

**SOLCO LTD**  
**(ABN: 27 084 656 691)**

**APPENDIX 4D &  
HALF YEAR REPORT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2006**

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## Appendix 4D

### Half year report

### Period Ended 31 December 2006

#### 1. Reporting Period

<b>Name of Entity</b>	<b>Solco Ltd</b>
<b>ABN</b>	27 084 656 691
<b>Half Year Ended</b>	31 December 2006
<b>Previous Corresponding Reporting Period</b>	31 December 2005

#### 2. Results for Announcement to the Market

Amounts expressed in \$'000

<u>Revenues</u>	<b>Result</b>	<b>% Increase (Decrease)</b>	<b>\$ Increase (Decrease)</b>
Revenues from ordinary activities	5,684	Down 37%	(3,334)
Profit (loss) from ordinary activities after Tax attributable to members	(631)	Down 5%	(30)
Net profit (loss) for the period attributable to members	(631)	Down 5%	(30)

<u>Dividends</u>	<b>Amount per Security</b>	<b>Franked Amount per Security</b>
Dividend	NIL	NIL
Previous Corresponding Period	NIL	NIL
Record date for determining entitlements to the dividend	N/A	

#### 3. Net Tangible Asset Backing

	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Net Tangible asset backing per ordinary security	2.29 cents per share	5.54 cents per share

This half yearly report is to be read in conjunction with the 2006 annual financial report.

**4. Details of Control Gained over Entities Having Material Effect**

Solco Ltd did not gain control of or lose control over any entities during the half-year ended 31 December 2006.

**5. Dividends**

Solco Ltd paid no dividends or made any distribution payments during or after the reporting period.

**6. Dividend Plans**

Solco Ltd has no dividend plans in place.

**7. Details of Associates and Joint Venture Entities**

Solco Ltd did not enter into any Joint Ventures during the period.

**8. Foreign Entities**

Not Applicable

**9. Significant After Balance Sheet Date Events**

There are no significant after balance sheet date events.

**10. Audit / Review Status**

The accounts are not subject to audit dispute or qualification. This report is based on accounts that have been subject to audit review. A copy of the audit reviewed Half Year Financial Statements are attached.

## Half Yearly Report 31 December 2006

### DIRECTORS REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

#### **Directors**

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr. Robert Forbes  
Mr. David Richardson  
Mr. John Beech

#### **Review of Operations**

Revenue for the period under review was \$5.7 million compared to \$9.01 m for the corresponding period in 2005. For the 2006 Half Year, Solco Ltd recorded an after tax loss of \$631k which is 5% lower than the loss in the 2005 Half Year of \$601k. The 2006 half year loss of \$631k includes once off costs or re-structuring and recapitalisation of \$120k. In addition the 2006 Half Year results did not have an income tax benefit whereas the 2005 Half Year results had a once off income tax benefit of \$228k arising from the re-statement of accounts to meet international financial reporting standards (IFRS).

The re-structuring of the Water and Corporate Divisions has generated a permanent reduction to unwarranted recurrent expense items of \$878k per year, the benefit of which will be fully received from 1<sup>st</sup> January 2007. In addition the Company expects improved gross margins on products in the Water Division as a result of value engineering, outsourcing of manufacturing and quality improvements.

#### Power Division

The Company's Power Division (Choice Electric Pty Ltd) continues to perform well and exceed budgeted revenue and profit. Revenue for the Power Division for the period was \$4.5m that is 24% less than the corresponding period in 2005. This reduction was budgeted, as there has been a reduction in sales of Remote Area Power Systems (RAPS) as a result of the phase out of Queensland Government incentives in late 2005.

The Company has been actively pursuing new sales in the rapidly emerging market for grid connection of solar photo-voltaic (PV) power. Over the past six months Choice Electric continued to penetrate the market with its new GridPower™ pack which allows the customer to seamlessly connect their PV system into the electricity grid. In addition Choice Electric has been successful in growing its Western Australian business.

