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# PRELIMINARY FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

This preliminary financial report addresses both Solco Ltd ACN 084 656 691 as an individual entity and the consolidated group consisting of Solco Ltd and its controlled entities.

Solco Ltd is a company limited by shares, incorporated in Australia. It is listed on ASX (ASX code: SOO). The company's registered office is 126 Sheffield Road, Welshpool, WA 6026

All press releases, financial statements and other information are available on our website – [www.solco.com.au](http://www.solco.com.au).

# Solco Ltd

## Appendix 4E

### Preliminary final report for the period ending 30 June 2007

(Previous Corresponding Period: Year ended 30 June 2006)

#### Results for announcement to the market

Revenues from ordinary activities	up/down	31%	to	\$10,309,320
Profit/ (loss) from ordinary activities after tax attributable to members	up/down	62%	to	\$(2,254,419)
Net profit (loss) for the period attributable to members	up/down	62%	to	\$(2,254,419)
<b>Dividends (distributions)</b>		Amount per security		Franked amount per security
Final dividend ( <i>Preliminary final report only</i> )		- ¢		- ¢
Previous corresponding period		- ¢		- ¢
Record date for determining entitlements to the dividend	N/A			
<b>Net Tangible Asset Backing</b>				
		Current period		Previous corresponding Period
Net tangible asset backing per ordinary security		1.10 cents per share		2.81 cents per share
<b>Information on Audit or Review</b>				
<b>This preliminary final report is based on accounts to which one of the following applies.</b>				
<input type="checkbox"/>	The accounts have been audited.	<input type="checkbox"/>	The accounts have been subject to review.	
<input checked="" type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have not yet been audited or reviewed.	
Description of dispute or qualification if the accounts have been audited or subjected to review.				
N/A				



Signed: ..... Date: 30<sup>th</sup> August 2007

Name: John Beech  
Company Secretary

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## Chairman's and Managing Directors Address

### 1. The Year in Review

On reflection, 2006/2007 could best be described as one of recovery, rationalisation and consolidation. In July/August 2006, following a reported net loss of \$5.89 million in the 2005/2006 year for the Group, the Company's financial and corporate viability was perilous. The Company's securities were suspended from trading on the ASX in August 2006, and the outlook for the Company, and its shareholders' investments in it, were bleak. Since those dark days the following key milestones have been achieved:

- August 2006  

Commitment of interim funding by Samvara Pty Ltd (a company controlled by Mr David Richardson, Managing Director of the Company) and the appointment of Mr David Richardson as managing director of the Company, with a change management mandate from the Board.
- November 2006  

Shareholder approval at an extraordinary general meeting for the recapitalisation of the Company by way of conversion to equity of loan funds provided by Samvara Pty Ltd, supported by an independent expert's report commissioned by the Company.
- December 2006  

Relisting of the Company's securities on the ASX.
- April 2007  

Board restructure with the retirement of Robin Forbes and the appointment of Steven Cole as Chairman of the Company.
- June 2007  

Issue of notice of EGM (to be held on 30 July 2007) to approve further recapitalisation initiatives and announcement of a 1:4 renounceable rights issue (subsequently completed in August 2007).

Over this period the focus of the Company's attention was primarily:

- to arrest continuing negative cashflows;
- to rationalise areas of operation which were considered not to be part of the Group's continuing business plans;
- to improve the efficiency of those areas of operation which held hope for the future;
- to improve product quality and address urgent product warranty issues;
- to recapitalise the Company;
- to restructure the Board and the executive team;

- to address the Group's underperforming and neglected international SMS investments;
- to enhance the corporate and commercial capability of the Group;
- to bring quality practices and sound corporate governance to bear;
- to position the Group for the future as a platform base from which enduring value may be able to be delivered for the benefit of the Company's shareholders and its broader stakeholders.

The changes necessary to deliver this focus could not all be effected simultaneously with immediate effect. Sustainable and quality improvements sometimes take time to achieve, but progress over 2006/2007 was both disciplined and effective within the parameters of that timeframe.

As part of this recovery, rationalisation and consolidation process:

- Group revenue for 2006/7 was \$10.3 million (compared to \$14.81 million for 2005/6 and \$10.17 million for 2004/5) reflecting the effects of the rationalisation that took place;
- Group net loss for 2006/7 was \$2.25 million (compared to \$5.89 million for 2005/6 and \$0.86m for 2004/5) reflecting continued significant asset impairments and provisions of \$1.3 million relating to historical matters so as to relieve the Company of the accounting burden of these impairments and provisions for 2007/2008 onwards;
- Personnel reductions of over 26%, but now with new growth emerging as the Group consolidates its position in the market place and responds to new opportunities arising;
- The return in its Appendix 4C quarterly reports to the ASX of marginally positive operating cashflows for the 3 quarters ending 31 December 2006, 31 March 2007 and 30 June 2007.

More detailed commentary on operational and financial issues are covered elsewhere in this Annual Report.

## 2. Significant Post Balance Date Developments

Three items are of significant note:

- firstly, the approval of all resolutions proposed at the Extraordinary General Meeting of the Company held on 30 July 2007 relating to recapitalisation initiatives for the Company, as well as an Employee Share Option Plan to better align the interests of valued employees of the Group with the continuing fortunes of the Company and the returns of the Company's shareholders;
- second, the completion in August 2007 of the 1:4 renounceable rights issue, without the need for underwriting support, which not only delivered to existing shareholders, as at the record date, the opportunity to take up new shares at a market competitive issue price, but also resulted in the raising of \$2.65 new equity capital;
- third, the adoption by the Board of a new Corporate Governance Charter, as announced to the ASX in August 2007, designed to help assure that the lack of corporate performance, and many of the problems which confronted the Company leading up to August 2006, do not reoccur.

## 3. Acknowledgements

Corporations are virtual legal beings. Their drive, their heart, their plans, their future are all dependent upon people, the people who comprise its officers, employees, and agents.

The year 2006/2007 was a testing year not just for Solco, but especially for those of its people who have remained loyal and capable to the cause over this period of recovery, rationalisation and consolidation.

On behalf of all the shareholders of Solco, we expressly acknowledge those contributions, and trust that the future of Solco can play a vital role in assisting in the delivery to them of career and life goal opportunities and rewards to which they may aspire.

**4. The Year Ahead**

As the ghosts of Solco's past are laid to rest, the Group can now engage with, and respond to, the significant commercial growth opportunities emerging in the enviro-renewable energy and water sectors. These opportunities are especially being driven by an increasing tide of community demand, and political response to that demand, for strategies to be implemented to avert critical ecological "tipping points" arising as a consequence of the impacts on climate determinants of global warming.

We are personally both challenged and excited by the future for Solco. With the continuing support of all its stakeholders, we look forward to applying our capabilities towards ensuring that Solco's future is a prosperous one.



**Steven Cole**  
Chairman



**David Richardson**  
Managing Director

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## POWER DIVISION

The 2006/07 financial year was another challenging yet successful year for the Power Division which trades as Choice Electric Co. The division was able to achieve and surpass the original Sales Budget nominated in April 2006, and then achieve the revised increased Budget set. Even more pleasing was the ability to surpass the Operating Profit Budget by \$140,000.

The year began with the demise of the REDDRS scheme in Queensland during August 2006. This scheme gave a 50% rebate for stand-alone Solar Power Systems and was the pre-dominant source of income for the majority of Choice's Queensland Dealers over the previous 6 years. Also throughout the year, the supply of Solar modules through Choice's supplier, Sharp Corporation was limited due the world-wide shortage of P.V. grade silicon, resulting in a 9% sales reduction over 2005/06.

By developing the Grid Power product range and installation manual, supported by the Grid Power website during 2005/06, Choice had provided a Sales tool for it's Dealers that began to reap dividends for them as the 2006/07 year progressed. The concentration of the Dealer network on purely stand-alone solar systems had begun to shift to the sales and installation of grid-connect systems. These Grid Power packages combined several quality products that included Sharp solar modules, Fronius grid-connect inverters and UniRac "Solarmount" panel framing. The comprehensive installation manual, coupled with the packaging approach was well received by both Dealers and customers alike. The company's sales of Fronius inverters in particular grew by 25%, whilst UniRac panel framing sales increased by 50% during the year.

