130Rule 4.3A

Solco Ltd
Appendix 4E

Preliminary final report for the period ending 30 June 2008

(Previous Corresponding Period: Year ended 30 June 2007)

Results for announcement to the market

Revenues from ordinary activities	up/~~down~~	63%	to	$16,829,930
Profit/ (loss) from ordinary activities after tax attributable to members	up/~~down~~	105%	to	$119,405
Net profit (loss) for the period attributable to members	up/~~down~~	105%	to	$119,405

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only)*	N/A	N/A
Previous corresponding period	N/A	N/A

Record date for determining entitlements to the dividend	N/A

Net Tangible Asset Backing

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	2.65 cents per share	1.10 cents per share

The above information or explanation to the results can be obtained from the commentary in the Directors' report.

Control was maintained over all subsidiaries during the year refer to note 21 in the financial statements.

This statement is based on accounts, which have been audited.

SOLCO LIMITED

ABN 27 084 656 691

Annual report for the financial year ended 30 June 2008

Annual financial report
for the financial year ended 30 June 2008

Directors:

Steven Cole	Non-Executive Chairman
Alex Lamond	Managing Director
Mark Norman	Executive Director
David Richardson	Non-Executive Director
Ian Campbell	Non-Executive Director

Company Secretary:

Darren Crawte

Registered Office:

126 Sheffield Road
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Telephone: (08) 9334 8100
Fax: (08) 9334 8199
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Share Registry:

Computershare Investor Services Pty Limited
Reserve Bank Building
Level 2, 45 St Georges Terrace
PERTH WESTERN AUSTRALIA 6000
Telephone: (08) 9323 2000
Fax: (08) 9323 2033

Solicitors:

Solomon Brothers
Level 40
Exchange Plaza
2 The Esplanade
PERTH WESTERN AUSTRALIA 6000
Telephone: (08) 9282 5888
Fax: (08) 9282 5866

Auditor:

HLB Mann Judd
PO Box 263
WEST PERTH WESTERN AUSTRALIA 6872
Telephone: (08) 9481 0977
Fax: (08) 9481 3686

Chairman's and Managing Director's address

1. The Year in Review

For Solco, 2007/2008 was a year of consolidation as the Company stabilised its continuing operations, strategically planned for its future, and sought to develop its managerial and director capabilities to allow it to grow and deliver shareholder value.

The following key milestones were achieved:

- July/August 2007

  Recapitalisation of the Company with an aggregate raising of $3.145 million through both a 1:4 rights issue and also share placements (as approved by shareholders in July 2007).

- November 2007

  Appointment of Alex Lamond as CEO/Managing Director (David Richardson continuing as a director in a non-executive capacity), Mark Norman as an executive director and Ian Campbell as a non-executive director.

- April 2008

  Articulation and refinement of the Company's continuing strategic direction.

- June 2008

  Completion of the year with a modest maiden profit after 8 years as an ASX listed public Company.

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

- to rationalise areas of operation which were considered not to be part of the Group's continuing business plans;
- to improve the efficiency of business operations;
- to identify and analyse business growth opportunities (both organic and acquisitive);
- to improve product quality and address residual 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 strategically 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.

As part of this process:

- Group revenue for 2007/8 was $16.8 million (compared to $10.3 million for 2006/7) primarily reflecting business growth in its wholesale distribution business of PV and related products;
- Group net profit for 2007/8 was $0.1 million (compared to a loss of $2.25 million for 2006/7 and a loss of $5.89 million for 2005/6) reflecting a positive growth curve forward;

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

2. Significant Post Balance Date Developments

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

3. Industry Issues

Solar Water Pumping - with the drought breaking in many parts of the country, pumping demand has increased. Field days are providing good feedback on customer interest and government rebates now Australia wide, make solar pumping more attractive. International aid organizations have water as a priority and solar pumping solutions are popular.

PV Supply – intense large scale PV installation activity in Europe has created shortages of PV worldwide. The price of the base material, silicon, rose by about 30% earlier in the year pushing up the spot price on PV panels during the April quarter. Supplies are expected to be back to normal by the end of the July quarter.

Grid Connect Market – the federal government rebate program for domestic grid connect systems was increased in May 07 to $8000 for 1kW. This dramatically increased demand. In the 2007-08 financial year, over 3 times more systems were installed than any previous year. Approx $44M in rebates were paid in this period. In May 08 the government introduced a $100k household income means test to slow the take up of the rebate. However, in the following two months, more than 5000 applications were received – equal to the entire previous year. So while the size of the average system has reduced, the number of systems attracting the rebate is increasing.

Solar Schools – this federal government program consists of $480M in grants - available to every school in the country (public and private). Out of each $50k per school grant, a minimum of a 2kW solar power system must be purchased while the rest can be used for water harvesting and storage, solar hot water systems and energy saving equipment. In fact the whole $50k can be allocated to solar power if the school wishes.

Commercial – we have seen a significant increase in interest in the market for commercial scale solar power projects. Awareness by the corporate sector and new reporting requirements for carbon emissions is driving interest in the renewable energy sector. A national feed in tariff, as being promoted by the Clean Energy Council, would provide an economic basis for many projects. However, ongoing increases in the price of energy allied with expected obligations under the Government's proposed Carbon Reuduction Scheme are already providing the imperatives for many organizations to consider renewable energy as a means to secure certainty in respect to energy costs.

4. The Year Ahead

Following the re-establishment of its core profitability, Solco can now engage in, 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.

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

Alex Lamond
Managing Director

SOLCO LIMITED - CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

INTRODUCTION

The Company is committed to implementing sound standards of corporate governance. In determining what those standards should involve, the Company has had regard to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations 2003 ("Recommendations").

A copy of the Company's Corporate Governance Charter has been placed on the Company's website in the corporate governance section. The Company anticipates transitioning its corporate governance reporting to the ASX second edition revised recommendations for the year ending 30 June 2009 in compliance with those revised recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Formalise and disclose the functions reserved to the board and those delegated to management.

The functions and responsibilities of the Board compared with those delegated to management are reflective of the Recommendations. Please refer to the Company's Corporate Governance Charter which has been placed on its website.

The Company is not aware of any departure from Recommendation 1.1.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – A majority of the Board should be independent directors.

The Board respects independence of thought and decision making as critical to effective governance.

From 1 July 2007 until 23 November 2007 the majority of the Board (Steven Cole and John Beech) were independent. From 23 November 2007, following a management restructure and reinvigoration of the Board, the majority of the Board were non-executive, but not "independent". From that time the Board has comprised:

Non-Executive/Independent – Steven Cole and Ian Campbell
Non-Executive/Non-Independent (substantial shareholder) – David Richardson
Executive – Alex Lamond and Mark Norman

Recommendation 2.2 – The chairperson should be an independent director.

The Chairperson was an independent director.

Recommendation 2.3 –The roles of chairperson and chief executive officer should not be exercised by the same individual.

The roles of the Chairperson and the Chief Executive Officer were not exercised by the same individual.

Recommendation 2.4 – The Board should establish a nomination committee.

The Board did establish a Nomination and Remuneration Committee.

Recommendation 2.5 – Provide the information indicated in *Guide to reporting on Principle 2.*

Contained in the Directors' Report section of this Annual Report are details of:

- the skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report;
- the term of office held by each Director in office at the date of this Annual Report.

The Company's Corporate Governance Charter empowers a director to take independent professional advice at the expense of the Company.

The terms of office, and their status as executive/non-executive/independent, for each director for the year ending 30 June 2008 were as follows (with all directors noted as continuing as at 30 June 2008 still being in office at the date of this annual report):

Steven Cole	non-executive/independent - 1 July 2007 to 30 June 2008 (cont)
David Richardson	executive – 1 July 2007 to 1 December 2007 non-executive - 1 December 2007 to 30 June 2008 (cont)
Ian Campbell	non-executive/independent - 23 November 2007 to 30 June 2008 (cont)
John Beech	non-executive/independent - 1 July 2007 to 23 November 2007
Alex Lamond	executive – 23 November 2007 to 30 June 2008 (cont)
Mark Norman	executive - 23 November 2007 to 30 June 2008 (cont)

The Company has accepted the definition of "independence" in the Recommendations.