There has been a significant increase in focus on Climate Change by governments at all levels in the past 6 months. The various new Government incentives to encourage the use of renewable power will take a number of months before they positively impact the market.

## **DIRECTORS REPORT (Cont)**

### Water Division

Revenue for the Company's Water Division for the period was \$1.2m compared to \$3.4m in 2005 for the first six months. The reduction in revenue in the Division was planned as the Company re-structured, scaled back or eliminated unprofitable business lines as it substantially limited unwarranted recurrent expense items. Considerable work has taken place on value engineering, outsourcing of manufacture and quality improvements to deliver lower direct cost to improve gross margins to acceptable levels. Design work was also accelerated on a new generation polymer hot water system with the objective to meet functional and cost requirements to be highly competitive in a wider range of domestic and international markets.

The objective is to deliver profitable sales with quality product in selected attractive market segments and to capitalise on the lower cost base from re-structuring the business. The Directors believe a good foundation is being laid for future profitable business to capitalise on the strong upsurge in interest in sustainable power and water products.

A contributing factor to the lower revenue in the Water Division is that there have been no new sales of Solco Manufacturing Systems (SMS) in this period. SMS sales contributed \$1.3m in the six months to 31<sup>st</sup> December 2005.

Over the past 9 months, management has systematically reviewed the cost base of its Western and South Australian operations and implemented actions that will deliver a permanent reduction in recurrent expenses of \$878k per annum from 1<sup>st</sup> January 2007. These savings includes reductions in staffing, advertising, rent, insurances, motor vehicles and communications costs.

There is no income tax benefit in the six months to 31<sup>st</sup> December 2006 compared to the \$228k income tax benefit that accrued in the corresponding period in 2005 which was due to the recasting of the accounts to meet the new Australian equivalent to International Financial Reporting standards (IFRS) introduced in that period.

Net Cash Used in Operations was (\$1.2 million) over the past 6 months which includes an increase in solar panels and related Power Division inventory of \$654k to position the Company to meet increasing market demand which more than offset the inventory reduction of \$180k in the Water Division as part of an aggressive program to normalise its stock holdings. There is an increase in debtors for the Group of \$297k for the past six months.

### Re-capitalisation of Solco

On 24<sup>th</sup> November 2006, Shareholders approved the recapitalisation of the Solco Group under an arrangement where the Company raised \$1.53 million in placing 61,818,181 shares comprising 43.57% of the diluted capital of Solco at an issue price of 2.475 cents per share to a Company associated with Mr. David Richardson. The proceeds of the capital raising were applied to retire loans and accrued interest of \$1.53 million obtained on 7<sup>th</sup> September 2006 with support from Mr. Richardson to alleviate financial pressure affecting the Company.

Under the recapitalisation, it was agreed Mr. Richardson would receive 9,292,929 options exercisable at 2.475 cents per share or cash remuneration of \$230k for performing his role as Managing Director from period 28<sup>th</sup> August 2006 to 30<sup>th</sup> June 2007. The share based remuneration costs of \$230k for the current year are now expensed under the new international accounting standards and had a \$94k impact on the result for the first six months. The holdings of Mr. Richardson and his associates will represent 47.04% of the fully diluted equity of Solco if the 9,292,929 options are all exercised.

The Company anticipates being in a position, with prudential debt funding, to return to modest profitability and positive cash flow during 2007 as a result of the strategies and actions to date provided actual performance is not adversely affected by economic, market and financial conditions beyond its control.

**DIRECTORS REPORT (Cont)**

However, it is recognised that arresting the Company's historical negative cash flow and loss is not a sufficient outcome and that further business growth, and capital raisings to support that growth, will be

warranted in order to deliver enhanced shareholder returns. It is foreshadowed that a shareholders' rights issue is prospective in the first half of 2007.

Mr. Richardson has expressed his, and his associates', present intention to support such a rights issue and to use his influence to seek to procure third party underwriting support for such a capital raising. Mr. Richardson has also advised that it is not his, or his associates', present intention to increase their percentage shareholding to 50% or above.