In March 2007, Choice, in conjunction with Sharp Corporation, held it's first Dealer conference which was well attended by its major Dealers, and also by Suppliers. In particular, Fronius sent its Area Sales Manager from Austria, and UniRac's owner attended from the USA. The combination of the venue, and the focus on the opportunities to be afforded by the re-introduction, and indeed the doubling of Federal Government rebate schemes Australia-wide, made the event a great success.

Whilst Choice's concentration on supporting and expanding its Dealer network throughout Australia and the near Pacific Islands continued during the year, the promotional work with Public Utilities was also a continuing focus, and as the year progressed, sales through the Queensland power utilities in particular became an increasing revenue market for the company.

Whilst the Queensland operation continued to contribute the bulk of sales revenue, operations in Northern NSW and Western Australia, both contributed over \$1 million in sales to overall Power Division revenue of \$8.5 million. In Northern NSW, Urs Neidhart's (15 year's service) work with local dealers resulted in the store's first recorded \$1m turnover. In Western Australia, new employee James Stanton continued the Choice tradition of installations into Government schools by supplying and installing 18 school systems into W.A. The combination of Schools installs, Dealer sales and sales of solar panels and frames to Water Division allowed WA Choice to also achieve a \$1 million turnover. These two Divisions will receive even greater support in 2007/08.

To begin the new financial year Choice has appointed a new Qld State Manager and a Regional Sales Manager, each being well known & respected industry people who bring added Technical and Sales skills to the team. We have also appointed a new Import/Export Co-ordinator and made internal staff promotions.

The Federal Government rebate announcements, coupled with the heightened public awareness of "Climate Change" and "Global Warming", together with new staff capabilities will make 2007/08 a successful year for the Choice Electric Co - Power Division.

## WATER DIVISION

The 2007 Fiscal Year has been one of restructure and consolidation for Water Division. This, coupled with high levels of service and warranty claims on the Solartech Genius solar hot water system, has negatively impacted on revenue. However, the implementation of tight management controls has managed costs to a minimum resulting in a substantial reduction of the 2005/06 loss. Total divisional revenue decreased to \$1.86 million.

Solar Energy System's solar pumping and water purification revenue of \$1.06 million showed a slight decline of 11% year-on-year. The majority of this revenue was driven by continued domestic and export sales of Solco's popular Sunmill family. The slight decline was primarily due to the loss of supply of a bought-in deep-well submersible solar pump. As a replacement, the high-quality Tenesol TSP family of pumps was recently introduced by Solco into the Australian market. Initial sales have been positive and we expect further growth next year as the capability of this European sourced product becomes well known in the market.

To counteract increased manufacturing costs, reduce internal overhead, and improve quality, most serial mechanical and electronic manufacturing of the Sunmill pump system has been now been successfully outsourced. This has allowed retail cost rises to be kept to a minimum in an environment of continued pressure on raw material and component costs.

The outlook for growth in Solco's solar pumping sales within Australian and Asia-pacific remains strong. Continued drought conditions, focus on climate change, restricted access to waterways and a possible broadening of solar pumping rebates bodes well for future growth. Sales and interest in Solco solar pumps in Asia this year has led to the appointment of regional dealers and consideration of a stronger presence in sales and possible overseas outsourcing both of which will be reviewed next year. During this year, an experienced pumping sale, service and support team has been created to capture future opportunities.

Due to production suspension of Polytuff's Solartech Genius hot water system, product sales revenue decreased to \$0.55 million, 63% decrease on last fiscal year. To manage costs and reduce overhead, all servicing of Solco hot water units has been outsourced. Solco continues to manage customer referrals and warranty issues in-house to ensure containment of costs.

Manufacture of the Genius was suspended for retail sales while an investigation of field failures was carried out. As a result of subsequent testing and an engineering design review, it was decided to carry out specific design improvements to the base unit. The first phase engineering has been completed and tooling modifications made. First prototype parts will be completed early in August 2007 and results from their testing will define the next steps and timing for release to production. It is anticipated that the majority of this manufacture would be outsourced. Future research and development of next generation polymer hot water systems has been suspended while the redesign work on the Genius continues.

Recently announced federal government rebates, increasing energy costs, recovery in the value of renewable energy certificates (REC's) and community focus on climate change is creating an improving market for the Solartech's solar hot water system, if and when it can be re-introduced into the market.

The Water Division benefited from a low level of profitable consulting services to local industry and component sales to international Solco Manufacturing System licensees.

## UNAUDITED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Revenue</b>	4	<b>10,306,707</b>	14,806,591	<b>2,325,684</b>	4,722,346
Other income	5	<b>2,613</b>	127,132	<b>2,613</b>	127,132
Change in inventories of finished goods and work in progress		<b>(159,788)</b>	12,368	<b>183,130</b>	564,190
Raw materials and consumables used		<b>(8,030,601)</b>	(12,294,609)	<b>(1,746,888)</b>	(5,514,234)
Employee benefits expense		<b>(1,989,509)</b>	(2,864,984)	<b>(1,239,057)</b>	(2,175,269)
Depreciation and amortisation expense	6	<b>(103,761)</b>	(249,706)	<b>(81,012)</b>	(212,858)
Finance costs	6	<b>(89,677)</b>	(89,325)	<b>(78,545)</b>	(82,583)
Research and development expense	6	<b>(22,629)</b>	(71,069)	<b>(22,629)</b>	(71,069)
Advertising expense		<b>(96,412)</b>	(647,142)	<b>(34,371)</b>	(627,004)
Company overhead expense		<b>(812,973)</b>	(951,235)	<b>(574,490)</b>	(808,600)
Provision for bad and doubtful debts		<b>(81,970)</b>	-	<b>(81,970)</b>	-
Impairment of goodwill	12	<b>(168,000)</b>	(2,058,828)	-	-
Impairment of investment in subsidiary		-	-	<b>(168,000)</b>	(1,755,618)
Impairment of technology rights	12	<b>(29,615)</b>	(75,849)	<b>(29,615)</b>	(75,849)
Impairment of assets	6	<b>(43,097)</b>	(259,055)	<b>(43,097)</b>	(48,516)
Impairment of other financial assets		<b>(582,285)</b>	-	<b>(582,285)</b>	-
Impairment investment in associate	21	-	(210,000)	-	(210,000)
Other expenses		<b>(353,422)</b>	(1,062,710)	<b>(248,125)</b>	(698,824)
<b>Loss before income tax</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,418,657)</b>	(6,866,756)
Income tax benefit	7	-	-	<b>88,604</b>	419,528
<b>Loss for the year</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,330,053)</b>	(6,447,228)
<b>Loss attributable to members of Solco Ltd</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,330,053)</b>	(6,447,228)
<b>Loss per share for loss attributable to the ordinary equity holders of the company</b>		<b>Cents</b>	<b>Cents</b>		
Basic loss per Share	23	<b>1.9</b>	7.6		
Diluted loss per Share	23	<b>1.8</b>	7.6		

*The above income statements should be read in conjunction with the accompanying notes.*