Members of the Board's Nominations and Remuneration Committee, and their attendance at meetings of that committee, are as follows (a total of 5 meetings were held):

Director	Number of Mtgs Eligible to Attend	Number of Mtgs Attended
Steven Cole (Chairman)	5	5
John Beech(*)	1	1
David Richardson (#)	5	5

(*) Retired November 2007
(#) Appointed November 2007

The Company departed from the Recommendations in that:

(a) the Nomination and Remuneration Committee comprised only 2 members;

(b) neither a majority of the Board nor a majority of the Nomination and Remuneration Committee were independent.

In explanation of the reasons for these departures the Company advises:

- it is satisfied with the level of independence of thought and decision making being contributed by its non-executive directors;
- at its current stage of development the Company values the contribution of its 2 executive directors;
- the current size of the Company's business operations does not warrant an expanded Board merely to satisfy the independence Recommendations;
- the members of the Nominations and Remunerations Committee are considered able, without the need for an extra independent member, to discharge the functions of that Committee.

PRINCIPLE 3 : PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Recommendation 3.1 : Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity;

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has established a formal code of conduct in the Company's Corporate Governance Charter to guide the Directors, the CEO, the CFO (or equivalent) and other key executives with respect to the practices necessary to maintain confidence in the Company's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2 : Disclose the Policy Concerning Trading in Company Securities by directors, officers and employees.

The Company's policy concerning trading in Company securities by Directors, officers and employees is set out in the Company's Corporate Governance Charter which has been placed on the Company's website.

Recommendation 3.3 : Provide the Information Indicated in *Guide to Reporting on Principle 3.*

There were no departures from Recommendations 3.1, 3.2 or 3.3.

Copies of the Company's current Board Members Code of Conduct and Group Code of Conduct/Values and the Company's Share Trading Policy are publicly available on the Company's website in the corporate governance section.

PRINCIPLE 4 : SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company's CEO and CFO (or equivalent) have stated in writing to the Board that the Company's financial reports present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Recommendation 4.2 : The Board should establish an Audit Committee.

The Board did establish a combined Audit and Risk Management Committee.

Recommendation 4.3 : Structure the Audit Committee so that it consists of:

- **only non-executive directors**
- **a majority of independent directors**
- **an independent Chairperson, who is not chairperson of the Board;**
- **at least three members.**

From 1 July 2007 to 23 November 2007 the Company's Audit and Risk Management Committee had only 2 members both of whom were independent non-executive Directors, Steven Cole and John Beech. From 1 July 2007 to 23 November 2007 John Beech also was independent Chairman of that Committee. From 23 November 2007 Steven Cole assumed chairmanship of that Committee.

From 23 November 2007 to 30 June 2008 the Company's Audit and Risk Management Committee had 3 members all being non-executive directors (Steven Cole, David Richardson and Ian Campbell), the majority of whom, including the Chairman also being independent (Steven Cole and Ian Campbell). Contrary to the Recommendation from 23 November 2007 to 30 June 2008 the Company Chairman (Steven Cole) was also Chairman of that Committee.

Recommendation 4.4 : The Audit Committee should have a formal charter.

The Company's Audit and Risk Management Committee had a formal charter.

Recommendation 4.5 : Provide the information indicated in *Guide to reporting on Principle 4.*

Members of the Board's Audit and Risk Management Committee, and their attendance at meetings of that Committee were as follows (a total of 3 meetings were held):

Director	Number of Mtgs Eligible to Attend	Number of Mtgs Attended
John Beech (*)	1	1
Steven Cole (#)	3	3
David Richardson (‡)	3	3
Ian Campbell (‡)	2	0

(*) Chairman from 1 July 2007 to 23 November 2007 (retired from Committee)

(#) Member from 1 July 2007 to 23 November 2007, Chairman from 23 November 2007 to 30 June 2008

(‡) Member from 23 November 2007 to 30 June 2008 – leave of absence from relevant meetings granted

The qualifications of the Directors on the Audit and Risk Management Committee appear in the Directors' Report section of this Annual Report.

The Company departed from the Recommendations in that the Nomination and Remuneration Committee:

(a) comprised only 2 members from 1 July 2007 to 23 Novmber 2007;

(b) had as its Chairman, the Chairman of the Company from 23 November 2007 until 30 June 2008.

In explanation of the reasons for these departures the Company advises:

- until 23 November 2007, the Board comprised only 3 directors, one of whom was the CEO/Managing Director;
- following the retirement of John Beech, the skills and experience of the Company's Chairman were considered the most appropriate amongst the Board members to discharge the role of Chairman of the Audit and Risk Management Committee, notwithstanding he was also the Company Chairman.

The Company's Audit and Risk Management committee charter and information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners, are publicly available on the Company's website in the corporate governance section.

PRINCIPLE 5 : MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 : Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior management levels for the compliance.

Recommendation 5.2 : Provide the information indicated in *Guide to reporting on Principle 5.*

The Company is not aware of any departure from Recommendations 5.1 or 5.2.

The Company's current written policies and procedures on ASX Listing Rule disclosure requirements are publicly available on the Company's website in the corporate governance section under the heading "Release of Price Sensitive Information Policy".

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 : Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company's Corporate Governance Charter contains a section formally setting out the Company's communications strategy with its Stakeholders including the effective use of electronic communications.

Details of the Company's communications strategy are publicly available on the Company's website in the corporate governance section under the heading "Communications with Stakeholders".

Recommendation 6.2 : Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The external auditor was requested to attend the annual general meeting and be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's Report.

The Company is not aware of any departure from Recommendations 6.1 or 6.2.

PRINCIPLE 7 : RECOGNISE AND MANAGE RISK

Recommendation 7.1 : The Board or appropriate Board committee should establish policies on risk oversight and management.

The Company's Corporate Governance Charter includes a formal policy on risk oversight and management and the Board also established the Audit and Risk Management Committee of the Board.

The Company has developed an internal "Quality Manual" which includes strategies and processes towards addressing these matters. In addition, the executive is in the process of developing a more robust system for identifying, assessing, monitoring and managing material risk throughout the organisation, including internal compliance and control systems, and procedures based on AS/NZ4360.

Recommendation 7.2 : The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that:

7.2.1 - the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board

7.2.2 - the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company's CEO and CFO (or equivalent) provided the Board a written statement in compliance with Recommendation 4.1, and also stated to the Board that the financial statements were founded on a sound system of risk management and internal compliance and control and that the risk management and internal compliance and control system was operating efficiently and effectively in all material respects.

Recommendation 7.3 : Provide the information indicated in *Guide to reporting on Principle 7.*

The Company is not aware of any departure from Recommendations 7.1 or 7.2 although notes it is continuing to develop and refine its risk management and internal control processes and procedures.

Details of the Company's risk management policy are publicly available in its Corporate Governance Charter on the Company's website in the corporate governance section.

PRINCIPLE 8 : ENCOURAGE ENHANCED PERFORMANCE

Recommendation 8.1 : Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives.

Board and Director Evaluations

The Company is committed to the ongoing evaluation and development of individual Directors, Board committees, and the Board as a whole.

The Company has adopted policies and procedures in its Corporate Governance Charter concerning the evaluation and development of its directors, executives and Board committee. These are within the remit of the Nominations and Remuneration Committee and are facilitated by the Company Chairman. Procedures include an induction protocol, and a performance management system for the Board and its directors. Each Board committee also formally reports to the Board annually on its operations in the context of its remit.

During the year the CEO was the subject of a probationary period performance review and feedback appraisal which was formally reported via the Nominations and Remuneration Committee.

Senior Executive Evaluations

All senior executives were the subject of informal evaluations against both individual performance and overall business measures. These evaluations were undertaken by the CEO progressively and periodically.

