

Appendix 4D

Half yearly report

Name of entity

Solco Ltd

ABN or equivalent company reference

27 084 656 691

Half year ended ('current period')

31 DECEMBER 2007

For announcement to the market

Extracts from this report for announcement to the market.

\$A'000

Revenue	Up	25%	to	7,080
Loss for period ordinary after income tax benefit	Down	62%	to	(240)
Net loss for the period attributable to members of the parent entity	Down	62%	to	(240)

Dividends	Amount per security	Franked amount per security
Interim dividend	NIL	N/A
Previous corresponding period	N/A	N/A

[†]Record date for determining entitlements to the dividend

N/A

Solco's revenue increased by a healthy 25% to \$7.1m compared to the previous corresponding period for 2006. An upsurge in demand for PV and related products, including Grid Power Solar Systems, and a concentrated effort from management both assisted with this result.

The loss for the Group reduced to \$240k compared to \$631k in December 2006. The loss incorporates abnormal expenses totalling \$194k that includes an employee share issue of \$114k, a one off management expense of \$60k and a further provision of \$20k against a term deposit held for an underperforming international investment. Tighter controls, procedures, cost reductions and cost maintenance improved the profitability of the group in comparison.

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per [†] ordinary security	2.47 cents per share	2.29 cents per share

Corporate Directory

Board of Directors:

Mr Steven Cole (Non Executive Chairman)
Mr Alex Lamond (Executive Director and Chief Executive Officer)
Mr Mark Norman (Executive Director)
Mr David Richardson (Non Executive Director)
Mr Ian Campbell (Non Executive Director)

Company Secretary

Mr Adam Wright (Joint Company Secretary)
Mr Darren Crawte (Joint Company Secretary)

Registered and Corporate Office

126 Sheffield Road
Welshpool
Western Australia 6106
Tel: (08) 9334 8100
Fax: (08) 9334 8199
Email: info@solco.com.au
Website: www.solco.com.au

Auditors to the Company

HLB Mann Judd
PO Box 263
West Perth
Western Australia 6872
Tel: (08) 9481 0977
Fax: (08) 9481 3686

Solicitors to the Company

Solomon Brothers
Level 40
Exchange Plaza
2 The Esplanade
Perth
Western Australia 6000
Tel: (08) 9282 5888
Fax: (08) 9282 5866

Share Registry

Computershare Investor Services Pty Limited
Level 2
Reserve Bank Building
45 St Georges Terrace
Perth
Western Australia 6000
Tel: (08) 9323 2000
Fax: (08) 9323 2033

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Solco Limited

ACN 084 656 691

**Financial report for the half-year ended
31 December 2007**

Financial report for the half-year ended 31 December 2007

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Directors' report

The directors of Solco Limited submit herewith the financial report for the half-year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Company who have held office during and since the end of the half year are:

Name

Mr Steven Cole

Mr Alex Lamond (Appointed 23 November 2007)

Mr Mark Norman (Appointed 23 November 2007)

Mr David Richardson (Resigned as Managing Director on 1 December 2007 but continues as a non-executive Director)

Mr Ian Campbell (Appointed 23 November 2007)

Mr John William Beech (Resigned 23 November 2007)

Review of operations

Total revenue and other income for the six month period ending 31 December 07 was \$7.1m compared to \$5.7m for the corresponding six months ending 31 December 06 – an increase of 25%.

An after tax loss of \$240k was recorded which is 62% less than the loss for the corresponding period in 2006 of \$631k.

Included in this loss are abnormal expenses and adjustments to the amount of \$194k that includes an employee share issue of \$114k, a one off management expense of \$60k and a further provision of \$20k against a term deposit held for an underperforming international investment. Taking these abnormal adjustments into account, the operating business is now approaching break even.

Work undertaken in the preceding periods is showing results with improved gross margins and increased sales activity across the company.

The recent change in Government, with continuing commitments to “green” policy initiatives, signals a significant opportunity for the renewable energy industry.

- 20% Target for Renewable Energy by 2020
- Signing of Kyoto Protocol
- Introduction of Feed in tariffs
- \$8,000 PVRP rebate
- Grants of \$50,000 to every school in Australia with \$20,000 allocated for PV
- Loan scheme of up to \$10,000 per home
- Establishment of a National Carbon Trading regime
- \$500 million Renewable Energy Fund
- Continuation of Solar Cities program

Solco has a number of activities that are well positioned to respond to these initiatives including increased distribution of the Grid Power and Sun Mill ranges of product.

This has required an expansion of inventory (of approximately \$2.4m in value), and has increased cash outflows by the need to pay for that inventory.

The continuing strong sales growth, and Solco's availability of product to meet that growth through its increased inventory strategy, assures the conversion of that inventory to revenue line for the benefit of the company's future cash flow and bottom line performance. It is noted that the value of the increased revenue substantially exceeds the negative operating cash flow.

Cash at bank as at 31 December 2007 was \$2.123m and inventory at cost was \$4.3m.