## UNAUDITED BALANCE SHEETS

As at 30 June 2007

	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8	805,134	760,509	132,943	217,382
Trade and other receivables	9	1,489,169	1,746,010	212,198	758,703
Inventories	10	2,210,595	2,226,026	413,810	772,159
Other	9	96,943	170,426	61,550	166,091
<b>Total Current Assets</b>		<b>4,601,841</b>	<b>4,902,971</b>	<b>820,501</b>	<b>1,914,335</b>
<b>Non-Current Assets</b>					
Trade and other receivables		-	-	-	36,251
Property, plant and equipment	11	226,148	416,225	145,200	326,042
Intangible assets	12	754,763	797,406	-	42,645
Other financial assets	13	20,000	505,491	2,283,872	2,733,113
<b>Total Non-Current Assets</b>		<b>1,000,911</b>	<b>1,719,122</b>	<b>2,429,072</b>	<b>3,138,051</b>
<b>Total assets</b>		<b>5,602,752</b>	<b>6,622,093</b>	<b>3,249,573</b>	<b>5,052,386</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	14	2,205,268	2,294,706	939,291	1,310,658
Borrowings	15	515,371	542,003	515,371	317,827
Provisions	16	417,295	563,257	393,295	414,824
<b>Total Current Liabilities</b>		<b>3,137,934</b>	<b>3,399,967</b>	<b>1,847,957</b>	<b>2,043,309</b>
<b>Non-Current Liabilities</b>					
Borrowings	15	123,333	174,568	656,522	1,463,930
Provisions	16	18,346	-	-	-
<b>Total Non-Current Liabilities</b>		<b>141,679</b>	<b>174,568</b>	<b>656,522</b>	<b>1,463,930</b>
<b>Total Liabilities</b>		<b>3,279,613</b>	<b>3,574,535</b>	<b>2,504,479</b>	<b>3,507,239</b>
<b>Net assets</b>		<b>2,323,139</b>	<b>3,047,558</b>	<b>745,094</b>	<b>1,545,147</b>
<b>EQUITY</b>					
Issued capital	17	16,205,569	14,675,569	16,205,569	14,675,569
Reserves	18(a)	10,760	10,760	10,760	10,760
Accumulated losses		(13,893,190)	(11,638,771)	(15,471,235)	(13,141,182)
<b>Total Equity</b>		<b>2,323,139</b>	<b>3,047,558</b>	<b>745,094</b>	<b>1,545,147</b>

The above balance sheets should be read in conjunction with the accompanying notes.

## UNAUDITED STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Note s	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Total equity at the beginning of the year</b>		<b>3,047,558</b>	8,210,965	<b>1,545,147</b>	7,267,360
<b>(Loss) / Profit for the year</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,330,053)</b>	(6,447,228)
<b>Total recognised income and expense for the year</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,330,053)</b>	(6,447,228)
Transactions with equity holders in their capacity as equity holders:					
Employee share options		-	17,960	-	17,960
Contributions of equity, net of transaction costs		<b>1,530,000</b>	707,055	<b>1,530,000</b>	707,055
		<b>1,530,000</b>	725,014	<b>1,530,000</b>	725,015
<b>Total equity at the end of the year</b>		<b>2,323,139</b>	3,047,558	<b>745,094</b>	1,545,147
<b>Total recognised income and expenses for the year attributable to members of Solco Ltd</b>		<b>(2,254,419)</b>	(5,888,421)	<b>(2,330,053)</b>	(6,447,228)

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*

## UNAUDITED CASH FLOW STATEMENTS

For the year ended 30 June 2007

	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>					
Receipts from customers (inclusive of goods and services tax)		11,535,867	16,584,642	2,997,899	5,326,309
Payments to suppliers and employees (inclusive of goods and services tax)		(12,601,995)	(18,647,083)	(3,669,620)	(8,013,008)
		(1,066,128)	(2,062,441)	(671,721)	(2,686,699)
Finance costs		(89,677)	(89,325)	(78,545)	(82,583)
Interest received		35,661	70,173	4,314	13,169
<b>Net cash outflow from operating activities</b>	19	<b>(1,120,144)</b>	<b>(2,081,593)</b>	<b>(745,952)</b>	<b>(2,756,113)</b>
<b>Cash Flows from Investing Activities</b>					
Payments for purchase of subsidiary (net of cash acquired)		(368,000)	(123,251)	(368,000)	(123,251)
Payments for property, plant and equipment		(31,256)	(182,188)	(13,169)	(44,770)
Payments for other financial assets		-	(374,343)	-	(374,343)
Proceeds from sale of property, plant and equipment		139,891	173,345	70,192	173,345
Loans with related parties (controlled entity)		-	-	(479,644)	1,456,099
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(259,365)</b>	<b>(506,437)</b>	<b>(790,621)</b>	<b>1,087,080</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issues of shares and other equity securities		1,530,000	732,808	1,530,000	732,808
Proceeds from borrowings		2,000,000	2,801,485	2,000,000	2,299,648
Payments for share issue transaction costs		-	(25,754)	-	(25,754)
Repayment of borrowings		(2,077,866)	(2,320,968)	(2,077,866)	(2,043,308)
<b>Net cash inflow from financing activities</b>		<b>1,452,134</b>	<b>1,187,571</b>	<b>1,452,134</b>	<b>963,394</b>
<b>Net increase (decrease) in cash held</b>		<b>72,625</b>	<b>(1,400,459)</b>	<b>(84,439)</b>	<b>(705,639)</b>
Cash and cash equivalents at the beginning of the financial year		760,509	2,160,968	217,382	923,021
<b>Cash at the end of the financial year</b>	8	<b>833,134</b>	<b>760,509</b>	<b>132,943</b>	<b>217,382</b>
<i>Non-cash financing and investing activities</i>	21				

The above cash flow statements should be read in conjunction with the accompanying notes.

## UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Solco Ltd as an individual entity and the consolidated entity consisting of Solco Ltd and its subsidiaries.

**a) Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 Accounting Standards and Interpretations and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

The company is a listed public company, incorporated in Australia.

**b) Adoption of new and revised standards**

In the year ended 30 June 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change in necessary to Group accounting policies.

**c) Statement of Compliance**

The financial report was authorised for issue on 27<sup>th</sup> August 2007.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

**d) Significant accounting judgments, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Impairment of goodwill and intangibles with indefinite useful lives:*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

*Income Taxes*

The Group is subject to income taxes in Australia. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred tax provisions in the periods in which such determination are made. At 30 June 2007 management believe there are no material judgement areas which would result in the actual final outcome differing from the calculated income tax.

*Warranty claims*

The group offers a variety of warranty periods depending upon the goods sold. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Refer to note 16

**a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Solco Limited and its subsidiaries as at 30 June each year (the Group).

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises or has the capacity to exercise significant influence, but not control which generally is represented by a shareholding of between 20% and 50% of the voting rights.

**b) Revenue and income recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority to the extent that it is probable that the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer and the costs incurred or to be incurred can be measured reliably.

*Project revenue*

Project revenue is recognised at the completion of each stage of the work in process.

*Interest revenue*

Interest revenue is recognised on an accruals basis using the effective interest rate method.

*Sale of non-current assets*

Income from the sale of assets is measured as the consideration received net of the carrying value of the asset and any costs of disposal.

*Research and development grants*

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

**c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

**d) Foreign currency**

The consolidated financial statements are presented in Australian dollars, which is Solco Ltd's functional and presentation currency.

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

**e) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges. Borrowing costs are recognised as expenses in the period in which they are incurred.

**f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the Australian income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. The relative tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and carry forward of unused tax losses. Deferred tax assets are used to offset deferred tax liabilities where available.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that sufficient future taxable profit is not probable to allow all or part of the deferred tax asset to be utilised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

**(ii) Earning per share**

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year or half year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of dividends, interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**g) Acquisitions of assets**

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the effective acquisition date unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognized directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

**h) Trade receivables**

All trade receivables are recognised initially at fair value, less any allowance for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

**i) Inventories**

Inventories are carried at the lower of cost and net realisable value. Inventories are valued using weighted average cost basis.

Cost includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities. Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

**j) Impairment of assets**

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal at each reporting date.

**k) Cash and cash equivalents**

Cash and short term deposits in the balance sheet comprise cash at bank and cash on hand and short term deposits with an original maturity of three months or less.

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**l) Property, plant and equipment**

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a diminishing value basis, and adjustments are made to write off the net cost of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of plant and equipment are as follows:

Plant and equipment	2-8 years
Motor vehicles	6 years
Computer equipment	3-5 years
Furniture & fixtures	5-8 years
Technology rights	10 years
Patents and trademarks	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The write down is expensed in the income statement in the reporting period in which it occurs.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

#### *Leasehold improvements*

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

#### **m) Leased non-current assets**

A distinction is made between finance leases (including hire purchase agreements) which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases and hire purchase agreements are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The interest components of the lease payments are expensed.