Outcomes arising from these evaluations included identifying skill improvement needs, redescription of positions of employment, remuneration reviews and in some cases remedial action.

The Company's Corporate Governance Charter contains a section formally setting out the Company's Board and Management Performance Enhancement Policy.

As the Board in its current form has only been appointed since November 2007, and in order to give the Board a reasonable opportunity to "work together" before subjecting it to performance review, the Board agreed to defer implementation of the Company's Performance Enhancement System to it until Q3 of 2008 (ie, now in the process of implementation).

The Company is not aware of any departure from Recommendation 8.1.

Details of the Company's Policy on these matters are publicly available on the Company's website in the corporate governance section.

PRINCIPLE 9 : REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 9.1 : Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

Remuneration Policy

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity was as follows:

- Executives were to receive a base salary (based on factors such as skills, experience, value to the Company and length of service), superannuation and, as appropriate, performance incentives, including by way of longer term share options. The Nomination and Remuneration Committee (on reference from, and in consultation with, the CEO) was to review executive packages from time to time by reference to the economic entity's performance, executive performance and comparable information from industry standards.

- The maximum remuneration of non-executive directors was the subject of Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing rules, as applicable. The apportionment of non-executive director remuneration within that maximum was made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive director. The Board may also award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

- Greater details of the remuneration arrangements for Directors, Officers and senior executives are contained in the Remuneration Report comprised in the Directors' Report forming part of this Annual Report.

Recommendation 9.2 : The Board should establish a remuneration committee.

The Board established a combined Nomination and Remuneration Committee. Refer reporting on Recommendation 2 above.

Recommendation 9.3 : Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The structure of non-executive remuneration is clearly distinguishable from that of executives as appears from the details provided in the response to Recommendation 9.1 above.

Recommendation 9.4 : Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

All equity based executive remuneration for year ended 30 June 2008 either was approved by shareholders or is awaiting the outcome of shareholder approval at a shareholders' meeting yet to be called.

An employee share option plan was approved at an EGM held on 30 July 2007. Directors are not eligible to receive options issued under this plan.

The following equity based remuneration arrangements for directors is also noted:

(a) At the Company's EGM held on 30 July 2007 the following issues of shares in the Company were approved by way of "salary sacrifice" by the relevant directors in order to preserve "cash" for the Company:

Director	Salary Sacrifice Amount ($)	Price per Share ($)	Number of ordinary shares
Steven Cole	45,833	0.10643	430,657
John Beech	34,166 60,000	0.10643 0.07	321,031 857,142
David Richardson	30,000	0.10643	281,886
TOTAL	169,999		1,890,716

(b) At a Board meeting held on 23 November 2007, and in accordance with recommendations made by the Nominations and Remuneration Committee, in consideration of:

- [executive directors – Alex Lamond and Mark Norman] – the executive employment packages negotiated with the executive directors;
- [non-executive directors – Steven Cole, David Richardson, Ian Campbell] – the additional services and contributions anticipated of the non-executive directors as the Company re-establishes its profitability and pursues growth and value for the benefit of its shareholders generally,

and subject to shareholder approval in general meeting (at the next meeting of shareholders to be called), each director (executive and non-executive) would receive by way of additional reward 1,000,000 options (unlisted) each with an expiry date of 31 December 2010 in two equal tranches of 500,000, at an exercise price of 12 & 16 cents each respectivley for executive directors and 15 &20 cents for non executive directors. There has not been a shareholder meeting of the Company since that date, so the proposal remains conditional on shareholder approval and the options have not yet issued.

Recommendation 9.5 : Provide the information indicated in *Guide to reporting on Principle 9.*

Company's Remuneration Policy

An overview of the Company's remuneration policies is set out in the above response to Recommendation 9.1.

Remuneration Committee (names of members and attendance at meetings)

Refer to the response to Recommendation 2 above concerning the Company's combined Nominations and Remuneration Committee.

Non Executive Director Retirement Benefits

Non-executive directors are entitled to statutory superannuation. There are no other schemes for retirement benefits for non-executive directors.

Departure from Recommendations

The Company departed from Recommendation 9 in that the Nominations and Remuneration Committee comprised only 2 members, and from 23 November 2007 to 30 June 2008, the majority of the Committee were not independent (Steven Cole is independent as chair of the Committee, but although David Richardson is non-executive he is not independent due to his substantial shareholding in the Company).

In explanation thereof:

- from 1 July 2007 to 23 November 2007 the Board comprised only 3 Directors (the other being the CEO/Managing Director);
- the Company considers the members of the Nominations and Remuneration Committee from 23 November 2007 to be able, without the need for an additional independent member, to discharge the functions of that Committee.

Further, but subject nevertheless to shareholder approval in general meeting, the anticipated issue of options to the non-executive directors as referred to above is non compliant with Recommendation 9.3.

In explanation thereof:

- the level of remuneration paid by the Company to its non-executive directors is perceived to be modest, especially having regard to the additional service and contributions expected to be made by them as the Company re-establishes itself;
- the issue of options to the non-executive directors is a "non cash" means by which they can be rewarded for additional service and contributions.

Information Publicly Available

The Company's Corporate Governance Charter contains a section formally setting out the charter of the Company's Nominations and Remuneration Committee. Details are publicly available on the Company's website in the corporate governance section.

PRINCIPLE 10 : RECOGNISE THE LEGITIMATE INTERESTS IN STAKEHOLDERS

Recommendation 10.1 : Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company's Corporate Governance Charter contains sections dealing with Board Members Code of Conduct, and Group Code of Conduct/Values. Copies of these are publicly available on the Company's website in the corporate governance section.

The Company is not aware of any departure from Recommendation 10.1.

EXECUTIVE SUMMARY OF COMPLIANCE WITH RECOMMENDATIONS			
Recommendation #	**Compliant**	**Non-Compliant**	**If not, why not?**
1	✓	-	N/A
2	-	Partial	Refer response to Recommendation 2.5 above.
3	✓	-	N/A
4	-	Partial	Refer response to Recommendation 4.5 above.
5	✓	-	N/A
6	✓	-	N/A
7	✓	-	N/A
8	✓	-	N/A
9	-	Partial	Refer response to Recommendation 9.5 above.
10	✓	-	N/A

Directors' report

The directors of Solco Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about directors and senior management

The names and particulars of the directors of the Company during or since the end of the financial year are:

Name	**Particulars**
Steven Cole	*Non-Executive Chairman* Mr Cole has 30 plus years of professional, corporate and business experience, through his professional legal career as well as a range of other non-executive and executive corporate appointments. Mr Cole is Chairman of Emerson Stewart Limited, Deputy Chairman of Reed Resources Limited, Chairman of Great Southern Managers Australia Limited, Deputy Chairman of the Professional Standards Councils of Australia, Vice President of the Australian Institute of Company Directors (WA Division), Deputy Chairman of Brightwater Care Group Inc and Chairman of two investment companies with over $20 million of funds under management. Mr Cole brings a wealth of corporate, strategic, legal and governance experience for the benefit of the Company.
Donald (Alexander) Lamond	*Managing Director* Mr Lamond has combined a formal engineering/science tertiary educational background with an applied business management focus. His continuing formal studies have included a Graduate Diploma in Applied Finance and Investment, and a Graduate Diploma in Business (Marketing) and an MBA from Melbourne Business School and HEC Paris. Mr Lamond has had hands on CEO, senior executive and leadership experience in a range of appointments, including: • ITC - an international telecom business, with satellite and VOIP activities globally; • A Perth based pharmaceutical and medical supply business requiring leadership and growth strategies. Mr Lamond has refined strategic development and marketing skills as well as actual experience in driving growth and development in business opportunities for emerging corporates.
Christopher (Mark) Norman	*Executive Director* Mr Norman is a qualified electronics engineer who has maintained his technical relevance through continuing professional development with extensions into management, business systems and IT training. Mr Norman's vocational experience commenced as an electrical engineer with Alcoa Australia (1981-84). Mr Norman then joined the Orbital Group from 1985 to 2004 with appointments progressing from Senior Project Engineer to Country Manager (Indonesia) to CEO and President of several related Orbital Group companies in USA and France, as the organisation's operations globalised. The quality of Mr Norman's hands on operational experience has more recently been displayed in his COO role at Advanced Nanotechnology Limited and with Solco Limited.
David Richardson	*Non-Executive Director* Mr Richardson is a qualified mechanical engineer who has over 30 years of high level business experience. Mr Richardson established a successful engineering enterprise of Toussaint & Richardson in 1982 which he ran until it was acquired in 2000. More recently he was a senior executive of the large, publicly listed engineering firm Worley Parsons, serving as head of the Minerals and Metals division. Mr Richardson has extensive operational, commercial and engineering experience in Australia and internationally.

