356
Total liabilities				49
Other segment information				P405
Depreciation and amortization	P52	P44	P4	P100

Year ended December 31, 2001	Consumer	Real Estate	Others	2001
	Electronics			Total
<i>(In Millions)</i>				
Revenue				
Sales to external customers	P1,268	P70	P106	P1,444
Inter-segment sales	-	25	8	33
Total revenue	P1,268	P95	P114	P1,477
Result				
Segment result	(P154)	(P14)	P1	(P167)
Unallocated income				(6)
Net loss				(P173)
Assets and liabilities				
Segment assets	P2,157	P3,641	P229	P6,027
Unallocated assets				1,508
Total assets	P2,157	P3,641	P229	P7,535
Segment liabilities				
Unallocated liabilities	P282	P224	P13	P319
Total liabilities	-	-	-	176
				P495
Other segment information				
Depreciation and amortization	P180	P18	P7	P205

All segment revenues are directly attributable to the segments. Segment assets include all operating assets used by a segment and consist principally of cash, receivables, inventories, property, plant and equipment, net of allowances. Segment liabilities include all operating liabilities used by a segment and consist principally of trade accounts payable and other accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Segment revenues and segment results include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in consolidation.

INVESTORS RELATIONS

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