

ASX RELEASE

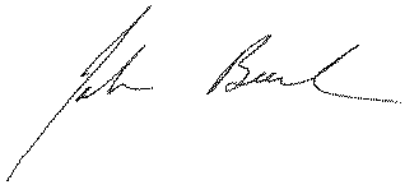
SOLCO LIMITED (ASX – SOO)

5th December 2006

Solco Limited reports that completion of the capital reconstruction of the Company arising from the resolutions passed at the Company's recent EGM has now been effected. Attached is an Information Memorandum clarifying the current status of Solco Limited in the terms of:

- the completion of the transactions with the interests associated with Mr David Richardson;
- its capital structure and top 20 shareholders;
- its Board composition;
- its statement of financial position based on unaudited management accounts at 30 September 2006 with pro forma adjustments arising from the recapitalisation);
- its business outlook and strategies;
- its anticipated future capital needs.

The Company is now applying to the ASX for the current suspension of trading in its shares to be lifted.



John Beech
Company Secretary
4 December 2006

For further information on Solco visit www.solco.com.au or contact Mr. John Beech 0400 10 3675 or David Richardson (08) 9334 8100

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SOLCO LIMITED

(ACN 084 656 691)

INFORMATION MEMORANDUM

This information memorandum is intended to update investors as to the current status and outlook of the Solco Group after the completion of its recent recapitalisation.

1. Completion of Recapitalisation of the Solco Group

The Company has recently completed a recapitalisation which was approved by Shareholders at an Extraordinary General Meeting held on 24 November 2006. A short summary of the transactions comprising the recapitalisation are set out below.

- (a) Interests associated with Mr Richardson, a director of the Company, undertook to procure for Solco to be provided up to \$1.5 million in loan funds (on a secured basis) for immediate working capital requirements to alleviate the financial pressures then affecting the Company. This facility was put in place on 7th September 2006.
- (b) The Company raised \$1.53 million in equity by placing 61,818,181 million shares (comprising 43.57% of the diluted capital of Solco (before the exercise of the options referred to in paragraph (e)) at an issue price of 2.475 cents per share with Samvara Pty Ltd ("Samvara"), a company associated with Mr. Richardson. The share placement was completed on [date].
- (c) The proceeds of the capital raising were applied to retire the \$1.5 million loan referred to in (a) above, pay for accrued interest and charges on that loan and otherwise for working capital purposes.
- (d) Mr. Richardson became the Managing Director of Solco effective from 28th August 2006 for a term of up to 30 June 2007 ("the Term"). Mr Richardson's consultancy fee for his services is based on a remuneration package of \$276,000 per annum calculated pro-rata for the duration of the appointment.
- (e) An amount equivalent to Mr Richardson's remuneration for the Term may be reinvested by 14 July 2007 through the exercise by Mr Richardson and Gypsy Hill Pty Ltd (the trustee of the Richardson Superannuation Fund), of options issued. The aggregate maximum number of new shares that can be issued to Mr. Richardson and Gypsy Hill Pty Ltd pursuant to their options, is 9,292,929 shares at an issue price of 2.475 cents per share. If exercised to their maximum extent, and assuming no further dilution of the Solco share equity base, interests associated with Mr Richardson may total in the aggregate approximately 47.04% of the fully diluted equity base of Solco.

2. Capital Structure

The Company's capital structure after completion of the recapitalisation is as follows:

| Description | Number | Percent |
|---|-------------|---------|
| Ordinary Shares | | |
| Total ordinary shares on issue | 141,861,409 | 100.00% |
| Ordinary shares held by Richardson and associates | 61,818,181 | 43.57% |
| Ordinary shares held by other persons | 80,043,228 | 56.43% |
| Options | | |
| Richardson and associates (exercisable at 2.475 cents, expiring 14 July 2007) | 9,292,929 | |
| A Maslin (exercisable @ 27 cents, expiring 21 July 2007) | 70,000 | |
| Fully diluted capital base (assuming Richardson & Associate's options are exercised and Maslin options are not exercised) | 151,154,338 | 100% |
| Richardson and associates | 71,111,110 | 47.04% |
| Other shareholders | 80,043,228 | 52.96% |

The top 20 shareholders of Solco are listed in Annexure "C".

3. Board Composition

The current directors of the Company are Mr Richardson, Mr Beech and Mr Forbes.