The lease asset is amortised on a straight-line basis over the term of the lease or, where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### **n) Provisions**

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

#### *Warranties*

Warranty periods on equipment supplied by the Company are variable. Rectification claims are settled either by repair or replacement of parts, at the discretion of the Company. Provisions for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date, based on historical claim rates, adjusted for specific information arising from internal quality assurance processes.

#### **o) Issued Capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

**t) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**NOTE 2. FINANCIAL RISK MANAGEMENT**

The activities of the Group expose it to a variety of financial risks, including market risk and credit risk. The Group's overall risk management focuses on seeking to minimise potential adverse effects on the financial performance of the Group.

**i. Market risk**

Foreign exchange risk arises when future commercial transactions are denominated in a currency that is not the entity's functional currency and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to major currencies, but the transactions involved are currently not considered material enough to warrant the use of derivative financial instruments to hedge such exposures. Where practical, exposure is minimised through the use of natural hedges (offsetting payment against receivables) and efforts to negotiate purchase/sale contracts in Australian dollars.

**ii. Credit risk**

The group has no significant concentrations of credit risk, excluding receivables arising from the sale of manufacturing licenses overseas. The Group has policies in place to ensure that sale of products and services are made to customers with an appropriate credit history. Cash deposits are limited to high credit quality financial institutions. In order to mitigate the risk of sales to overseas customers, the Group ensures sufficient deposits are received and where possible letters of credit set up for the balance of payments due.

**NOTE 3. SEGMENT INFORMATION**

Solco operates predominantly within Australia. All Group entities operate in the renewable energy industry, and as such, Solco does not report separately on their operations.

**NOTE 4. REVENUE**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Revenue from continuing operations</b>				
<i>Sales revenue</i>				
Sale of goods	9,901,871	14,250,404	1,698,473	4,300,351
Services	214,678	160,571	527,688	134,367
	<b>10,116,549</b>	14,410,975	<b>2,226,161</b>	4,434,718
<i>Other revenue</i>				
Interest	35,661	70,174	4,314	13,169
Sub-lease rentals	88,002	5,000	88,002	5,000
Other	66,495	320,442	7,207	269,459
	<b>190,158</b>	395,616	<b>99,523</b>	287,628
<b>Total revenue from continuing operations</b>	<b>10,306,707</b>	14,806,591	<b>2,325,684</b>	4,722,346

## NOTE 5. OTHER INCOME

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Government grants	2,613	45,149	2,613	45,149
Net gain on disposal of plant & equipment	-	81,983	-	81,983
	<b>2,613</b>	<b>127,132</b>	<b>2,613</b>	<b>127,132</b>

**Government grants**

A Renewable Energy Development Incentive (REDI) grant of \$2,613 was recognised as income by the Group during the financial year. The 2006 figure \$45,149 represents the REDI grant and further grants of \$9,892. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

## NOTE 6. EXPENSES

The loss before income tax includes the following specific expenses.

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Depreciation</i>				
Plant and equipment	67,494	170,467	44,745	133,619
Leased motor vehicles	23,237	47,524	23,237	47,524
Total depreciation	<b>90,731</b>	<b>217,991</b>	<b>67,982</b>	<b>181,143</b>
<i>Amortisation</i>				
Technology rights	11,000	29,500	11,000	29,500
Patents & Trademarks	2,030	2,215	2,030	2,215
Total amortisation	<b>13,030</b>	<b>31,715</b>	<b>13,030</b>	<b>31,715</b>
Net loss on disposal of plant and equipment	<b>10,772</b>	-	<b>11,317</b>	-
<i>Finance costs</i>				
Interest and finance charges paid / payable	89,677	89,325	78,545	82,583
Rental expenses relating to operating leases	341,856	308,810	249,307	222,230
Superannuation expense	131,778	258,220	73,294	164,867
Research and development	22,629	71,069	22,629	71,069
<i>Impairment of assets</i>				
Office equipment	27,588	7,890	27,588	5,727
Demonstration equipment	9,404	42,418	9,404	42,418
Plant & equipment	6,105	130,466	6,105	371
Solarflow manufacturing equipment	-	78,281	-	-
Total Impairment of assets	<b>43,097</b>	<b>259,055</b>	<b>43,097</b>	<b>48,516</b>
Write Down of Inventories to Net Realisable Value	<b>175,219</b>	<b>313,000</b>	<b>175,219</b>	<b>313,000</b>

## NOTE 7. INCOME TAX

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Income tax benefit</b>				
Benefit of Income tax losses transferred to subsidiaries	-	-	<b>(88,604)</b>	(419,528)
	-	-	<b>(88,604)</b>	(419,528)
Income tax is attributable to:				
Loss from continuing operations	-	-	<b>(88,604)</b>	(419,528)
Aggregate income tax benefit	-	-	<b>(88,604)</b>	<b>(419,528)</b>
<b>(b) Numerical reconciliation to income tax prima facie tax expense in the financial statements</b>				
(Loss) before income tax expense	<b>(2,254,419)</b>	(5,888,421)	<b>(2,418,657)</b>	(6,866,756)
Tax at the Australian tax rate of 30%	<b>(676,326)</b>	(1,766,526)	<b>(725,597)</b>	(2,060,026)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Amortisation of intangibles	<b>3,909</b>	8,850	<b>3,909</b>	8,850
Professional and legal fees	-	12,189	-	12,189
Share-issue expenses	<b>(21,192)</b>	(30,575)	<b>(21,192)</b>	(30,575)
Share-based payments	<b>69,000</b>	-	<b>69,000</b>	-
Impairment of subsidiary	-	-	-	526,685
Impairment of goodwill	-	617,648	-	22,755
Impairment of loans	<b>29,038</b>	-	<b>29,038</b>	-
Other Impairments	<b>152,436</b>	-	<b>152,436</b>	-
Sundry items	-	5,289	<b>623</b>	31,441
	<b>(443,135)</b>	(1,153,125)	<b>(491,783)</b>	(1,488,681)
Prior year tax losses not recognised now recouped	-	-	-	-
Tax benefit on temporary differences not previously brought to account	-	-	-	-
Deferred Tax Asset in relation to tax losses and temporary differences not recognised	<b>443,135</b>	1,153,125	<b>403,179</b>	1,069,838
Income tax benefit attributable to entity	-	-	<b>(88,604)</b>	(419,528)
<b>(c) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	<b>8,775,294</b>	7,778,917	<b>8,775,294</b>	7,778,917
Potential at 30%	<b>2,632,588</b>	2,333,675	<b>2,632,588</b>	2,333,675
<b>(d) Unrecognised temporary differences</b>				
Temporary differences for which deferred tax assets have not been recognised:				
Provisions	<b>1,286,623</b>	970,932	<b>1,009,581</b>	257,162
Other	<b>180,750</b>	102,444	<b>115,199</b>	10,000
	<b>1,467,373</b>	1,073,376	<b>1,124,780</b>	267,162
Unrecognised deferred tax assets relating to the above temporary differences at 30%	<b>440,212</b>	322,013	<b>337,434</b>	80,149
<b>(e) Tax consolidation legislation</b>				
Solco Ltd implemented the tax consolidation legislation as of 1 August 2004. The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate Solco Ltd for any tax payable assumed and are compensated by Solco Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Solco Ltd under the tax consolidation legislation.				
<b>(f) Tax Rates</b>				

The potential tax benefit at 30 June 2007 in respect of tax losses not brought to account has been calculated at 30%. These same rates applied for the year ended 30 June 2006.

**NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank and on hand	393,518	629,585	132,943	167,307
Deposits at call	411,616	130,924	-	50,075
Balance per statement of cash flows	805,134	760,509	132,943	217,382

**(a) Cash at bank and on hand**

The Cash at bank contains balances that are both non-interest bearing and interest bearing with rates between 0.01% and 6.1%

**(b) Deposits at call**

The deposits at call are bearing floating interest rates between 4.5% and 6.1%. These deposits have an average maturity of 179 days.