To the extent to which that growth may be acquisitive growth, by the acquisitions of new businesses to compliment the Group's current operations, then share placements to raise capital with institutions and sophisticated investors, or exchange of part of the business consideration, may be contemplated.

**Contingent Liabilities**

In the Annual Report for the period ended 30<sup>th</sup> June 2006, the Company identified a number of contingent liabilities that had contributed to the Company's poor performance prior to the temporary suspension on the Australian Stock Exchange on 7<sup>th</sup> August 2006. The Directors believe that the Company has made good progress in addressing the underlying issues that are discussed more fully in Note 6 to the half yearly accounts.

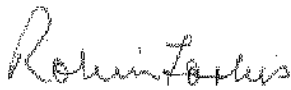
**Rounding of Amounts**

The consolidated entity has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest \$1,000.

**Auditor's Declaration**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 7 and forms part of this directors' report for the half-year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.



.....  
Robin Forbes  
Chairman

Dated at Perth on 28 February 2007



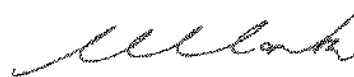
### Auditor's Independence Declaration

As lead auditor for the review of the financial report of Solco Limited for the half year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Solco Limited.

Perth, Western Australia  
28 February 2007



**W M CLARK**  
Partner, HLB Mann Judd

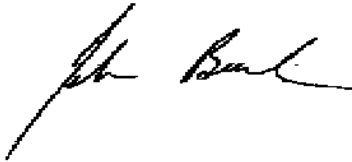
**DIRECTORS' DECLARATION**

The directors declare that:

- (a) In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) In the directors' opinion, the attached financial statements and notes thereto comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations, giving a true and fair view of the financial position and performance of the consolidated entity for the half year ended 31 December 2006.

Signed in accordance with a resolution of the directors made pursuant to Section 303(5) of the Corporations Act 2001.

On behalf of the Directors



.....  
John Beech  
Director

Dated at Perth on 28 February 2007



**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	<b>Half-year ended 31 Dec 2006 \$'000</b>	<b>Half-year ended 31 Dec 2005 \$'000</b>
Revenue	5,552	8,896
Other income	132	122
Change in inventories of finished goods and work in Progress	(474)	(353)
Raw materials and consumables used	(3,990)	(6,228)
Employee benefits expense	(971)	(1,651)
Depreciation and amortisation expense	(11)	(106)
Amortisation of intangibles	(7)	(16)
Finance costs	(65)	(25)
Research and development expense	(17)	(115)
Advertising expense	(52)	(239)
Travel and accommodation	(22)	(163)
Company overheads	(431)	(496)
Other expenses	(275)	(455)
<b>Loss before income tax</b>	<b>(631)</b>	<b>(829)</b>
Income tax benefit	-	228
<b>Loss for the period</b>	<b>(631)</b>	<b>(601)</b>
<b>Loss attributable to members of parent</b>	<b>(631)</b>	<b>(601)</b>
Basic earning per share (cents)	(0.70)	(0.79)
Diluted earnings per share (cents)	(0.70)	(0.79)

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2006**

	31 Dec 2006 \$'000	30 Jun 2006 \$'000
<b>Current assets</b>		
Cash and cash equivalents	849	955
Trade and other receivables	2,043	1,746
Inventories	2,700	2,226
Other	45	171
<b>Total current assets</b>	<b>5,637</b>	<b>5,098</b>
<b>Non-current assets</b>		
Other financial assets	311	311
Property, plant & equipment	254	416
Intangible assets	790	797
<b>Total non-current assets</b>	<b>1,355</b>	<b>1,524</b>
<b>Total assets</b>	<b>6,992</b>	<b>6,622</b>
<b>Current liabilities</b>		
Trade and other payables	2,293	2,295
Borrowings	68	542
Provisions	515	563
<b>Total current liabilities</b>	<b>2,876</b>	<b>3,400</b>
<b>Non-current liabilities</b>		
Borrowings	76	175
<b>Total non-current liabilities</b>	<b>76</b>	<b>175</b>
<b>Total liabilities</b>	<b>2,952</b>	<b>3,575</b>
<b>Net assets</b>	<b>4,040</b>	<b>3,047</b>
<b>Equity</b>		
Issued capital	16,205	14,675
Reserves	105	11
Retained earnings	(12,270)	(11,639)
<b>Total equity</b>	<b>4,040</b>	<b>3,047</b>

