

20 January 2006

Dear Shareholder

SHARE PURCHASE PLAN

The Board of Solco Ltd (ASX: SOO) ("**Solco**" or "**Company**") has approved a Shareholder Purchase Plan ("**SPP**") for all shareholders on the register of the Company as at 5pm (WST) Thursday 19 January 2006. The SPP will enable shareholders in the Company, irrespective of their shareholding, to purchase up to \$5,000 worth of fully paid ordinary shares in Solco ("**Shares**").

The SPP will reward shareholders for their ongoing support and is aimed at providing the Company with additional funds to:

(a) Establish Franchise Network in Australia

- Solco are in unique position to be the first to establish a franchise network of this kind nationally, to be launched June 2006.
- Provides an aggressive on the ground sales force with extended product range and finance support.

(b) Invest in expansion for our international Licensees (creates a global network for future profits)

- Portugal Licensee includes Spain, the highest growth solar hot water market in the world.
- Malaysia - provides access to China and other countries.
- Malta - access to Italian and Middle Eastern market.
- Tunisia and other new licensees.

(c) Develop the new generation Genius Split Hot Water System

- Solco can significantly expand the markets available to its proprietary polymer based hot water system if it was re-designed to separate the water storage unit and the solar collector panels.
- The re-designed new generation Hot Water System will be lower cost, have new features and capacity to operate competitively on high pressure mains water.
- Solco has secured a Renewable Energy Development Initiative (REDI) Grant from the Commonwealth for \$197,263 for the research, development and commercialization of the new generation Split Hot Water System.
- Solco needs to provide at least \$197,263 in matching funding as a condition of the REDI Grant.

The Company plans to raise up to a maximum of approximately \$1,000,000 pursuant to the SPP.

The SPP offers shareholders the opportunity to subscribe for Shares for a value of up to \$5,000 at the discounted offer price of 21.0 cents. The offer price is at a discount of approximately 11% based on 23.6 cents, which was the average market price calculated over the last 5 days on which sales of Shares were recorded on the ASX up to and including 18 January 2006 (no brokerage or other charges apply).

Applications for Shares may be made in lots of \$5,000, \$4,000, \$3,000, \$2,000 or \$1,000. Shareholders may only subscribe for whole numbers of Shares equivalent to parcels of such monetary values, as no fraction of Shares will be issued. The Company reserves the right to allot fewer Shares than an eligible shareholder applies for under the offer of Shares under the SPP or no Shares.

The requirements of ASX listing rule 7.1 are exempted provided the number of Shares to be issued under the SPP is limited to 30% of the issued capital in any 12 month period and the SPP complies with other terms stated in Listing Rule 7.2 Exception 15. The Directors do not anticipate that the number of Shares to be issued under this SPP will exceed the 30% limit. Further the terms of the SPP comply with Listing Rule 7.2 Exception 15.

The closing date for the SPP is 5pm (WST) **Friday 10th February**. No late applications will be accepted, however the Company reserves the right to extend the closing date.

The right to participate in the SPP is exclusively made to persons who are registered holders of Shares on the register of the Company as at 5pm (WST) Thursday 19th January 2005 and whose registered address is in Australia or in any other jurisdiction in which it is lawful for the Company to make the issue of Shares under the SPP. The offer is non-renounceable and the right to apply for Shares cannot be sold or otherwise disposed of.

Please carefully read the terms and conditions relating to the offer of Shares under the SPP as you will be bound by them if you accept the offer.

Please do not hesitate to contact Ashley Arnott, the Company Secretary, if you have any further queries.

Yours faithfully,



Duncan Stone
Managing Director
Solco Ltd.

TERMS AND CONDITIONS OF OFFER UNDER SHARE PURCHASE PLAN

OFFER OPENS 9:00 AM (WST), MONDAY 23 JANUARY 2006; CLOSES 5:00 PM (WST), FRIDAY 10 FEBRUARY 2006

Solco Ltd ("**SOO**" or "**Company**") wishes to offer to all shareholders the opportunity to buy additional ordinary shares ("**Shares**") under a Share Purchase Plan ("**SPP**").

The terms and conditions of the offer under the SPP are set out in this letter and the enclosed Entitlement and Acceptance Form. If you accept the offer to purchase Shares under the SPP, you agree to be bound by these terms and conditions.

Offers

The following parties are eligible to apply for Shares under the offer:

- all registered holders of Shares at 5.00 p.m. (WST) on Thursday 19th January 2005, with a registered address in Australia or in any other jurisdiction in which it is lawful for the Company to make the issue of shares under the SPP; or
- any Beneficiaries as defined in the paragraph below.

If, as at 5.00 p.m. (WST) on Thursday 19th January, a trustee or nominee is expressly noted on the register of members as holding Shares on account of another person ("**Beneficiary**"):

- (a) the Beneficiary is taken to be the registered holder in regard to those Shares; and
- (b) any application for the issue of Shares under the SPP by, or any issue of Shares under the SPP to, the trustee or nominee, is taken to be an application or certification by, or an issue to, the Beneficiary, provided the trustee or nominee's address is in Australia or in any other jurisdiction in which it is lawful for the Company to offer and issue Shares to the trustee or nominee.

Trustees and nominees, if expressly noted on the register of members, may apply for one maximum parcel of Shares for each beneficiary.