Ian Campbell

Non-Executive Director

Mr Campbell is tertiary-educated, including studies in accounting, business law, valuation and management. Prior to his distinguished Parliamentary career he was a commercial and industrial property executive with national and international realty firms.

In 1990 Mr Campbell entered Federal politics as a WA Senator, holding high level Cabinet and other offices including:

- Parliamentary Secretary to the Treasurer
- Parliamentary Secretary to the Minister for Communications and Information Technology
- Minister for Environment and Heritage
- Minister for Human Services
- Minister for Local Government, Territories and Roads.

His international experience includes:

- World Bank of Governors and IMF Annual Meetings in 2002/2003;
- Leading international delegations on climate change including at UN Conventions, G8 plus 5 summits, and Asia Pacific conferences.

Mr Campbell has worked at the highest levels with international and national political and business leaders.

The above named directors held office during and since the end of the financial year except for:

- Alex Lamond – appointed from 23 November 2007
- Mark Norman – appointed from 23 November 2007
- Ian Campbell – appointed from 23 November 2007
- David Richardson – resigned as Managing Director on 1 December 2007 but continuing as non-executive director since then
- John Beech – resigned on 23 November 2007

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Steven Cole	Paramount Mining Corporation Limited	August 2007 and then December 2007 to April 2008
	Emerson Stewart Limited	April 2008 to June 2008 (cont)
Alex Lamond	-	-
Mark Norman	-	-
David Richardson	Emerson Stewart Limited	April 2008 to June 2008 (cont)
Ian Campbell	Austal Limited	August 2007 to June 2008 (cont)
	ASG Group Limited	June 2007 to June 2008 (cont)
	Proto Resources & Investments Limited	March 2008 – June 2008 (cont)

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares Number	Share options Number
Steven Cole	7,573,514	-
Alex Lamond	400,000	-
Mark Norman	250,000	-
David Richardson	89,170,775	-
Ian Campbell	-	-

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report.

Share options granted to directors and senior management
During and since the end of the financial year no share options were granted to directors or the five highest remunerated officers of the Company as part of their remuneration.

Company secretaries

The joint company secretaries at 30 June 2008 were:

Adam Wright – appointed 3 October 2007
Adam has been working with Solco full time since July 2005 and is the current Company Accountant, originally employed as an assistant to the previous CFO. Adam has a range of previous experience including 4 years with leading luxury lifestyle Group Waterford Wedgwood in the UK.

Darren Crawte – appointed 3 October 2007
Darren has had significant experience of assisting junior listed companies via official appointments as Company Secretary and has been assisting Solco Limited in an advisory capacity since the recapitalisation of the Company last year.

Principal activities

The Group's principal activities during the course of the financial year were the provision of sustainable water and power solutions.

Review of operations

Key financial results of the Company are as follows:

- Group profitability improved from a loss of ($2.25m) in 2007 to a modest maiden NPAT of $119k.

- Total reveune for the period increased from $10.3m in 2007 to $16.8m an increase of 63%

- Trade and other receivables increased from $1.49m in 2007 to $1.97m at 30th June 2008, Inventories also increased for the same period from $2.2m to $2.9m.

- Cash at bank at 30 June 2008 of $3.48m.

POWER DIVISION

The 2007/08 financial year was another challenging but successful year for the Power Division which trades as Choice Electric Co. Sales growth was 82% on the previous financial year – which included two record months (based on the Company's 25 year history). The outstanding trading result of the Power Division has been the main contributor to Solco posting its maiden profit. This result is a credit to our staff and dealer network.

During the year we also saw a substantial increase in enquiries for project scale activities. Many of these have long lead times and will conclude in the new financial year. This is an area of activity we intend to pursue more vigorously in the coming year and have created the Solco Major Projects division to provide focus and to develop the capabilities needed.

The Company's (and the industry's) growth in sales can predominantly be attributed to the Solar Homes and Communities Plan – SHCP, (formally known as the Photovoltaic Rebate Program or PVRP), that contributes up to $8,000 dollars towards the cost of installing a residential Grid-Connect solar power system. We estimate 50% of sales were for installations completed under this program.

To capitalise on the potential provided by the SHCP, Choice Electric established sales operations in Victoria, with the appointment of former BCSE (Business Council for Sustainable Energy) executive, Jenniy Gregory. Sales activities were also expanded in Western Australia with the appointment of Michael Wegecsanyi.

Continuity of supply, primarily due to demand in Europe, has continued to present its challenges throughout the year. We have seen shortages involving the three major components in Grid-Connect systems (solar panels, inverters, and framing). In response to this challenge, the Company has diversified its supply base with the introduction of a new supplier of solar panels being Solarfun, manufactured in China, and SMA inverters from Germany. The introduction of Solarfun panels has had a dual benefit, whilst primarily intended to mitigate supply risk, it has also allowed us to complement our line of premium Sharp products with a line of lower priced panels to address emerging market opportunities.

Over its 25 years in the Solar industry, Choice has built a solid reputation in the Off Grid (or remote power system), market. This market also has access to a Government rebate that can be as much as 50% of a solar power system.

John Cooper, founder of Choice Electric, has left the business to take a well earned extended holiday. We take this opportunity to thank John and recognise that much of the success of Choice Electric Co is due to John's earlier guidance and the team he has built up over the past 25 years.

WATER DIVISION

The 2007/08 financial year has seen ongoing restructure within our Solar Pumping business.

Solar Energy Systems solar pumping and water purification activities generated revenues of $1.09 million showed a slight increase of 2.5%. The majority of this revenue was driven by continued domestic and export sales of the popular Sun Mill family.

We have continued our strategy of outsourcing mechanical and electronics manufacturing where possible, resulting in reduced overheads and improved quality. The outcome of these efforts is that we are able to maintain our competitiveness in the marketplace, despite continued pressures on raw material and component costs.

The outlook for Solar Pumping within Australia and Asia-pacific remains strong. The REWP rebate has been extended to cover all of Australia during the last year. Combined with continuing drought conditions, focus on climate change and restricted access to waterways, this bodes well for future growth.

With the continued production suspension of Polytuff's Genius hot water system, sales were restricted to spare part and ancillary products sold locally and to our international licensees amounting to a total of $124k.

During 2008 the design improvements developed as a result of the engineering and design review of the Genius hot water system in 2007 were implemented on test units. These units have successfully completed in-house high-temperature testing and one has been installed in the field for long-term analysis. The next stage of development would involve recertification of the unit for Australia. However, with the market shift to predominantly high-pressure solar hot water systems in the high-volume suburban market, a final decision on investing in this next phase is pending.

Solco continues to manage the Polytuff Genius customer referrals and warranty issues in-house and have succeeded in keeping costs close to our budget.

Due to its simplicity and ease of manufacture, the low-pressure Solco Genius is still in demand in rural Australia and developing nations. Evaluation of the Solco Genius and the SMS manufacturing system is in progress with prospective customers in these regions. Success will depend upon the continued demand for low-pressure hot-water systems and the successful certification by the licensee in their region.

Early in 2008, MB Solco, the manufacturer of the Solco Genius in the Maltese market decided to close operations due to their low volume of product sales in what is a small volume market for solar hot water systems. Solco Ltd had a 30% shareholding in this venture which is in the process of being relinquished. Review of Solco's comparable minority investments in Portugal and Malaysia are also under consideration.