It is intended to identify an additional person or persons who can add appropriate expertise and experience to the Board of the Company and, once identified, to appoint that person or those persons as Directors of the Company by way of casual appointment, subject to re-election by the shareholders at the next ensuing annual general meeting. At present, it is expected that such appointment(s) may be made early in 2007. Mr Forbes has indicated his willingness to resign as a director of the Company when such new appointment(s) is/are made.

4. Independent Assessment

As part of the information provided to shareholders incidental to the extraordinary general meeting held on 24 November 2006 to approve the recapitalisation of the Company, Stanton Partners Corporate Pty Ltd provided an Independent Expert's Report. A copy of this report already has been provided to the ASX Announcements Platform and is available on Solco's website.

5. Pro forma balance sheet

Attached as Annexure "A" is a pro forma copy of the Solco Group's balance sheet based on unaudited management accounts for the quarter ending 30 September 2006 adjusted to reflect:

- (a) the recapitalisation referred to in paragraph 1 above (including debt retirement referred to therein);
- (b) such other adjustments as are material in the opinion of the Solco Board based on information and circumstances actually known to the Solco Board.

6. Future capital needs

Subject to the actual performance of the Company's operating divisions and economic, financial and market circumstances beyond the Company's reasonable control, as a result of strategies and actions taken to date under the stewardship of Mr Richardson, which have substantially limited unwarranted recurrent expense items (although in many cases with revenue also being trimmed as a consequence, as unprofitable business lines have been restructured, scaled back and/or eliminated), the Company anticipates being in a position, with prudential debt funding, to return to modest profitability and positive cashflow during 2007.

However, it is recognised that arresting the Company's historical negative cashflow and loss is not a sufficient outcome, and that if the Company is to grow and develop its business sufficient to warrant its ASX public listed status, and deliver enhanced total shareholder returns to its shareholder base, then further business growth, and capital raisings to support that growth, will be warranted.

To the extent to which that growth may be organic growth from the Group's current business operations, it is foreshadowed that a shareholders' rights issue is prospective in the first half of 2007. Mr Richardson has expressed his, and his associates', present intention to support such a rights issue and to use his influence to seek to procure third party underwriting support for such a capital raising. Mr Richardson has also advised that it is not his, or his associates', present intention to increase their percentage shareholding to 50% or above.

To the extent to which that growth may be acquisitive growth, by the acquisition of new businesses to complement the Group's current operations, then share placements to raise capital with institutional or sophisticated investors, or to exchange as part of the purchase consideration, may be contemplated.

The Directors of Solco are aware of their continuous disclosure obligations under the ASX Listing Rules and the Corporations Act, and will communicate further with the market as soon as it is appropriate to do so.

In the interim, the Solco Board will apply itself in the continued restructure and re-energisation of those of its current business divisions which warrant ongoing support, as well as being vigilant to identify new business opportunities that may present for acquisitive growth by the Group.

7. Business Outlook and Strategy

Under Mr. Richardson's stewardship since late August 2006, the activity in the Water Division has been scaled back to comprehensively address certain manufacturing quality issues and to focus the marketing of products into the sectors where they have a demonstrable competitive advantage. The objective is to deliver profitable sales with quality product in these select market segments and to capitalise on the lower cost base from the re-structuring of the business.

Design work is being accelerated on a new generation polymer hot water system with the objective to meet functional and cost requirements to be highly competitive in a wider range of market applications both domestically and internationally.

Additional resources are being directed to the Power Division (Choice Electric Pty Ltd) to continue to deliver strong growth in its underlying solar products distribution business and capture new business in the emerging inter-connected grid market and new programs for solar power in remote regions.

A concerted and comprehensive strategic planning process involving the senior management team has been commenced by Mr. Richardson. The objective is to prepare a detailed Corporate Strategic Plan to clearly understand where Solco has a demonstrable sustainable competitive advantage and its unique value proposition in each sector. The output of the planning processes will include well documented execution plans for each division that can be regularly monitored to ensure that the Company fully capitalises on the significant growth opportunities in the decentralized sustainable power and water sector in Australia and internationally while properly managing risks and cost.

The Independent Directors (Messrs Beech and Forbes) are encouraged by the positive impact of the operational changes and strategy direction that Mr. Richardson has introduced in a short period and in particular note the arrest of expense commitments which had been prospect of sufficient compensatory revenue to deliver a profitable outcome to the Company.