**(c) Interest rate risk**

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the following table:

	Notes	Floating interest rate \$	Fixed interest maturing in 1 year or less \$	Fixed interest	Non-interest bearing \$	Total \$
				maturing in over 1 to 5 years \$		
<b>30 June 2007</b>						
<i>Financial Assets</i>						
Cash and deposits	8	393,518	411,616	-	-	805,134
Receivables	9	-	-	28,000	1,489,169	1,517,169
		393,518	411,616	28,000	1,489,169	2,322,303
<i>Weighted average interest rate</i>						
<i>Financial Liabilities</i>						
Payables	14	-	-	-	1,800,722	1,800,722
Lease liabilities	22	-	-	62,215	-	62,215
Borrowings	15	-	76,490	-	500,000	576,490
		-	76,490	62,215	2,300,722	2,439,427
<i>Weighted average interest rate</i>						
<b>30 June 2006</b>						
<i>Financial Assets</i>						
Cash and deposits	8	629,585	130,924	194,986	-	955,495
Receivables	9	-	-	-	1,746,010	1,746,010
		629,585	130,924	194,986	1,746,010	2,701,505
<i>Weighted average interest rate</i>						
		3.15%	-	-	-	-
<i>Financial Liabilities</i>						
Payables	14	-	-	-	1,970,708	1,970,708
Lease liabilities	22	-	34,260	101,964	-	136,224
Borrowings		-	507,743	72,604	-	580,347
		-	542,003	174,568	1,970,708	2,687,279
<i>Weighted average interest rate</i>						
		-	-	-	-	-

## NOTE 9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade receivables	1,616,040	1,879,487	339,069	892,180
Provision for doubtful receivables	(126,871)	(133,477)	(126,871)	(133,477)
	<b>1,489,169</b>	<b>1,746,010</b>	<b>212,198</b>	<b>758,703</b>
Prepayments	56,455	103,601	49,063	99,266
Renewable energy rebates	-	66,825	-	66,825
Other receivables	40,488	-	12,487	-
	<b>96,943</b>	<b>170,426</b>	<b>61,550</b>	<b>166,091</b>
	<b>1,586,112</b>	<b>1,916,436</b>	<b>273,748</b>	<b>924,794</b>

**(a) Bad and doubtful trade receivables**

The Group has recognised a loss of \$227,364 in 2007 (2006: \$139,875), of which \$201,282 relates to a provision against a receivable due from Bell Solco (M) SDN BHD due to the extent delay in receiving payment for final license fees. The balance in respect to bad and doubtful trade receivables during the year ended 30 June 2007. The loss has been included in 'other expenses' in the income statement.

**(b) Effective interest rates and credit risk**

Information concerning the effective interest rate and credit risk of current receivables is set out in the note 9 (cash and cash equivalents).

## NOTE 10. CURRENT ASSETS – INVENTORIES

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Raw materials</i>				
- at cost	176,823	356,152	176,823	356,152
<i>Work in progress</i>				
- at cost	176,088	239,770	176,088	239,770
<i>Finished goods</i>				
- at cost	1,857,684	1,630,104	60,899	176,237
	<b>2,210,595</b>	<b>2,226,026</b>	<b>413,810</b>	<b>772,159</b>

**Inventory expense**

Inventories recognised as an expense during the year ended 30 June 2007 amounted to \$8,030,601 (2006: \$12,294,609).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2007 amounted to \$179,219 (2006: \$313,000). The expense has been included in 'raw materials and consumables used' in the income statement.

## NOTE 11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant & Equipment \$	Leased Motor Vehicles \$	Total \$
<b>At 1 July 2005</b>			
Cost	1,118,649	368,071	1,486,720
Accumulated depreciation and amortisation	(543,734)	(140,571)	(684,305)
Net book amount	574,915	227,500	802,415
<b>Year ended 30 June 2006</b>			
Opening Net book amount	574,915	227,500	802,415
Additions	104,806	-	104,806
Disposals	(237,805)	(35,200)	(273,005)
Depreciation and amortisation charge	(170,467)	(47,524)	(217,991)
Closing net book amount	271,449	144,776	416,225
<b>At 30 June 2006</b>			
Cost	567,957	280,903	848,860
Accumulated depreciation and amortisation	(296,508)	(136,127)	(432,635)
Net book amount	271,449	144,776	416,225
<b>Year ended 30 June 2007</b>			
Opening net book amount	271,449	144,776	416,225
Additions	31,256	-	31,256
Disposals	(34,032)	(53,107)	(87,139)
Assets written off	(43,017)	(446)	(43,463)
Depreciation charge	(67,494)	(23,237)	(90,731)
Closing net book amount	158,162	67,986	226,148
<b>At 30 June 2007</b>			
Cost	431,928	157,353	589,281
Accumulated depreciation and amortisation	(273,766)	(89,367)	(363,133)
Net book amount	158,162	67,986	226,148

## NOTE 11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTD)

Parent Entity	Plant & Equipment \$	Leased Motor Vehicles \$	Total \$
<b>At 1 July 2005</b>			
Cost	830,054	368,071	1,198,125
Accumulated depreciation and amortisation	(455,291)	(140,571)	(595,862)
Net book amount	374,763	227,500	602,263
<b>Year ended 30 June 2006</b>			
Opening Net book amount	374,763	227,500	602,263
Additions	56,729	-	56,729
Disposals	(118,606)	(35,200)	(153,806)
Depreciation and amortization charge	(131,620)	(47,524)	(179,144)
Closing net book amount	181,266	144,776	326,042
<b>At 30 June 2006</b>			
Cost	386,733	280,903	667,636
Accumulated depreciation and amortisation	(205,467)	(136,127)	(341,594)
Net book amount	181,266	144,776	326,042

**Year ended 30 June 2007**

Opening net book amount	181,266	144,776	326,042
Additions	13,170	-	13,170
Disposals	(29,825)	(53,107)	(82,933)
Assets written off	(42,651)	(446)	(43,097)
Depreciation charge	(44,745)	(23,237)	(67,982)
Closing net book amount	77,214	67,986	145,200

**At 30 June 2007**

Cost	238,511	157,353	395,864
Accumulated depreciation and amortisation	(161,297)	(89,367)	(250,664)
Net book amount	77,214	67,986	145,200

**NOTE 12. NON-CURRENT ASSETS – INTANGIBLE ASSETS**

<b>Consolidated</b>	<b>Goodwill</b>	<b>Technology rights</b>	<b>Patents &amp; Trademarks</b>	<b>Total</b>
	<b>\$</b>		<b>\$</b>	<b>\$</b>
<b>At 1 July 2005</b>				
Cost	2,490,338	295,000	22,149	3,130,738
Accumulated amortisation and impairment	-	(259,000)	(15,504)	(2,333,332)
Net book amount	2,490,338	36,000	6,645	181,924
<b>Year ended 30 June 2006</b>				
Opening Net book amount	2,490,338	141,349	8,860	2,640,547
Additions	323,251	-	-	323,251
Impairment charge	(2,058,828)	(75,849)	-	(2,134,677)
Amortisation charge	-	(29,500)	(2,215)	(31,715)
Net book amount	754,761	36,000	6,645	797,406
<b>At 30 June 2006</b>				
Cost	2,813,589	295,000	22,149	3,130,738
Accumulated amortisation and impairment	(2,058,828)	(259,000)	(15,504)	(2,333,332)
Net book amount	754,761	36,000	6,645	797,406
<b>Year ended 30 June 2007</b>				
Opening Net book amount	754,761	36,000	6,645	797,406
Additions	168,000	-	-	168,000
Impairment charge	(168,000)	(25,000)	(4,615)	(197,615)
Amortisation charge	-	(11,000)	(2,030)	(13,030)
Net book amount	754,761	-	-	754,761
<b>At 30 June 2007</b>				
Cost	2,981,589	295,000	22,149	3,298,738
Accumulated amortisation and impairment	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Net book amount	754,761	-	-	754,761

**(a) Impairment test for goodwill**

Goodwill is subject to annual impairment testing.