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The consolidated entity's environmental obligations are regulated under both State and Federal legislation. Performance with respect to environmental obligations is monitored by the Board of Directors and subjected from time to time to government agency audits and site inspections. No environmental breaches have been notified by any government agency during the year ended 30 June 2008.

Insurance of Officers

During the financial year, the Company entered into a contract insuring the directors and executive officers of the Company and of any related body corporate against a liability incurred as a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnities

The Company has agreed to indemnify the directors of the Company and its controlled entities:

(a) against any liability to a third party (other than the Company or a related body corporate) unless liability arises out of conduct involving lack of good faith; and

(b) for costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Act 2001.

No liability has arisen under these indemnities as at the date of this report.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 14 board meetings, 5 nomination and remuneration committee meetings, and 3 audit committee meetings were held.

	Board of directors		Remuneration & Nomination committee		Audit committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Steven Cole	14	14	5	5	3	3
Alex Lamond	9	9	-	-	-	-
Mark Norman	9	8*	-	-	-	-
David Richardson	14	14	5	5	3	3
Ian Campbell	9	6*	-	-	2	-*
John Beech	5	5	1	1	1	1

* leave of absence on other business

Non-audit services

There were no non-audit services provided by the auditor during the year.

Auditor's independence declaration

The auditor's independence declaration is included on page 21 of the annual report.

Remuneration report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Solco Limited's key management personnel for the financial year ended 30 June 2008. Disclosures required under AASB 124 *Related Party Disclosures* have been transferred from the financial report and have been audited. The additional discosures required by the Corporations Act 2001 and the Corporations Regulations 2001 have not been audited .

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel details;
- remuneration policy and relationship between the remuneration policy and company performance;
- remuneration of key management personnel; and
- key terms of employment contracts

Key management personnel details

The key management personnel of Solco Limited during the year or since the end of the year were:

- Steven Cole, Chairman and Non-Executive Director
- Alex Lamond , Managing Director – appointed 23 November 2007
- Mark Norman, Executive Director – appointed 23 November 2007
- David Richardson, Non-Executive Director – resigned as Managing Director 1 December 2007
- Ian Campbell, Non-Executive Director – appointed 23 November 2007
- John Beech, Non-Executive Director – resigned 23 November 2007
- John Cooper, Business Development Manager Choice Electric – resigned 30 June 2008
- Gary Deam, Financial Controller Choice Electric
- Andrew Simpson, General Manager Choice Electric

Included in key management personnel above are the 5 highest remunerated executives of the Group.

Remuneration policy and relationship between the remuneration policy and company performance

<u>Key management personnel (excluding non-executive directors)</u>

The Remuneration Committee is responsible for determining the remuneration policies for the Group, including those affecting executive directors and other key management personnel. The Committee may seek appropriate external advice to assist in its decision making. Remuneration policies and practices are directed primarily at attracting, motivating and retaining key management personnel.

The remuneration policy for executive directors and other key management personnel has three main components: fixed remuneration, annual incentive and long term incentive.

- <u>Fixed remuneration</u>

  Executive directors and other key management personnel receive fixed remuneration in the form of a base salary (inclusive of statutory superannuation)

- <u>Short term incentive ('STI')</u>

  The Remuneration Committee meets annually to assess whether a cash bonus should be paid to key management personnel on the basis of the performance of the consolidated entity. The assessment is made with reference to the Company's performance during the year against budget and the market as a whole.

- <u>Long term incentive</u>

  To align the interests of key management personnel with the long term objectives of the Company and its shareholders, the Company's policy, having regard to the stage of development of its assets, is to issue share options on the recommendation of the Remuneration Committee and at the complete discretion of the Board. Options granted are structured so that they vest across the term of the option to provide the maximum incentive to remain with the Company. Other vesting conditions relating to the performance of the Company are not considered appropriate having regard to the stage of development of the Group's assets.

Non- executive directors

The Company's non-executive directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive directors reflect the demands on, and responsibilities of these directors. They do not receive any retirement benefits (other than compulsory superannuation). The Board decides annually the level of fees to be paid to non-executive directors with reference to market standards.

Non executive directors may also receive share options where this is considered appropriate by the Board as a whole and with regard to the stage of the Company's development. Such options vest across the life of the option and are primarily designed to provide an incentive to non-executive directors to remain with the Company.

A non-executive directors' fee pool limit of $200,000 per annum was approved by the shareholders at the Annual General Meeting in November 2007 and is currently utlised to a level of $100,000 per annum. The fees currently paid to non-executive directors are $40,000 per annum for the non executive Chairman and $30,000 per annum for the non executive directors.

Remuneration of key management personnel

	Short-term employee benefits				Post-employment benefits		Share-based payment		
2008	Salary & fees $	Bonus $	Non-monetary $	Other $	Super-annuation $	Other long-term employee benefits $	Shares & Options $	Total $	% of compensation linked to performance $
Directors									
Steven Cole	-	-	-	-	3,600	-	40,000	43,600	-
Alex Lamond	106,563	-	-	-	9,591	-	-	116,154	-
Mark Norman	154,775	-	-	-	13,930	-	17,500	186,205	-
David Richardson	183,714	-	-	-	13,834	-	30,000	227,548	-
Ian Campbell	17,423	-	-	-	1,568	-	-	18,991	-
John Beech (ii)	-	-	-	-	-	-	11,918	11,918	-
Executives									
John Cooper (iii)	104,920	-	-	-	9,443	-	8,750	123,113	-
Gary Deam	93,447	-	-	-	8,410	-	8,750	110,607	-
Andrew Simpson	94,129	-	-	-	8,472	-	5,600	108,201	-

	Short-term employee benefits				Post-employment benefits		Share-based payment		
2007	Salary & fees $	Bonus $	Non-monetary $	Other $	Super-annuation $	Other long-term employee benefits $	Shares & Options $	Total $	% of compensation linked to performance $
Directors									
Steven Cole	-	-	-	-	-	-	5,833	5,833	-
David Richardson	23,503	-	-	-	2,115	-	230,000	255,618	-
Mark Norman	72,097	-	-	-	6,489	-	-	78,586	-
Robin Forbes (i)	26,288	-	-	-	2,366	-	-	28,654	-
John Beech (ii)	5,293	-	-	-	476	-	64,166	69,935	-
Executives									
John Cooper (iii)	85,867	-	-	-	7,727	-	-	93,594	-
Gary Deam	77,480	-	-	-	6,973	-	-	84,453	-
Dermot Patterson (iv)	29,174	-	-	-	2,626	-	-	31,800	-
Michael Starling (v)	89,230	-	-	-	8,031	-	-	97,261	-

(i) Resigned – 18 April 2007
(ii) Resigned – 23 November 2007
(iii) Resigned – 30 June 2008
(iv) Resigned – 25 August 2006
(v) Resigned – 25 May 2007

David Richardson was issued with a $60,000 sign on incentive for his preparedness to continue discharging the role of CEO/Managing Director from 1 July 2007 until a replacement could be secured. No other director or executive appointed during the year received a payment as part of his or her consideration or agreeing to hold the position.

Share based payments granted as compensation for the current financial year.

Incentive share based payment arrangements

During the financial year the Company issued a total of 1,637,143 shares at 7 cents per share at no cost to the employees in recognition of services provided. These were divided across a number of employees in the Company. Shareholders also approved at the EGM on 30th July 2007 to issue shares to Directors including:

i) those in lieu of Directors' fees for the period 1 May 2007 to 30 June 2008 and;
ii) a one off issue of 857,142 at 7 cents per share to John Wiiliam Beech for substantial executive services to the Company from 1 August 2006 to 30 April 2007. (The value of these services were recorded in the 2006/07 FY).

No other share based payment arrangements for key management personnel were in existence.

Key terms of employment contracts

Remuneration and other terms of employment for Directors and other senior executives were formalised in service agreements. Major provisions of the agreements relating to remuneration are set out below.