As already announced, David Richardson stepped down as CEO and Managing Director from 1 December 2007 as part of the Company's senior executive succession planning. However David remains a non-executive director with continued active engagement in the Company's strategic positioning and direction, especially over a transitional period. David's contribution to Solco has been significant over the last 18 months and his continued involvement in providing mentoring and guidance to the executive team is highly valued.

Alex Lamond has succeeded David as CEO and Managing Director. Alex has had hands on CEO, senior executive and leadership experience in a range of industries. He has refined strategic development and marketing skills as well as actual experience in driving growth and development in business opportunities for emerging corporates.

Mark Norman was also appointed as a Director at the AGM in November. He has been engaged effectively as COO for Solco over the last year or so and has already made a great contribution during that period. His new role includes Vice President of Solco's International Operations.

Mark is a qualified electronics engineer who has maintained his technical relevance through continuing professional development with extensions into management, business systems and IT training.

Solco is also fortunate to have secured the services of Ian Campbell as an independent non executive director of the Company. In addition to his renowned public and former ministerial profile as a key member of the Australian Federal Government, including as Minister for the Environment and Heritage, Ian is an astute businessman.

Three further items during the reporting period that 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 \$2.65m 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.

Power Division

The six month period to 31 December 2007 sees continuing growth in Solco's Power Division, which trades as Choice Electric Co.

As expected, the increased PVRP rebate from \$4,000 to \$8,000 has seen an explosion in activity – primarily in the grid-connect market. Unfortunately, continuing global supply issues with PV panels and racking, meant there were delays with installation and timing delays with booking of revenue. Solco's inventory strategy in response has now addressed this.

Despite this, the Power Division recorded revenues of \$6.5m compared with \$4.5m for the corresponding period in 2006 – an increase of 44%.

Increasing levels of public awareness in relation to energy costs and related greenhouse gas production, has seen residential consumers seeking access to renewable sources of energy. A preparedness to pay more is driving demand for "green" energy.

In addition, rooftop based "power plants" are becoming a desirable home improvement – with the prospect of higher electricity pricing and "feed in tariffs" making the economics of a system more viable.

Feed in tariffs present the biggest opportunity for the Solar Power industry with South Australia and the ACT already drafting legislation for introduction in early 2008.

A "feed in tariff" is where electricity retailers pay more than the retail price for renewable electricity generated from PV solar systems. Without a feed in tariff, energy retailers are only obligated to pay the same value they charge – ie. 1:1.

The SA government plan to implement feed in tariffs with two times the SA retail rate, i.e. 44c/kWh and the ACT government may implement feed-in tariffs with 3.88 times the ACT retail rate, i.e. 52c/kWh.

This level of financial return, along with a minimum 25 year life expectancy, helps to reduce the financial payback time of a PV solar system.

The power division has been developing a base of dealers and value added resellers in Victoria and plan to establish

a presence in Melbourne early in 2008. This office will service dealers in the southern states and provides an improved capability to engage with State and Federal governments – particularly in relation to the rebate programs and \$500M schools initiative announced during the election.

Water Division

Revenue for the Water Division was \$0.65m – down from \$1.2m for the same period in 2006.

This result is made up primarily from sales of Solco's range of solar pumps and reflects earlier decisions to suspend production of the Solartech Genius hot water system pending further research and development work being undertaken on this product. However it is a consistent result if compared to the first half of calendar year 2007, \$0.66m.

R & D work on a new 250lt Genius is now largely complete. Testing of the prototype has proven successful and the new product will undergo final REC (renewable energy certificate) testing in the first quarter of 2008. Re-introduction of the Genius is anticipated in the second quarter of 2008 into selected markets.

The outlook for the solar pumping market remains strong and with drought breaking rains across the country, the Sun Mill range of products is expected to see improved demand.

On the international side, the Malta based MB Solco, in which Solco Ltd has a minority shareholding (19.99%), has been closed down due to low performance outcomes. Provisions for the full investment have been made in previous years accounts. Discussions are continuing with Solco Europe (Portugal), in which Solco also has a 19% minority shareholding, on market opportunities in Portugal and Spain. Other International interests also remain strong with projects in East Timor currently underway and opportunities in India being investigated.

Rounding of Amounts

The company has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the half-year financial report and the directors' report have been rounded off to the nearest \$1,000, unless otherwise indicated.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the half-year financial report

Signed in accordance with a resolution of directors made on 22nd day of February 2008 pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



Alex Lamond
Managing Director
22 February 2008

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Solco Limited for the half year ended 31 December 2007, 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 2008

W M CLARK
Partner, HLB Mann Judd

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 balance sheet as at 31 December 2007, the condensed income statement, condensed statement of changes in equity, condensed cash flow statement and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Solco Limited and the entities it controlled during the half-year ended 31 December 2007 ("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 consolidated entity's financial position as at 31 December 2007 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.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.

Email: hlb@hlbwa.com.au. Website: <http://www.hlb.com.au>

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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 2008.