Attached as Annexure B is a copy of a Powerpoint presentation prepared by way of overview of the strategies (and their implementation) which have been taken to date since Mr Richardson became managing director of Solco on 28 August 2006.

At this stage it is too early in Solco's business reconstruction for the Board to make any reasonably informed and reliable forecasts as to the Group's future performance.

8. Lifting of Suspension and resumption of trading in Solco shares

Contemporaneously with the filing of this Information Memorandum on the ASX Announcements Platform, the Company is making application to the ASX for the lifting of the current suspension to allow resumption of trading in Solco shares.

9. Further Information

For any further information on the above please contact:

Mr David Richardson
Solco Limited
125 Sheffield Street
Welshpool WA
Phone: 1800 454 161
Fax:
Web: www.solco.com.au

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David Richardson
Managing Director

4 December 2006

Annexure "A" - Pro forma Statement of Financial Position
Annexure "B" - Business Operational Powerpoint
Annexure "C" - Top 20 Shareholders

Annexure 'A'
Solco Ltd – Recapitalisation Summary

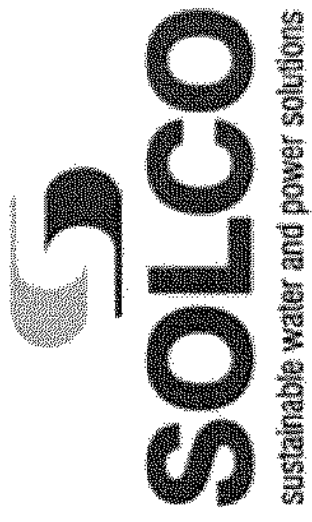
| | Consolidated Balance Sheet as at 30/9/06 Pre Re- capitalisation | Re-Capitalisation Adjustments | Pro forma Consolidated Balance Sheet Post Re- capitalisation | |
|--|--|----------------------------------|--|--------|
| CURRENT ASSETS | | | | |
| Cash assets | 455,510 | | 455,510 | |
| Receivables | 1,735,735 | | 1,735,735 | |
| Inventories | 2,618,385 | | 2,618,385 | |
| Other | 240,541 | | 240,541 | |
| Total current assets | 5,050,172 | 0 | 5,050,172 | |
| NON CURRENT ASSETS | | | | |
| Property, plant and equipment | 366,075 | | 366,075 | |
| Intangible assets | 793,853 | | 793,853 | |
| IC Loan Accounts | 0 | | 0 | |
| Investment - Shares in Subsidiaries | (200,000) | | (200,000) | |
| Investment - Solco Europe/Malaysia | 310,505 | | 310,505 | |
| Deferred tax asset | 0 | | 0 | |
| Total non-current assets | 1,270,433 | 0 | 1,270,433 | |
| Total assets | 6,320,604 | 0 | 6,320,604 | |
| CURRENT LIABILITIES | | | | |
| Payables | 1,594,573 | | 1,594,573 | |
| Interest-bearing liabilities | 1,471,850 | (1,500,000) | (28,150) | Note A |
| Provisions | 507,736 | | 507,736 | |
| Total current liabilities | 3,574,158 | -1,500,000 | 2,074,158 | |
| NON CURRENT LIABILITIES | | | | |
| Interest-bearing liabilities | 174,568 | | 174,568 | |
| IC Loan Accounts | 0 | | 0 | |
| Total non-current liabilities | 174,568 | 0 | 174,568 | |
| Total liabilities | 3,748,726 | -1,500,000 | 2,248,726 | |
| Net assets | 2,571,878 | 1,500,000 | 4,071,878 | |
| EQUITY | | | | |
| Contributed equity | 14,675,569 | 1,530,000 | 16,205,569 | Note A |
| Reserves | 0 | | 0 | |
| Accumulated profits/(losses) | (12,103,691) | (30,000) | (12,133,691) | Note B |
| Total equity | 2,571,878 | 1,500,000 | 4,071,878 | |

Note A: Application of New Equity to Bank Debt

Note B: Interest charges post re-capitalisation

Note C: The consolidated proforma balance sheet post re-capitalisation other than in the terms of A&B above remains unchanged.