Mr Steven Cole

- No fixed term agreement
- Directors fees of $40,000 (plus statutory superannuation) per annum
- No termination benefits are payable

Mr Alex Lamond

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation and Directors fees for the year ended 30 June 2008 of $200,000
- No termination benefits are payable

Mr Mark Norman

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation and Directors fees for the year ended 30 June 2008 of $200,000
- No termination benefits are payable

Mr David Richardson

- No fixed term agreement
- Sign on Incentive of $60,000 for continuation of services in the capcity of CEO/Managing Director from 1st July 2007 until a replacement had been secured.
- Pro rated annual base salary, inclusive of superannuation of $276,000 up until resigning as Managaing Director on 1st December 2008.
- Directors fees of $30,000 (plus statutory superannuation) per annum
- No termination benefits are payable

Mr Ian Campbell

- No fixed term agreement
- Pro rated Directors fees of $30,000 (plus statutory superannuation) per annum
- No termination benefits are payable

Mr John Beech (Resigned 23 November 2007)

- No fixed term agreement
- Pro rated Directors fees of $30,000 (plus statutory superannuation) per annum
- No termination benefits are payable

Mr John Cooper (Resigned 30 June 2008)

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation of $104,405
- No termination benefits are payable

Mr Gary Deam

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation of $103,550
- No termination benefits are payable

Mr Andrew Simpson

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation of $120,000
- No termination benefits are payable

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Mr Steven Cole
Chairman
Perth, 28 August 2008

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditors' Independence Declaration

As lead auditor for the audit of the financial report of Solco Limited for the year ended 30 June 2008, 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 audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Solco Limited.

Perth, Western Australia

28 August 2008

W M CLARK

Partner, HLB Mann Judd

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HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of

SOLCO LIMITED

We have audited the accompanying financial report of Solco Limited ("the company"), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both the company and the Solco Group ("the consolidated entity") as set out on pages 25 to 54. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Solco Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 17 to 20 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Solco Limited for the year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001.*

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

W M Clark

Perth, Western Australia
28 August 2008

W M CLARK
Partner

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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;

(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 giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Mr Steven Cole
Chairman
Perth, 28 August 2008

Income statement
for the financial year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$	$	$	$
Continuing operations					
Revenue	4	16,509,392	10,116,549	1,206,419	2,226,161
Change in inventories of finished goods and work in progress		693,445	(159,788)	221,001	183,130
Raw materials and consumables used		(13,906,660)	(8,030,601)	(1,119,176)	(1,746,888)
Gross profit		3,296,177	1,926,160	308,244	662,403
Other income	4	320,538	192,771	263,976	102,136
Employee benefit expenses		(2,402,182)	(1,989,509)	(1,240,965)	(1,239,057)
Depreciation and amortisation expenses		(63,013)	(103,761)	(39,575)	(81,012)
Finance costs		(30,556)	(89,677)	(18,267)	(78,545)
Research and development expenses		(11,603)	(22,629)	(10,883)	(22,629)
Advertising expenses		(68,198)	(96,412)	(21,182)	(34,371)
Company overhead expenses		(921,630)	(812,973)	(644,146)	(574,490)
Provision for bad and doubtful debts		37,958	(194,676)	58,092	6,606
Impairment of goodwill		-	(168,000)	-	-
Impairment of investment in subsidiary		-	-	(99,506)	(168,000)
Impairment of technology rights		-	(29,615)	-	(29,615)
Impairment of assets		(1,586)	(43,097)	(1,586)	(43,097)
Impairment of other financial assets		-	(582,285)	-	(582,285)
Other expenses		(36,500)	(240,716)	(36,500)	(336,701)
Profit/(Loss) before tax	5	119,405	(2,254,419)	(1,482,298)	(2,418,657)
Income tax benefit	6	-	-	395,976	88,604
Profit/(Loss) for the year		119,405	(2,254,419)	(1,086,322)	(2,330,053)
Earnings/(Loss) per share					
Basic (cents per share)	18	0.06	(1.9)		
Diluted (cents per share)	18	0.06	(1.9)		

Notes to the financial statements are included on pages 31 to 54.

Balance sheet
as at 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$	$	$	$
Current assets					
Cash and cash equivalents		3,481,921	805,134	1,199,142	132,943
Trade and other receivables	7	1,965,875	1,489,169	384,417	212,198
Inventories	8	2,902,115	2,210,595	632,876	413,810
Other assets	9	59,096	96,945	49,901	61,550
Total current assets		8,409,007	4,601,843	2,266,336	820,501
Non-current assets					
Trade and other receivables	7	36,132	-	208,956	36,251
Property, plant and equipment	10	194,488	226,148	124,290	145,200
Intangible assets	11	754,761	754,761	-	-
Other financial assets	12	-	20,000	2,227,621	2,247,621
Total non-current assets		985,381	1,000,909	2,560,867	2,429,072
Total assets		9,394,388	5,602,752	4,827,203	3,249,573
Current liabilities					
Trade and other payables	13	2,911,706	2,205,268	1,147,620	939,291
Borrowings	14	47,055	515,371	47,055	515,371
Provisions	15	386,820	417,295	367,493	393,295
Total current liabilities		3,345,581	3,137,934	1,562,168	1,847,957
Non-current liabilities					
Borrowings	14	-	123,333	-	656,522
Provisions	15	-	18,346	-	-
Total non-current liabilities		-	141,679	-	656,522
Total liabilities		3,345,581	3,279,613	1,562,168	2,504,479
Net assets		6,048,807	2,323,139	3,265,035	745,094
Equity					
Issued capital	16	19,811,832	16,205,569	19,811,832	16,205,569
Reserves	17	-	10,760	-	10,760
Accumulated losses		(13,763,025)	(13,893,190)	(16,546,797)	(15,471,235)
Total equity		6,048,807	2,323,139	3,265,035	745,094

Notes to the financial statements are included on pages 31 to 54.

Statement of changes in equity
for the financial year ended 30 June 2008

Consolidated

	Fully paid ordinary shares $	Share-based payment reserve $	Accumulated losses $	Total $
Balance at 1 July 2006	14,675,569	10,760	(11,638,771)	3,047,558
Loss for the year	-	-	(2,254,419)	(2,254,419)
Total recognised income and expense	-	-	(2,254,419)	(2,254,419)
Issue of shares	1,530,000	-	-	1,530,000
Balance at 30 June 2007	16,205,569	10,760	(13,893,190)	2,323,139
Balance at 1 July 2007	16,205,569	10,760	(13,893,190)	2,323,139
Profit for the year	-	-	119,405	119,405
Total recognised income and expense	-	-	119,405	119,405
Transfer from share-based payment reserve	-	(10,760)	10,760	-
Issue of shares from exercise of options	230,000	-	-	230,000
Issue of shares to directors for payments of directors' fees	170,000	-	-	170,000
Issue of shares to employees for share-based payments	114,600	-	-	114,600
Issue of shares from rights issue	2,645,200	-	-	2,645,200
Conversion of S.Cole loan to equity	500,000	-	-	500,000
Share issue costs	(53,537)	-	-	(53,537)
Balance at 30 June 2008	19,811,832	-	(13,763,025)	6,048,807

Notes to the financial statements are included on pages 31 to 54.