The offer to each eligible shareholder is made on the same terms and conditions.

Issue Price

The offer under the SPP is non-renounceable. This means that you cannot transfer your right to purchase Shares under the offer to anyone else. The offer price of 21.0 cents has been determined at a 11% discount to the average market price of 23.6 cents. The average market price of 23.6 cents was calculated over the last 5 days on which sales of shares were recorded on the ASX up to and including 18th January 2005.

If you are eligible to purchase Shares under the SPP, you may select one of the following five alternatives:

Alternatives	Number of Shares	Amount Payable
Offer A	23,810	A\$5,000.00
Offer B	19,048	A\$4,000.00
Offer C	14,286	A\$3,000.00
Offer D	9,524	A\$2,000.00
Offer E	4,762	A\$1,000.00

The number of Shares under each alternative is based on the discounted Share price of 21.0 cents. The number of Shares for each alternative has been rounded to the nearest Share. The maximum value of Shares for each shareholder under the SPP shall be \$5,000. This limit will apply even if you receive more than one offer from the Company (for example, because you are a joint holder of Shares or because you hold more than one shareholding under separate share accounts).

You should note that the market price of the Shares may rise or fall between the date of this offer and the date when Shares are issued. This means that the price you pay per Share under the SPP may be greater or less than the price of Shares at the time the Shares under the SPP are issued to you. Accordingly, you should seek your own financial advice in relation to this offer and your participation under the SPP.

By accepting an offer under the SPP, you warrant that the aggregate of the application price for the Shares the subject of the application and any other shares and interests in the class applied for by you under the SPP or a similar arrangement in the 12 months prior to the proposed date for issue of the shares under the SPP does not exceed \$5,000. The Company reserves the right to reject any application for Shares where it believes this rule has not been complied with or where your acceptance may breach any law.

Issue of shares

SOO will issue Shares pursuant to an offer as soon as reasonably practicable after the closing date and will promptly apply for those Shares to be quoted on the ASX. SOO's share registry, within the period required by the ASX Listing Rules, will send each participant a holding statement in respect of any Shares issued under the SPP. Shares issued under the SPP will rank equally with all other Shares and will therefore carry the same voting rights, dividend rights and other entitlements as those Shares.

Maximum of Shares to be Issued

The Company plans to raise up to a maximum of approximately \$1,000,000 pursuant to the SPP. The total number of shares under the SPP must not exceed 30% of the number of shares currently on issue in accordance with the waiver to Listing Rules 7.1 and 10.11 granted by ASX.

If demand for shares under the SPP is strong, SOO retains the right to scale back the number of Shares issued to shareholders under the SPP equal to the value of approximately \$1,000,000. Any scaling down will be pro-rata for all Shareholders on the basis of the amount paid. You therefore may be issued with fewer shares than as set out in the alternative you select from the table above.

Alternatively, SOO reserves the right to accept oversubscriptions for shares under the SPP over the maximum amount of \$1,000,000. In the event that oversubscriptions are accepted, the total number of shares issued will not exceed 30% of the number of shares currently on issue.

Costs of Participation

No brokerage, commission, stamp duty or other transaction cost will be payable by a shareholder in respect of an issue of shares under the SPP.

Acceptance of Offers

To purchase shares under the SPP, please complete the enclosed Entitlement and Acceptance Form and return it, together with your cheque or bank draft payable to "Solco Ltd Share Purchase Plan", in the enclosed reply paid envelope. Acceptances must be received by 5 pm (WST) on Friday, 10th February 2006. The Company may vary the date for closing the offer and will announce any such variation to the ASX.

SOO reserves the right to disregard your subscription and not allot any Shares to you if your Entitlement and Acceptance Form is not completed correctly or your cheque does not clear within 5 business days of presentation. The Company's decision shall be binding on all disputes with Shareholders in relation to the SPP. Participation in the SPP is entirely at your option. The Company may modify, suspend or terminate the SPP at any time, and may also conduct another SPP in the future, but it is not obliged to do so.

If you have any questions in respect of the SPP, please contact: Ashley Arnott the Company Secretary.

Amendment of the SPP

The Directors may, in their discretion, amend the SPP at any time (including, without limitation, by extending the offer closing date). The Company will notify ASX of any amendment of the SPP, but failure to do so will not invalidate the amendment. The Company may issue to any person fewer shares than subscribed for under the SPP (or none at all) if the Company believes that the issue of those shares would contravene any law or the ASX Listing Rules.

Directors' Participation

The directors of SOO, as eligible shareholders, may participate in the offer under the SPP (without having to obtain shareholder approval), on the same terms as all other shareholders of SOO.

Administration and dispute resolution

SOO's principal objective in administering the SPP is to facilitate maximum participation consistent with compliance with ASIC Class Order 02/831 and all applicable laws and efficient administrative practices.

SOO may adopt any administrative procedures it thinks appropriate in relation to the SPP. The Company may settle, in any manner it thinks fit, any difficulties, anomalies or disputes which may arise under or in connection with the operation of the SPP, whether generally or in relation to any participant or class of participants, offer, acceptance or shares, and the decision of the Company will be conclusive and binding on all participants and other persons to whom the determination relates. The Company reserves the right to waive compliance with any provision of these terms and conditions.

Notices

Notices and statements to participating shareholders may be given in any manner determined by the Company.