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 2007 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 2008

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the disclosing entity 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 are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made on 22nd day of February 2008 pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Alex Lamond
Managing Director

22 February 2008

Condensed consolidated income statement for the half-year ended 31 December 2007

	Note	Consolidated	
		Half-year ended 31 Dec 2007 \$'000	Half-year ended 31 Dec 2006 \$'000
Revenue	2	6,966	5,552
Cost of sales		(5,527)	(4,464)
Gross Profit		1,439	1,088
Other Income		114	132
Employee benefits expense		(1,198)	(971)
Depreciation expense		(30)	(11)
Amortisation of intangibles		-	(7)
Finance costs		(21)	(65)
Research and development costs		(6)	(17)
Advertising expense		(36)	(52)
Travel and accommodation		(68)	(22)
Company overheads		(382)	(431)
Other expenses		(52)	(275)
Loss before income tax		(240)	(631)
Income tax (expense)/ benefit		-	-
Loss for the period		(240)	(631)
Loss per share:			
Basic and diluted (cents per share)		0.10	0.70

Notes to the financial statements are included on pages 12 to 13.

Condensed consolidated balance sheet as at 31 December 2007

	Consolidated	
	31 Dec 2007 \$'000	30 June 2007 \$'000
Current assets		
Cash and cash equivalents	2,123	805
Trade and other receivables	1,694	1,489
Inventories	4,325	2,211
Other current assets	253	97
Total current assets	8,395	4,602
Non-current assets		
Other financial assets	-	20
Property, plant and equipment	225	226
Intangible assets	755	755
Total non-current assets	980	1,001
Total assets	9,375	5,603
Current liabilities		
Trade and other payables	3,120	2,205
Borrowings	94	515
Provisions	411	417
Total current liabilities	3,625	3,138
Non-current liabilities		
Borrowings	39	123
Provisions	22	18
Total non-current liabilities	61	142
Total liabilities	3,686	3,280
Net assets	5,689	2,323
Equity		
Issued capital	19,812	16,205
Reserves	11	11
Accumulated losses	(14,134)	(13,893)
Total equity	5,689	2,323

Notes to the financial statements are included on pages 12 to 13.

Condensed consolidated statement of changes in equity for the half year ended 31 December 2007

	Consolidated	
	2007	2006
	\$	\$
Total equity at the beginning of the period	2,323	3,047
Loss for the period	(240)	(631)
Total recognised income and expense for the period	(240)	(631)
Transactions with equity holders in their capacity as equity holders		
Contributions of equity, net of transaction costs	3,606	1,530
Share based payments reserve	-	94
	3,606	1,624
Total equity at the end of the period	5,689	4,040

Notes to the financial statements are included on pages 12 to 13.

Condensed consolidated cash flow statement for the half-year ended 31 December 2007

	Consolidated	
	Half-year ended 31 Dec 2007 \$	Half-year ended 31 Dec 2006 \$
Cash flows from operating activities		
Receipts from customers	6,999	5,461
Payments to suppliers and employees	(8,512)	(6,614)
Interest received	63	15
Interest and other costs of finance paid	(21)	(65)
Net cash used in operating activities	(1,471)	(1,203)
Cash flows from investing activities		
Proceeds from sale of non current assets	-	140
Payment for property, plant and equipment	(29)	-
Net cash used in by investing activities	(29)	140
Cash flows from financing activities		
Proceeds from issues of equity securities	2,823	1,530
Payment for share issue costs	-	-
Proceeds from borrowings	-	1,500
Repayment of borrowings	(5)	(2,073)
Net cash provided by financing activities	2,818	957
Net increase in cash and cash equivalents	1,318	(106)
Cash and cash equivalents at the beginning of the half-year	805	955
Cash and cash equivalents at the end of the half-year	2,123	849

Notes to the financial statements are included on pages 12 to 13.

Notes to the financial statements for the half-year ended 31 December 2007

1. 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 AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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 annual financial report for the financial year ended 30 June 2007:

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Group's accounting policies.

2. Revenue

	2007 \$	2006 \$
Sales revenue	6,966	5,552

3. Subsequent events

No matters or circumstances have arisen since the end of the half year period which 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.

4. Issuances, repurchases and repayments of securities

During the period the Company completed the following transactions in its securities:

- On 3 July 2007, the Company issued 9,292,929 shares by way of the exercise of options by David Richardson and related parties.
- On 31 July 2007, the Company issued 1,890,716 shares to directors for remuneration and 7,142,857 shares as part of a share placement to Gidleigh Pty Ltd as approved by shareholders at the EGM on 30 July 2007, this by conversion of the \$500k Gidleigh loan to Equity.
- On 16 August 2007, the Company issued 37,788,584 shares as part of the 1:4 renounceable rights issue in accordance with the Prospectus dated 5 July 2007.
- On 19 October 2007, the Company issued 1,587,143 fully paid ordinary shares at a deemed price 7 cents per share to employees for nil consideration as remuneration.
- On 31 December 2007, the Company issued 50,000 fully paid ordinary shares at a deemed price 7 cents per share to employees for nil consideration as remuneration.

5. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, please refer to the 30 June 2007 annual financial report.

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

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