Statement of changes in equity
for the financial year ended 30 June 2008

Company

	Fully paid ordinary shares $	Share-based payment reserve $	Retained earnings $	Total $
Balance at 1 July 2006	14,675,569	10,760	(13,141,182)	1,545,147
Loss for the year	-	-	(2,330,053)	(2,330,053)
Total recognised income and expense	-	-	(2,330,053)	(2,330,053)
Issue of shares	1,530,000	-	-	1,530,000
Balance at 30 June 2007	16,205,569	10,760	(15,471,235)	745,094
Balance at 1 July 2007	16,205,569	10,760	(15,471,235)	745,094
Loss for the year	-	-	(1,086,322)	(1,086,322)
Total recognised income and expense	-	-	(1,086,322)	(1,086,322)
Transfer from share-based payment reserve	-	(10,760)	10,760	-
Issue of shares from exercise of options	230,000	-	-	230,000
Issue of shares to directors for payments of directors' fees	170,000	-	-	170,000
Issue of shares to employees for share-based payments	114,600	-	-	114,600
Issue of shares from rights issue	2,645,200	-	-	2,645,200
Conversion of S.Cole loan to equity	500,000	-	-	500,000
Share issue costs	(53,537)	-	-	(53,537)
Balance at 30 June 2008	19,811,832	-	(16,546,797)	3,265,035

Notes to the financial statements are included on pages 31 to 54.

Cash flow statement
for the financial year ended 30 June 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Cash flows from operating activities					
Receipts from customers		16,280,513	10,600,943	1,301,313	3,299,006
Payments to suppliers and employees		(16,365,835)	(11,631,911)	(3,204,322)	(4,008,401)
Interest and other costs of finance paid		(30,556)	(89,677)	(18,267)	(78,545)
Interest received		120,370	35,661	77,456	4,314
Net cash provided by/(used in) operating activities	22	4,492	(1,084,984)	(1,843,820)	(783,626)
Cash flows from investing activities					
Payment for purchase of subsidiary		-	(368,000)	-	(368,000)
Loans with related parties		(36,132)	-	123,765	(667,569)
Proceeds from repayment of related party loans		-	-	-	-
Payments for property, plant and equipment		(37,570)	(31,256)	(20,251)	(13,169)
Proceeds from sale of property, plant and equipment		3,182	76,733	-	71,616
Payments for intangible assets		-	-	-	-
Net cash provided by/(used) in investing activities		(70,520)	(322,523)	103,514	(977,122)
Cash flows from financing activities					
Proceeds from issues of equity securities		2,875,202	1,530,000	2,875,202	1,530,000
Payment for share issue costs		(53,537)	-	(53,537)	-
Proceeds from issue of debt securities		-	-	-	-
Reduction in hire purchase liabilities		(15,160)	(60,879)	(15,160)	(60,849)
Proceeds from borrowings		-	2,000,000	-	2,000,000
Repayment of borrowings		(63,690)	(2,016,989)	-	(1,792,842)
Net cash provided by financing activities		2,742,815	1,452,132	2,806,505	1,676,309
Net increase/(decrease) in cash and cash equivalents		2,676,787	44,625	1,066,199	(84,439)
Cash and cash equivalents at the beginning of the financial year		805,134	760,509	132,943	217,382
Cash and cash equivalents at the end of the financial year	22	3,481,921	805,134	1,199,142	132,943

Notes to the financial statements are included on pages 31 to 54.

1. General information

Solco Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol " SOO") and operating in Australia.

Solco Limited's registered office and its principal place of business are as follows:

126 Sheffield Road

WELSHPOOL WESTERN AUSTRALIA 6016

The entity's principal activities are the provision of sustainable water and power solutions.

2. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 August 2008.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation (if indicated) 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.

Crtical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects the the current and future periods.

Refer to Note 3 for a discussion of critical judgements in applying the entity's accountings policies and key sources of estimation uncertainty.

Adoption of new and revised Accounting Standards

Changes in accounting policy on initial application of 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 the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- AASB 7 'Financial Instruments: Disclosures;
- AASB 101 'Presentation of Financial Statements' – revised standard (October 2006)
- AASB 1048 'Interpretation and Application of Standards' – revised standard (September 2007);
- Interpretation 8 'Scope of AASB2';
- Interpretation 9 'Reassessment of Embedded Derivatives; and
- Interpretation 10 'Interim Financial Reporting'

The adoption of these new and revised Standards and Interpretations has not affected the amounts reported for the current or prior years, but has changed the disclosures made in the financial statements of the Company and the Group.

2. Significant accounting policies (contd)

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

• AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB 101 '(revised September 2007) 'presentation of Financial Statements' and AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' and AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB 123 'Borrowing Costs' – revised Standard and AASB 2007-6 'Amendments to Austrlalian Accounting Standards arising from AASB 123'	Effective for annual reporting periods beginning on or after 1 January 2009,
• AASB Interpretation 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008,
• AASB Interpretation 14 'AASB 119 – the Limit on a Defined benefit Asset, Minimum Funding Requirements and their Interaction	Effective for annual reporting periods beginning on or after 1 January 2008,
• AASB Interpretation 13 'Customer Loyalty Programme'	Effective for annual reporting periods beginning on or after 1 July 2008,
• AASB 2008 -2 'Amendments to Australian Accounting Standards – Puttable Financial instruments and Obligations arising on Liquidation'	Effective for annual reporting periods beginning on or after 1 January 2009,

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company or the Group.

The potential effect of the initial application of the expected issue of an Austrlaian equivalent accounting standards to the following Standard has not yet been determined:

• IFRS 3 'Business Combinations' and IAS 27 'Separate and Consoliidated Financial Statements'	Effective for annual reporting periods beginning on or after 1 July 2009,

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

2. Significant accounting policies (contd)

(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.

2. Significant accounting policies (contd)

(f) Income tax (contd)

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 of 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.

2. Significant accounting policies (contd)

(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.

2. Significant accounting policies (contd)

(l) Property, plant and equipment (contd)

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 are shown 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.

(p) 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.

3. Critical accounting judgements and key sources of estimation uncertainty

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustemnst in the next year are disclosed, where applicable, in the relevant note to the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

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.

Share-based payment transactions:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model using the assumptions detailed in Note 24.

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 2008 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.

4. Revenue

An analysis of the Group's revenue for the year, from continuing operations, is as follows:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Continuing operations				
Revenue from the sale of goods	16,509,392	9,901,871	1,206,419	1,698,473
Revenue from the rendering of services	-	214,678	-	527,688
	16,509,392	10,116,549	1,206,419	2,226,161
Other Income:				
Interest revenue	120,370	35,661	77,456	4,314
Sub-lease rentals	165,623	88,002	165,623	88,002
Other	20,085	66,495	6,437	7,207
Government grants	14,460	2,613	14,460	2,613
Total revenue from continuing operations	320,538	192,771	263,976	102,136

Government grants:

A Renewable Energy Development Incentive (REDI) grant of $14,460 (2007: $2,613) was recognised as income by the Group during the financial year. 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.

5. Loss for the year

(a) Gains and losses

The result for the year has been arrived at after crediting/(charging) the following gains and losses:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Loss on disposal of property, plant and equipment	(1,065)	(10,772)	-	(11,317)

(b) Other expenses

The result for the year includes the following expenses:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Depreciation				
Plant and equipment	52,274	67,494	28,836	44,745
Leased motor vehicles	10,739	23,237	10,739	23,237
	63,013	90,731	39,575	67,982
Amortisation				
Technology rights	-	11,000	-	11,000
Patents & trademarks	-	2,030	-	2,030
	-	13,030	-	13,030
Interest and finance charges paid/payable	30,556	89,677	18,267	78,545
Rental expenses relating to operating leases	323,479	341,856	235,556	249,307
Superannuation expenses	181,876	131,778	103,085	73,294
Research and development	11,603	22,629	10,883	22,629
Impairment of assets:				
Office equipment	-	27,588	-	27,588
Demonstration equipment	1,586	9,404	1,586	9,404
Plant and equipment	-	6,105	-	6,105
	1,586	43,097	1,586	43,097
Write down of inventories to net realisable value	-	183,516	-	183,516

6. Income taxes

Recognised in the income statement

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
a. Income tax benefit				
Benefit of income tax losses transferred to subsidiaries	-	-	(395,976)	(88,604)
	-	-	(395,976)	(88,604)
b. Income is attributable to:				
Loss from continuing operations	-	-	(395,976)	(88,604)
Aggregate income tax benefit	-	-	(395,976)	(88,604)