Goodwill is allocated to the Group's cash-generating units (CGUs). The recoverable amount of a CGU is based on value in use calculations. These calculations use cash flow projections based on financial budgets covering a five year period.

**(b) Key assumptions used for value-in-use calculations**

Management determined budgeted sales, gross margins and expenses based on past performance and its expectations for the future.

**(c) Impact of possible changes in key assumptions**

Management does not consider a change in any of the key assumptions to be reasonably possible at this present time.

**(d) Impairment charge**

The impairment charge arose in the Solar Hot Water CGU following a decision to reduce manufacturing output of these operations.

**NOTE 13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Shares in controlled entities (note 20)	-	-	2,227,622	2,227,622
Shares in associates (note 21)	-	-	-	-
Shares in other unlisted (non-traded) entities	-	310,505	-	310,505
Bank guarantees	20,000	194,986	20,000	194,986
<b>Total other financial assets</b>	<b>20,000</b>	<b>505,491</b>	<b>2,247,622</b>	<b>2,733,113</b>

Non-traded investments are accounted for in accordance with the accounting policy set out in note 1(k). Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(e). These financial assets are carried at cost less accumulated & impairment losses in the parent company financial statements.

**NOTE 14. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade payables	1,750,121	1,872,310	580,420	1,014,521
Other payables	455,147	422,397	358,871	296,137
	<b>2,205,268</b>	<b>2,294,707</b>	<b>939,291</b>	<b>1,310,658</b>

Information concerning the effective interest rate and credit risk of payables is set out in Note 8 *Cash and Cash equivalents*.

**NOTE 15. BORROWINGS**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Current liabilities - borrowings</i>				
Lease liabilities (note 22)	15,371	25,015	15,371	25,015
Cashflow financing facility	-	516,988	-	292,812
Loans from related parties	500,000	-	500,000	-
<b>Total current borrowings</b>	<b>515,371</b>	<b>542,003</b>	<b>515,371</b>	<b>317,827</b>
<i>Non-current liabilities - borrowings</i>				
Lease liabilities (note 22)	46,843	98,078	46,843	98,078
Cashflow financing facility	-	-	-	-
Other loans	76,490	76,490	609,679	1,365,852
<b>Total non-current borrowings</b>	<b>123,333</b>	<b>174,568</b>	<b>656,522</b>	<b>1,463,930</b>

**(a) Interest rate risk exposure**

Details of the Group's exposure to interest rate changes on borrowings are set out in note 9.

**(b) Security**

The cashflow financing facility of the parent and subsidiaries are secured by the Group's trade debtors. There have been no breaches or defaults by the parent entity or any of its subsidiaries relating to any borrowing facility.

Loans from related parties represent a short term working capital facility provided by Steven Cole, one of the parent entity's directors. The facility was subsequently repaid post year end by converting the loan into shares. See Note 27(e) for further details.

**NOTE 16. CURRENT LIABILITIES – PROVISIONS**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Employee benefits	110,404	161,186	55,427	60,798
Warranties	417,295	402,071	393,295	354,026
Other	-	-	-	-
<b>Total non-current liabilities – provisions</b>	<b>527,699</b>	<b>563,257</b>	<b>448,772</b>	<b>414,824</b>

**(a) Warranties**

Provision is made for the estimated warranty claims in respect of products sold which are still under warranty at balance date. These claims are expected to be settled in the next financial year but this may be extended into the following year if claims are made late in the warranty period. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

**(b) Movements in provisions**

Movement in each class of provision during the financial year, other than the employee benefits, are set out below

Consolidated - 2007	Warranties	Other	Total
	\$	\$	\$
<b>Current</b>			
Carrying amount at start of the year	402,070	-	402,070
Additional provision recognised	63,270	-	63,270
Unused amounts reversed	(48,045)	-	(48,045)
Carrying amount at the end of the year	417,295	-	417,295

**NOTE 17. ISSUED CAPITAL****(a) Share capital**

	Notes	Parent Entity		Parent Entity	
		2007	2006	2007	2006
		Shares	Shares	\$	\$
<b>Ordinary shares: Fully paid</b>	(b), (c)	<b>141,861,409</b>	80,043,228	<b>16,205,569</b>	14,675,569

**(b) Ordinary shares**

All ordinary shares in Solco Ltd are fully paid and are quoted on ASX. All ordinary shares in Solco Ltd entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares in Solco Ltd present at a meeting, in person or by proxy, is entitled to one vote and upon a poll, each share is entitled to one vote.

**(c) Movements in ordinary share capital**

Date	Details	Notes	Number of Ordinary Shares	Issue Price \$	Share Capital \$
1 Jul 2006	Opening Balance		80,043,228		14,675,569
30 Nov 2006	Placement		61,818,181	0.02475	1,530,000
30 Jun 2007	Closing Balance		141,861,409		16,205,569

**(d) Options**

Information relating to Solco Ltd's option plans is set out in note 31.

**NOTE 18. RESERVES****(a) Reserves**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Share-based payments reserve	10,760	10,760	10,760	10,760

**Movements:**

Share-based payments reserve	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at 1 July 2006 and 30 June 2007	10,760	10,760	10,760	10,760

The share based payments reserve is used to recognise the fair value of options issued but not exercised to employees and directors as part of their remuneration, Refer to note 26 for further information on these plans.

**NOTE 19. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loss for the year after income tax	(2,254,419)	(5,888,421)	(2,330,053)	(6,447,228)
Net (gain) loss on sale of assets	10,772	(82,013)	11,317	(82,013)
Provision for bad debts	81,970	-	81,970	-
Depreciation and amortisation	103,761	249,706	81,012	212,858
Impairment of intangibles	197,615	75,849	197,615	75,849
Impairment of other financial assets	582,285	-	582,285	-
Impairment of goodwill	-	2,058,828	-	-
Impairment of Subsidiary	-	-	-	1,755,618
Write-down of investment in associates	-	210,000	-	210,000
Net write-off of fixed assets	43,097	259,055	43,097	48,516
Non-cash employee benefits expense – share-based payments	-	17,960	-	17,960
<i>Change in operating assets and liabilities</i>				
Increase (decrease) in payables	(235,912)	(880,275)	(505,226)	(995,874)
Increase (decrease) in provisions	(35,557)	218,115	33,898	203,590
(Increase) decrease in receivables	394,870	857,056	582,756	781,768
(Increase) decrease in inventories	15,431	201,368	358,349	753,190
(Increase) decrease in other current assets	(24,057)	621,179	117,028	709,653
Net cash outflow from operating activities	(1,120,144)	(2,081,593)	(745,952)	(2,756,113)

**NOTE 20. SUBSIDIARIES**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2007	2006
Choice Electric Co. (Aust) Pty Ltd	Australia	Ordinary	100%	100%
Solco Industries Pty Ltd	Australia	Ordinary	100%	100%
Poly Tuff (WA) Pty Ltd	Australia	Ordinary	100%	100%
Solar Energy Systems Infrastructure Pty Ltd	Australia	Ordinary	100%	100%
Sustainable Global Business Solutions Pty Ltd	Australia	Ordinary	100%	100%

**NOTE 21. INVESTMENTS IN ASSOCIATES**

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity in accordance with the accounting policy described in note 1(b).

**(a) Carrying amounts**

Information relating to associates is set out below:

Name of Company	Principle activity	Ownership interest		Consolidated		Parent Entity	
		2007	2006	2007	2006	2007	2006
				\$	\$	\$	\$
Bell Solco (M) Sdn Bhd	Solar hot water manufacturing	30%	30%	-	-	-	-

**(b) Movements in carrying amounts of investments in associates**

	Consolidated	2006	
	2007	2006	
		\$	\$
Carrying amount at the beginning of the financial year	-	126,000	
New investments during year	-	84,000	
Impairment of investment	-	(210,000)	
Carrying amount at the end of the year	-	-	

**(c) Share of associates' profits or losses**

Profit before income tax	-	-
Income tax expense	-	-
Profit after income tax	-	-

**(d) Summarised financial information of associates**

The associated company has suspended trading, as such the share of Solco's investment has been written down to nil.