Annexure 'B'



Managing Director's
Presentation
28th November 2006

Immediate Company Objectives

- ◆ Reduce excessive costs
 - Overhead costs in Water Division and Corporate have already been reduced by \$1.6 mil from \$2.5 mil in FY06
- ◆ Repair and improve Company products and services
 - Warranty issues – causes of all problematic issues now generally understood and prevention and rectification actions determined and being implemented. Extent of contingent liability still being quantified
 - Genius MK2.5 design being modified to address quality issues
 - Management systems for warranty and associated procedures completely overhauled
- ◆ Group profitability
 - Product lines withdrawn from unprofitable market segments
 - Low margin products discontinued or scaled back
 - Lower cost, more reliable product supply

The Year Ahead - 1

- ◆ Water Division profitability to be addressed in FY07 by efficiently delivering increased margins on sales with quality product in selected market segments from the lower cost base of the re-structured business

- ◆ Accelerate design and introduction of new generation polymer hot water system to meet functional and cost requirements to be competitive in a wider range of market applications domestically and internationally

- ◆ Direct additional resources for Power Division (Choice Electric):
 - to continue to deliver strong growth in solar products distribution
 - To capture new business in emerging inter-connected grid market & new solar programs in remote regions

The Year Ahead - 2

- ◆ A new business unit named “Sustainable Global Business Solutions” formed to provide high level business consultancy services and a sales avenue to increase its technical base
- ◆ The SMS Manufacturing Systems business is being re-energised to win sales in internationally and in Australia
- ◆ All residual problematic legal and operational issues are targeted to be addressed and concluded expeditiously
- ◆ New business opportunity scanning for acquisition growth has been commenced in sustainable energy and applied engineering sector
- ◆ Integration of the various previous operating entities to achieve economies of scale and capture synergy between the businesses

The Year Ahead - 3

- ◆ Manage Company through a new business unit structure with a much more disciplined and effective management system to develop and execute strategies including
 - Best practice in environmental, quality and OH&S
 - New product appraisal and release
 - Product workmanship, guarantees & warranties
 - Staff development
 - Standardising systems across the Group
 - Instilling business focussed culture
 - Rigorous new business opportunity analysis and appraisal
- ◆ Prospective rights issue in second quarter 2007 for initial growth and working capital requirements when business de-risking and stabilisation process concluded, future strategy finalised and Company is in a more “investor friendly” position



Annexure 'C'

Solco Ltd

Register Listing Post Re-capitalisation - top 20 shareholders

| Register Name & Address | Balance | |
|--|--------------------|---------------|
| 1 Samvara Pty Ltd | 61,818,181 | 43.58% |
| 2 Anz Nominees Limited | 36,823,999 | 25.96% |
| 3 Mr John Sean Cooper | 1,732,368 | 1.22% |
| 4 Mr Harry John Riley | 1,100,000 | 0.78% |
| 5 Ubs Nominees Pty Ltd | 1,000,000 | 0.70% |
| 6 National Nominees Limited | 697,800 | 0.49% |
| 7 Mr Gary Deam | 577,456 | 0.41% |
| 8 Fortis Clearing Nominees P/L | 533,000 | 0.38% |
| 9 Strawhill Pty Ltd | 453,000 | 0.32% |
| 10 Bernville Pty Ltd | 400,000 | 0.28% |
| 11 Cost Nominees Limited | 400,000 | 0.28% |
| 12 Hsbc Custody Nominees (Australia) Limited | 358,750 | 0.25% |
| 13 Satark Investments Pty Ltd | 350,000 | 0.25% |
| 14 Mr Ronald Zimet | 300,000 | 0.21% |
| 15 Mr Robert Slade Forbes | 290,837 | 0.21% |
| 16 J W Whitehead Nominees Pty Ltd | 288,878 | 0.20% |
| 17 Aileendonan Investments Pty Ltd | 273,810 | 0.19% |
| 18 Tao Yuan Limited | 265,000 | 0.19% |
| 19 Rsf Holdings Pty Ltd | 250,837 | 0.18% |
| 20 Ms Rosanne Joy Livingstone | 250,000 | 0.18% |
| | 108,163,916 | 76.25% |
| Total Share Pre Re-Capitalisation | 80,043,228 | |
| Shares issued | 61,818,181 | |
| Total Share Post Re-Capitalisation | 141,861,409 | |