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2006	14,675	11	(11,639)	3,047
Shares issued during the period	1,530	-	-	1,530
Loss attributable to members of parent entity	-	-	(631)	(631)
Total income and expense for the period recognised directly in equity	16,205	11	(12,270)	(3,946)
Cost of share based payments	-	94	-	94
Balance at 31 December 2006	<u>16,205</u>	<u>105</u>	<u>(12,270)</u>	<u>4,040</u>

	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2005	13,961	-	(4,208)	9,753
Shares issued during the period	3	-	-	3
Loss attributable to members of parent entity	-	-	(601)	(601)
Balance at 31 December 2005	<u>13,964</u>	<u>-</u>	<u>(4,809)</u>	<u>9,155</u>

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	<b>Half-year ended</b>	<b>Half-year ended</b>
	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	5,461	10,083
Payments to suppliers and employees	(6,614)	(11,002)
Finance costs	(65)	(25)
Interest received	15	23
<b>Net cash used in operating activities</b>	<b>(1,203)</b>	<b>(921)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of non current assets	140	8
Purchases of non current assets	-	(187)
Payment for subsidiary, net of cash acquired	-	(5)
Other	-	(179)
<b>Net cash provided by (used in) investing activities</b>	<b>140</b>	<b>(363)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuing shares	1,530	3
Proceeds from borrowings	1,500	1,094
Repayment of borrowings	(2,017)	(703)
Finance lease	(56)	(14)
<b>Net cash provided by financing activities</b>	<b>957</b>	<b>380</b>
<b>Net decrease in cash held</b>	<b>(106)</b>	<b>(904)</b>
Cash and cash equivalents at the beginning of the period	955	2,161
<b>Cash and cash equivalents at the end of the period</b>	<b>849</b>	<b>1,257</b>

The accompanying notes form part of these financial statements

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Accounting Standards including AASB 134 "Interim Financial Reporting", Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

**Basis of preparation**

The condensed financial statements have been prepared on the basis of historical cost, except where stated. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by the Company and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The Company has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2006 annual financial report for the financial year ended 30 June 2006.

**Significant accounting policies**

The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report:

**a) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by Solco Ltd ("Company" or "Solco") as at 31 December 2006 and the results of all controlled entities for the half-year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**a) Principles of consolidation (Cont)**

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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.

Intercompany transactions, balances and unrealised gains on transaction between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**c) 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.

Current and deferred tax balances relating to amounts recognised directly in equity are recognised in equity and not in profit or loss.

The Company and its wholly-owned controlled entities have implemented the tax consolidation legislation as of 1 August 2004. The head entity, Solco Ltd, and the controlled entities in the tax consolidation group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidation group continues to be a stand alone taxpayer in its own right.

**d) 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**e) 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.

**f) 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.

**g) 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.

**h) Investments and other financial assets**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**i) 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.

**j) 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**j) Leased non-current assets (Cont)**

*(i) Finance leases and hire purchase agreements*

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.

*(ii) Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

**k) Intangible assets**

*(i) Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised and instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

*(ii) Research and development*

Costs incurred on research and development projects are recognised in the income statement as expenses in the period in which they are incurred.

*(iii) Patents*

Costs associated with internally generated patents are charged to the income statement in the periods in which they are incurred. Patents that are acquired are written off over the estimated useful life of the patent and tested annually for impairment.