## NOTE 22. COMMITMENTS

## (a) Finance lease commitments

The Group leases motor vehicles under finance leases expiring from one to three years. At the end of the lease term, the Group will own the motor vehicles.

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Commitments in relation to finance leases are payable as follows:</i>				
Within one year	18,054	34,260	18,054	34,260
Later than one year but not more than five years	46,843	101,964	46,843	101,964
Minimum lease payments	64,897	136,224	64,897	136,224
Future finance charges	(2,683)	(13,131)	(2,683)	(13,131)
Total lease liabilities	62,214	123,093	62,214	123,093
<i>Representing lease liabilities:</i>				
Current	15,371	25,015	15,371	25,015
Non-current	46,843	98,078	46,843	98,078
	62,214	123,093	62,214	123,093

## (b) Operating Lease commitments

The Group leases offices and warehouses under non-cancellable operating leases expiring within two to four years. The leases have varying terms, escalation clauses and renewal rights. The Group also leases office equipment under non-cancellable leases.

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>				
Within one year	314,340	278,997	236,290	217,247
Later than one year but not more than five years	440,336	685,943	326,382	541,859
	754,676	964,940	562,672	759,106

## NOTE 23. LOSS PER SHARE

	Consolidated 2007 cents	2006 cents
<b>(a) Basic loss per share</b>		
Loss per share	1.9	7.6
Loss attributable to the ordinary equity holders of the company	2,254,419	5,888,421
<b>(b) Diluted loss per share</b>		
Loss per share	1.8	7.6
Loss attributable to the ordinary equity holders of the company	2,254,419	5,888,421
<b>(c) Weighted average number of shares used as the denominator</b>		
	Consolidated 2007 Number	2006 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	115,948,582	77,537,199
<i>Adjustments for calculation of diluted earnings per share:</i>		
Options	4,215,192	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	120,163,874	77,537,199

## NOTE 24. DIVIDENDS

The consolidated entity has not declared or paid dividends and does not anticipate declaring or paying any dividends in the immediate term.

## NOTE 25. EVENTS OCCURRING AFTER BALANCE SHEET DATE

Matters that have occurred subsequent to the end of the financial year are detailed below:

On 3<sup>rd</sup> July 2007 the Company issued 9,292,929 new shares at 2.475 cents per share in lieu of salary accrued to 30<sup>th</sup> June 2007 by David Richardson.

On 31<sup>st</sup> July 2007, the Company issued the following securities pursuant to receiving shareholder approval at a meeting held on 30<sup>th</sup> July 2007

- o 7,142,857 new shares at 7 cents per share to an entity associated with Steven Cole to raise approximately \$500,000 for working capital purposes.
- o 857,142 new shares at 7 cents per share to John Beech in lieu of consultancy services provided to the Company
- o 1,033,574 new shares at 10.64 cents per share in settlement of accrued directors fees totalling \$109,972.

On 10th August 2007, the Company issued 37,788,584 shares at 7 cents per share pursuant to a Prospectus for a renounceable entitlements issue to raise \$2,645,200 before costs of the issue.

## NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES

## (a) Directors

Name	Position	Employer
Steven Cole	Non Executive Chairman (appointed 18/04/07)	Solco Ltd
David Richardson	Managing Director (appointed 28/08/06 – previously Non Executive Director)	Solco Ltd
John Beech	Non Executive Director	Solco Ltd
Robin Forbes	Non Executive Chairman (resigned 18/04/07)	Solco Ltd

## (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Mark Norman	General Manager (appointed 03/11/06)	Solco Ltd
Dermot Patterson	Chief Executive Officer (resigned 25/08/06)	Solco Ltd
Michael Starling	Manager (resigned 25/08/07)	Solco Ltd
John Cooper	General Manager	Choice Electric Co. (Aust) Pty Ltd
Gary Deam	Financial Controller	Choice Electric Co. (Aust) Pty Ltd

## (c) Key management personnel compensation

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term employee benefits	410,571	615,919	247,224	418,319
Post-employment benefits	35,164	177,545	20,464	128,161
Share-based payments	299,999	17,960	299,999	17,960
<b>Total key management personnel compensation</b>	<b>745,734</b>	<b>811,424</b>	<b>567,687</b>	<b>564,440</b>

## (d) Equity instrument disclosures relating to key management personnel

## (i) Option holdings

No options were held by directors or key management personnel during the year

## 2006

Name	Balance at start of year	Granted during year as compensation	Exercised during the year	Balance on resignation	Balance at end of year	Vested and exercisable at end of year
<b>Directors of Solco Ltd</b>						
Anthony Maslin *	600,000	70,000	(600,000)	70,000	N/A	N/A
Duncan Stone *	-	400,000	(200,000)	200,000	N/A	N/A
<b>Other key management personnel of the Group</b>						
	-	-	-	-	-	-

\* Mr Maslin and Mr Stone's employment terminated during the 2006 financial year and as such their holdings did not form part of the key management personnel balance at the end of that financial year.

## (ii) Share holdings

## 2007

Name	Balance at start of year	Received during year on exercise of options	Other changes during the year	Balance on resignation	Balance at end of year
<b>Directors of Solco Ltd</b>					
Steven Cole	-	-	-	-	-
John Beech	223,810	-	-	-	223,810
David Richardson*	-	-	61,818,181	-	61,818,181
Robin Forbes (resigned)	992,158	-	-	992,158	-
23/05/07					
<b>Other key management personnel of the Group</b>					
Mark Norman (appointed)	-	-	-	-	-
03/11/06					
Dermot Patterson	-	-	-	-	-
Michael Starling (resigned)	-	-	-	-	-
25/05/07					
John Cooper	1,732,368	-	-	-	1,732,368
Gary Deam	557,456	-	(557,456)	-	-

## \* Securities held via an entity controlled by Mr Richardson

## 2006

Name	Balance at start of year	Received during year on exercise of options	Other changes during the year	Balance on resignation	Balance at end of year
<b>Directors of Solco Ltd</b>					
Robin Forbes	843,108	-	149,050	-	992,158
John Beech	200,000	-	23,810	-	223,810
David Richardson	-	-	-	-	-
Duncan Stone *	1,000,000	200,000	-	1,200,000	-
Anthony Maslin *	1,483,546	600,000	-	2,083,546	-
<b>Other key management personnel of the Group</b>					
Dermot Patterson	-	-	-	-	-
Stuart Whittam *	-	-	-	-	-
Ashley Arnott *	929,754	-	-	929,754	-
Michael Starling	-	-	-	-	-
John Cooper	1,732,368	-	-	-	1,732,368
Gary Deam	577,456	-	-	-	557,456

\* Messrs Stone, Maslin, Whittam and Arnott's employment terminated during the year and as such their holding does not form part of the key management personnel balance at reporting date.

## (e) Loans to/ from key management personnel

In 2007 no loans were made to directors of Solco Ltd or other key management personnel of the group, including their personally related parties.

In June 2007, Steven Cole, a non executive director of the Company, advanced a sum of \$500,000 to the Company to be used for working capital. The funds were lent on interest free terms until such time as shareholder approval was obtained for the issue of 7,142,857 ordinary shares at 7 cents per share to an entity controlled by Mr. Cole. Shareholder approval was received on 30<sup>th</sup> July 2007 and the loan was extinguished.

## (f) Other transactions with key management personnel

Mr John Beech, a non-executive director, has provided consultancy and company secretarial services to Solco Ltd during the year. To date, Mr Beech has not charged for these services. Subsequent to the year end, the Directors recommended to shareholders that Mr Beech be compensated for these services by the issue of 857,142 new shares at 7 cents per share,

totalling \$60,000. Shareholder approval for the issue of the shares was received at an EGM held on 30<sup>th</sup> July 2007. In addition to these fees John Beech and Associates Pty Ltd (a related entity of Mr John Beech) has provided consulting services totalling \$57,510 to Sustainable Global Business Solutions (SGBS), a subsidiary of Solco Ltd. These services were provided on commercial terms and conditions to provide additional capacity to SGBS to enable it to deliver fee earning strategic consulting services to third party organizations.

