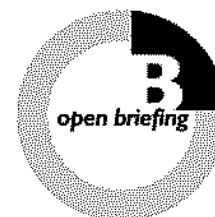


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Solco Ltd announced last week the resignation of the Managing Director, Duncan Stone, "because of conflicts with the Board over the business direction of the Company". Can you confirm that the disagreement was over acquisition strategy?

Chairman Robin Forbes

The Board's prime objective is for Solco to be profitable as soon as possible. Whilst Choice Electrics and the Solco Manufacturing Systems (SMS) international business are profitable, the solar pumping and hot water businesses are underperforming and require management focus. This needs to be addressed before we embark upon the next stage of the acquisition program, such as that Duncan proposed. While we have many growth opportunities, acquisitions at this time distract management and we need to get back to basics in the short term and focus on good growth opportunities in the existing businesses.

Our shareholders not only expect us to access the blue sky potential of our decentralised sustainable solar power and water solutions for underdeveloped communities, but also to deliver profits and dividends. We're very much focused on achieving these two goals in concert and the strategic review that we've been undertaking for some time will help us deliver them.

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Is the vision of becoming a global leader in the distribution of decentralised sustainable water and power solutions still a strategic growth pillar?

Chairman Robin Forbes

Yes, we continue to see significant potential to build an international distribution network for our products such as the solar pumps, water purification systems and solar lighting, from the foundation of existing relationships with our SMS licensees. However we want it to be a cautious, balanced expansion that's focussed on the most prospective markets. We're actively marketing in Africa at the moment.

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How will you achieve market penetration in the underdeveloped countries of Asia and Africa? Is funding available for your products?

Chairman Robin Forbes

The key to reducing poverty in developing countries, such as those in Africa, is to give the communities control over their supply of power and water. By providing self sustainable water and power solutions that use the resources at their disposal, instead of reliance on imports, living standards can be improved. Our successful clean water purification projects in Sri Lanka and The Maldives and our water pump and home lighting projects in East Timor are proof, plus our recent visits to Africa confirm, that we have those solutions.

There is significant funding available through the initiatives of the G8 and the UN's Millennium Development Goals programme as well as programs sponsored by the World Bank, national governments and major industrial companies to empower local communities in developing countries.

We'll access these markets through our SMS licensees and also through new initiatives, such as selling to a government agency or a mining company that has a charter to make a contribution to the local community. Our licensee in Mauritius has good connections in Africa which will help open the market for us and has been helpful in other areas as well.

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What scope is there to improve performance in your current businesses? What will be your operational focus?

Non-Executive Director John Beech

We're planning to structure the business into two divisions; Power, which is the national Choice Electrics solar power products distributor, based in Brisbane, and Water, which is based in Perth. Water includes Hot Water Systems, Solar Pumping and the SMS business.

Choice, with an annual turnover of \$9 million, is a disciplined, profitable business which has grown steadily over the last 23 years. While we acquired Choice in March 2005, it has not been fully integrated into the Solco businesses.

We've set up an executive group, including Choice managers, to manage and integrate the strategy of the two business units, to improve operational disciplines and communications. Already Choice management has had some valuable input into the West Australian Water operations.

The executive group is focusing on refining our Solar Pumping and Hot Water System business models to ensure our products are targeted at the markets with the greatest potential. Our Pumping strategy needs to be more focused on selling to industry. We need to integrate our pump and hot water sales in Australia, particularly on the east coast, where we may be able to leverage Choice's disciplined business systems and extensive distribution network of over 150 dealers. We need to consider adopting the Choice process of selling products in kit form for customer installation which is more efficient and flexible than the customised engineering and installation of the Solco products.

The strategic review has also put group overheads, which have been too high, and working capital management, under scrutiny. We decided in late 2005 to outsource parts of our manufacturing and we may be able to make greater savings by additional outsourcing assembly closer to regional markets. We need to reduce our freight costs.

The Hot Water Systems business needs to focus more narrowly on the markets in Australia where we are most competitive, such as areas which are frost prone, have poor water characteristics and low and medium water pressures rather than competing with the leaders in the mass market across the product range. Our research indicates that the opportunities overseas are much greater and therefore our best option may be to invest more in marketing our SMS licenses and related businesses.

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The Solar Hot Water and the Solar Pumping divisions made losses in the December 2005 half year. What factors contributed to these losses and what is the outlook for these businesses?

Non-Executive Director John Beech

Both businesses failed to reach sales budgets and our overheads were too high. The Solar Hot Water division felt the drop in government rebates to new home owners and also suffered from low margins reflecting a long term contract with a major builder that predates our acquisition of Solco. There were also redundancy costs arising from the move to outsource assembly and reduce overheads.

While there's been an improvement in hot water sales in the March quarter and the low margin contract has finished, the world wide shortage of photo voltaic cells has been a problem. Production costs, however, will be lower in the current half year.

Solar pumping sales to the rural sector have been impacted by mild summer weather conditions.

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Growth by acquisitions has been one of the three pillars driving Solco's strategy. Given the recent management change, can you provide an update of your acquisition policy?

Non-Executive Director John Beech

There are a number of companies that we've identified that would fit well with our operations, particularly the Water Division, some of which are not big acquisitions. It may not be long before our revenues and profit base are sufficiently strong enough to justify activating a modest acquisition strategy.

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Mr David Richardson, a former senior executive of the large engineering firm WorleyParsons Ltd, was appointed to the Board in February. What was the rationale for his appointment?

Chairman Robin Forbes

David has a strong strategic and operational business background with experience in global markets which will be important to the ongoing development and successful execution of Solco's strategy to become a major participant in the global sustainable energy and water market. He's very focused on the bottom line.

He has a track record of profitably managing his own start up business and growing it to be a very significant enterprise within a public company which will enable him to support our chief executive.

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What are your plans for filling the role of Managing Director?

Chairman Robin Forbes

We need a chief executive to closely manage profit growth in our Power and Water divisions and also to develop growth opportunities, whether by acquisition or building on the opportunities to develop existing businesses. While John Cooper, General Manager of Choice Electrics, is filling the role temporarily, we don't want him to be distracted from taking advantage of several significant short term opportunities for growing Choice. We expect to announce a replacement for Duncan soon.

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Thank you, Robin and John.

For more information about Solco Limited, visit www.solco.com.au or contact Robin Forbes on (08) 9268 2813 or John Beech on 0400 10 3675.

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