*(iv) Technology rights*

Acquisition costs of technology rights is capitalised to the extent that its recoverability is assured beyond any reasonable doubt. Technology rights are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Technology rights are written off over the estimated useful life of the patent.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**l) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured with payment terms usually within 30 days of recognition.

**m) Employee benefits**

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are to be settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

*(ii) Long-service leave and termination benefits*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. 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.

*(iii) Superannuation*

Defined contributions made by the consolidated entity to superannuation funds nominated by each of the consolidated entity's employees are charged as expenses as incurred.

*(iv) Share-based payments*

The "Solco Employee Share Option Plan" (ESOP) was initially approved by Solco shareholders in 30 November 2000 and reapproved at the 2005 annual general meeting held 18 November 2005.

Options are 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 and to determine the exercise price 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 three months of the time the option holder becomes ineligible (i.e. is no longer an employee).

Options are not transferable 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**m) Employee benefits (Cont)**

*(iv) Share-based payments (Cont)*

*Share options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

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

**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 vary on product. 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) 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**p) Foreign currency**

The consolidated financial statements are presented in Australian dollars, which is the Company'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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 2 : ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES**

During the half-year reporting period, the Company issued 61,818,181 ordinary shares for \$1.53 million and 9,292,929 share options under the executive share option plan. These share options had a fair value at grant date of 2.475 per share option. There were no other movements in the ordinary shares capital or other issued share capital of the Company in the current half-year reporting period.

**NOTE 3 : SEGMENT REPORTING**

The Group operates predominately in one geographical section, being Australia, and in one business segment, being the renewable energy industry, as such, the company does not report separately on their operations.

**NOTE 4 : RELATED PARTY TRANSACTION**

**Transactions with key management personnel**

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payments.

**NOTE 5 : DIVIDENDS**

The Company paid no dividends or made any distribution payments during or after the reporting period.

**NOTE 6 : CONTINGENCIES**

The Company and Group had the following contingent liabilities at 31 December 2006:

Product Quality Issues

The Company has experienced a large number of quality and warranty issues in the past 12 months associated with its Solco Genius Hot Water System. These issues have been isolated and are being systematically addressed. The Company provides a warranty against manufacturing defects, faulty materials and / or workmanship. However, the Directors remain concerned that the company does not fully understand the extent of the warranty issues due to their nature. Accordingly, the Company is undertaking further investigations on this issue. As a result, the Company is maintaining an increased warranty provision.

Possible Legal Action

The inventor of the original Sun Mill pump that Solco sells has submitted a Claim against Solco when it operated as Solar Energy Systems Pty Ltd (SES). The directors do not believe that the Claim has any merit. The Directors are in negotiation to settle the matter but believe the Company may have an exposure for legal costs until this matter is fully resolved.

Acquisition of Solco Industries

In August 2004, Solco (formerly SES Limited) acquired Solco Industries Pty Ltd and Poly Tuff Pty Ltd. Initial consideration was paid in the form of shares in Solco. There were additional payments potentially due under a Net Proceeds calculation for each sale of an SMS license up until 30th June 2006 as defined in the Sale Agreement.

In late June 2006, a settlement was reached for payments due under the sale of the Malta license which was to form the basis for subsequent payments for the Malaysia, Tunisia and Ghana transactions which were being progressed but have yet to be completed. Negotiations are well advanced with the previous owners of Solco Industries Pty Ltd to reach a final settlement on these transactions.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

**NOTE 7 : SUBSEQUENT EVENTS**

No matters or circumstances have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.



**INDEPENDENT AUDITOR'S REVIEW REPORT**

**To the members of  
Solco Limited  
Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report, which comprises the condensed consolidated balance sheet as at 31 December 2006, the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration, of Solco Limited and the entities it controlled during the half-year ended 31 December 2006 ("consolidated entity").

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*


Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Solco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Solco Limited on 28 February 2007.

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HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Solco Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

  
HLB MANN JUDD  
Chartered Accountants

  
W M CLARK  
Partner

Perth, Western Australia  
28 February 2007