Legal services were provided during the year to the Company by Allens Arthur Robinson, a legal firm of which Mr Steven Cole used to be a senior partner. The services were provided on normal commercial terms.

The aggregate amount of these transactions is:

	2007 \$	2006 \$
<b>Amounts recognised as an expense</b>		
Consultants fees	117,510	37,456
Legal Fees	7,964	-

The aggregate amount payable at balance date relating to the above transactions:

	2007 \$	2005 \$
Current liabilities	100,459	14,314

#### (g) Other

##### *Directors' and Officers' Liability Insurance*

Directors' remuneration excludes insurance premiums of \$22,896 (2006:\$13,037) paid by the parent entity in respect of a directors' and officers' liability insurance contract as the contract does not specify premiums paid in respect of individual directors and officers.

#### NOTE 27. RELATED PARTY TRANSACTIONS

##### (a) Parent entity and subsidiaries

The parent entity of the Group is Solco Ltd. Interests in subsidiaries are set out in note 20.

##### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

##### (c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
<i>Revenue</i>				
Sale of goods to subsidiary	-	-	63,598	907,992
Corporate Recharges	-	-	312,000	-
<i>Purchases</i>				
Purchase of goods from subsidiary	-	-	297,115	210,206

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment outstanding balances.

**(d) Outstanding balances arising from sales and purchases of goods and services**

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Current receivables</i>				
Subsidiaries	-	-	182	183
<i>Current payables</i>				
Subsidiaries	-	-	73,901	75,842

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

**(e) Loans to/ from related parties**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	36,250	126,497
Loan repayments received	-	-	-	(90,247)
End of year	-	-	36,250	36,250
<i>Loans from subsidiaries</i>				
Beginning of the year	-	-	1,785,379	368,083
Loans advanced	-	-	-	1,589,099
Loan repayments received	-	-	(1,138,558)	(200,000)
Interest charged	-	-	9,701	28,197
End of year	-	-	656,522	1,785,379

**NOTE 28. REMUNERATION OF AUDITORS**

The auditors of Solco Ltd are HLB Mann Judd. During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>(a) Assurance services</b>				
<i>Audit Services</i>				
HLB Mann Judd				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i> )	59,400	22,000	50,600	22,000
<i>Other assurance Services</i>				
HLB Mann Judd				
Other assurance services	-	-	-	-
<b>Total remuneration for assurance services</b>	<b>59,400</b>	<b>22,000</b>	<b>50,600</b>	<b>22,000</b>
<b>(b) Other Services</b>				
HLB Mann Judd	-	-	-	-
<b>Total remuneration for other services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(c) Previous Auditors Services</b>				
Dry Kirkness	-	-	-	-
<b>Total</b>	<b>59,400</b>	<b>22,000</b>	<b>50,600</b>	<b>22,000</b>

The Group has not engaged HLB Mann Judd on any assignments additional to their statutory audit duties.

**NOTE 29. SHARE BASED PAYMENTS****(a) Employee Option Plan**

The Solco Employee Share Option Plan ("old ESOP") was initially approved by Solco shareholders in 30 November 2000 and re-approved at the annual general meeting held 18 November 2005. At an EGM held on 30<sup>th</sup> July 2007, shareholders approved the adoption of a replacement plan ("new ESOP"). To the date of this report no options have been granted under the new ESOP and no options are outstanding under the old ESOP.

Under the new ESOP, Options will be granted under the plan for no consideration and, entitle the holder to subscribe for one fully paid ordinary share upon exercise at the exercise price. The Solco board of directors has authority to grant options to employees at a minimum exercise price of 15 cents and to determine the exercise period of the options granted. The option holder's entitlements to options are conditional on future employment. Options that have not been exercised will lapse after 30 days (or 3 months in the case of death) of the time the option holder becomes ineligible (i.e. is no longer an employee).

Options are not transferable without the consent of the Board and do not confer voting rights, nor an entitlement to share dividends or to participate in any new issues of shares until exercised. No person entitled to exercise any options has or had by virtue of these options a right to participate in any share issue of any other body corporate.

Set out below are summaries of options granted under the old ESOP.

**Consolidated and parent entity – 2007**

There were no unexercised option issued under the new or old ESOP that were outstanding during the financial year. No further options have been issued under the new ESOP since the end of the year.

**Consolidated and parent entity – 2006**

Grant date	Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Expired	Closing Balance	Exercisable at end of year
7 May 01	09 May 06	\$0.20	90,000	-	(30,000)	(60,000)	-	-
30 June 02	30 Jun 06	\$0.10	9,555	-	-	(9,555)	-	-
1 Apr 03	30 Jun 06	\$0.10	58,220	-	(48,080)	(10,140)	-	-
<b>Total</b>			<b>157,775</b>	<b>-</b>	<b>(78,080)</b>	<b>(79,695)</b>	<b>-</b>	<b>-</b>
Weighted average exercise price:			\$0.16	-	\$0.14	\$0.18	-	-

*Fair value of options granted:*

The value per option at grant date is independently determined using the 'Black and Scholes Options' pricing model that takes into account the exercise price, term of the option, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield, and the risk free interest rate for the term of the option.

Other Solco Options on issue

Other options on issue relate to outstanding executive options. Set out below is the summary of executive options on issue and the movement in the numbers of options over the years ended 30 June 2007 and 30 June 2006.

Grant date	Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Expired	Closing Balance	Exercisable at end of year
<b>Consolidated and parent entity – 2007</b>								
30 Nov 05	21 Jul 07	\$0.27	70,000	-	-	-	70,000	70,000
<b>Total</b>			<b>70,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,000</b>	<b>70,000</b>
Weighted average exercise price:			\$0.027	-	-	-	\$0.027	\$0.027

**Consolidated and parent entity – 2006**

29 Nov 02	01 Mar 06	\$0.20	200,000	-	-	(200,000)	-	-
01 Jul 03	01 Mar 06	\$0.15	600,000	-	-	(600,000)	-	-
01 Jul 04	01 Jul 06	\$0.20	1,200,00	-	(1,200,000)	-	-	-
30 Nov 05	30 Jun 06	\$0.20	0	200,000	-	-	-	-
30 Nov 05	30 Jun 06	\$0.30	-	200,000	(200,000)	(200,000)	-	-
30 Nov 05	21 Jul 07	\$0.27	-	70,000	-	-	70,000	70,000
<b>Total</b>			<b>2,000,00</b>	<b>470,000</b>	<b>(1,400,000)</b>	<b>(1,000,00</b>	<b>70,000</b>	<b>70,000</b>
Weighted average exercise price:			\$0.20	\$0.25	\$0.20	\$0.19	\$0.27	\$0.27

The total number of outstanding executive options represents less than 0.01% (2006 - less than 0.01% ) of the total number of issued ordinary shares in the capital of Solco Ltd.

The following terms apply to the executive options:

- each option entitles the holder to subscribe for one fully-paid ordinary share in Solco Ltd upon exercise at the exercise price;
- they must be exercised by the expiry date or they lapse;
- they do not confer voting rights nor an entitlement to share dividends declared and paid by Solco Ltd;
- they give the holder a right to participate in any new issues of shares made to shareholders of Solco Ltd to the extent permitted by the ASX Listing Rules; and
- they do not confer a right to participate in any share issue of any other body corporate.

**(b) Expenses arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the period were as follows:

Option Type	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Directors' options issued	-	17,960	-	17,960

The amounts recognised as share-based payments expense during the period are the assessed fair values of those options at the date they were granted. The Company ordinarily determines fair value by using a Black-Scholes option pricing model that takes into account the exercise price, term of the option, the share price at grant date, and the expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

**NOTE 30. CONTINGENCIES**

There were no contingent liabilities at the end of the financial year.

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