6. Income taxes (contd)

The prima facie income tax expense/(benefit) on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Profit/(Loss) before income tax expense from operations	119,405	(2,254,419)	(1,482,298)	(2,418,657)
Income tax expense/(benefit) calculated at 30%	35,822	(676,326)	(444,689)	(725,597)
Amortisation of Intangibles	-	3,909	-	3,909
Share-issue expenses	(24,404)	(21,192)	(24,404)	(21,192)
Share-based payments	58,955	69,000	58,955	69,000
Impairment of loans	-	29,038	29,852	29,038
Other Impairments	476	152,436	476	152,436
Sundry Items	32	-	-	623
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(70,881)	443,135	(16,166)	403,179
	-	-	(395,976)	(88,604)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
c. Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	9,079,698	8,775,294	9,079,698	8,775,294
Potential at 30%	2,732,909	2,632,588	2,723,909	2,632,588
d. Unrecognised temporary differences				
Temporary differences for which deferred tax assets have not been recognised :				
Provisions	887,531	1,286,623	761,274	1,009,581
Other	93,258	180,750	65,931	115,199
	980,789	1,467,373	827,205	1,124,780

Tax Consolidation Legislation:

Solco Limited 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 Limited for any tax payable assumed and are compensated by Solco Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Solco Limited under the tax consolidation legislation.

7. Trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Current				
Trade receivables	2,270,800	1,817,322	455,060	339,069
Allowance for doubtful debts (i)	(304,925)	(328,153)	(70,643)	(126,871)
	1,965,875	1,489,169	384,417	212,198
Non-current				
Other receivables from related parties	96,794	96,794	196,299	96,794
Impairment of other receivables	(96,794)	(96,794)	(196,299)	(96,794)
Other loans receivable from related parties	36,132	-	208,956	36,251
	36,132	-	208,956	36,251

(i) An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts decreased by $23,228 (2007: increased by $194,676) in the Group and decreased by $56,228 (2007: decreased by $6,606) in the Company. This movement was recognised in profit for the year.

8. Inventories

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Raw materials	174,888	176,823	174,888	176,823
Work in progress	294,479	176,088	294,479	176,088
Finished goods	2,432,748	1,857,684	163,509	60,899
	2,902,115	2,210,595	632,876	413,810

Inventory expense

Inventories recognised as an expense for the Group during the year ended 30 June 2008 amounted to $13,906,660 (2007: $8,030,601).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2008 amounted to $Nil (2007: $183,516). The expense has been included in 'raw materials and consumables used' in the income statement.

9. Other assets

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Current				
Prepayments	59,096	56,455	49,901	49,063
Other	-	40,490	-	12,487
	59,096	96,945	49,901	61,550

10. Property, plant and equipment

	Consolidated		
	Plant and equipment at cost $	Leased motor vehicles at cost $	Total $
Gross carrying amount			
Balance at 1 July 2006	567,957	280,903	848,860
Additions	31,256	-	31,256
Disposals	(42,277)	(120,651)	(162,928)
Impairment	(126,855)	(977)	(127,832)
Balance at 30 June 2007	430,081	159,275	589,356
Additions	37,570	-	37,570
Disposals	(22,597)	-	(22,597)
Impairment	(3,606)	-	(3,606)
Balance at 30 June 2008	441,447	159,275	600,722
Accumulated depreciation/ amortisation and impairment			
Balance at 1 July 2006	(296,508)	(136,127)	(432,635)
Disposals	(8,247)	67,543	75,790
Impairment	(83,838)	531	84,369
Depreciation expense	(67,494)	(23,237)	(90,731)
Balance at 30 June 2007	(271,917)	(91,290)	(363,207)
Disposals	18,350	-	18,350
Impairment losses charged to profit (i)	1,636	-	1,636
Depreciation expense	(47,717)	(15,296)	(63,013)
Balance at 30 June 2008	(299,648)	(106,586)	(406,234)
Net book value			
As at 30 June 2007	158,164	67,985	226,148
As at 30 June 2008	141,799	52,689	194,488

10. Property, plant and equipment (cond)

	Company Plant and equipment at cost $	Leased motor vehicles at cost $	Total $
Gross carrying amount			
Balance at 1 July 2006	386,733	280,903	667,636
Additions	13,170	-	13,170
Disposals	(37,739)	(120,651)	(158,390)
Impairment	(125,500)	(977)	(126,477)
Balance at 30 June 2007	236,664	159,275	395,939
Additions	20,251	-	20,251
Impairment	(3,222)	-	(3,222)
Balance at 30 June 2008	253,693	159,275	412,968
Accumulated depreciation/ amortisation and impairment			
Balance at 1 July 2006	(205,467)	(136,127)	(341,594)
Disposals	7,914	67,543	75,457
Impairment	82,849	531	83,380
Depreciation expense	(44,745)	(23,237)	(67,982)
Balance at 30 June 2007	(159,449)	(91,290)	(250,739)
Impairment losses charged to profit (i)	1,636	-	1,636
Depreciation expense	(24,279)	(15,296)	(39,575)
Balance at 30 June 2008	(182,092)	(106,586)	(288,678)
Net book value			
As at 30 June 2007	77,215	67,985	145,200
As at 30 June 2008	71,601	52,689	124,290

The following useful lives are used in the calculation of depreciation:

Plant and equipment	2 – 8 years
Leased motor vehicle	6 years

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Plant and equipment	(47,717)	(67,494)	(24,279)	(44,745)
Leased motor vehicle	(15,296)	(23,237)	(15,296)	(23,237)
	(63,013)	(90,731)	(39,575)	(67,982)

11. Intangible assets

	Consolidated			
	Goodwill $	Technology rights $	Patents & Trademarks $	Total $
Gross carrying amount				
Balance at 1 July 2006	2,813,589	295,000	22,149	3,130,738
Additions	168,000	-	-	168,000
Balance at 30 June 2007	2,981,589	295,000	22,149	3,298,738
Additions	-	-	-	-
Balance at 30 June 2008	2,981,589	295,000	22,149	3,298,738
Accumulated amortisation and impairment				
Balance at 1 July 2006	(2,058,828)	(259,000)	(15,504)	(2,333,332)
Amortisation expense	-	(11,000)	(2,030)	(13,030)
Impairment charge	(168,000)	(25,000)	(4,615)	(197,615)
Balance at 30 June 2007	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Amortisation expense	-	-	-	-
Balance at 30 June 2008	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Net book value				
As at 30 June 2008	754,761	-	-	754,761
As at 30 June 2007	754,761	-	-	754,761

12. Other financial assets

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Shares in controlled entities	-	-	2,227,621	2,227,621
Shares in other unlisted (non-traded) entities	310,505	310,505	310,505	310,505
Impairment of shares in other unlisted (non-traded) entities	(310,505)	(310,505)	(310,505)	(310,505)
Bank guarantees	-	20,000	-	20,000
	-	20,000	2,227,621	2,247,621

13. Trade and other payables

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Trade payables	2,205,841	1,750,121	541,336	580,420
Other payables	705,865	455,147	606,284	358,871
	2,911,706	2,205,268	1,147,620	939,291

14. Borrowings

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Secured – at amortised cost				
Current				
Lease liabilities (note 19)	47,055	15,371	47,055	15,371
Loans from related parties	-	500,000	-	500,000
Non-current				
Lease liabilities (note 19)	-	46,843	-	46,843
Other loans	-	76,490	-	609,679
	47,055	638,704	47,055	1,171,893
Disclosed in the financial statements as:				
Current borrowings	47,055	515,371	47,055	515,371
Non-current borrowings	-	123,333	-	656,522
	47,055	638,704	47,055	1,171,893

15. Provisions

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Current				
Warranty	386,820	417,295	367,493	393,295
Non-current				
Employee benefits	-	18,346	-	-

	Consolidated	
	Warranty $	Employee benefits $
Balance at 1 July 2007	417,295	18,346
Additional provisions recognised	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(25,802)	-
Reductions resulting from re-measurement or settlement without cost	(4,673)	(18,346)
Balance at 30 June 2008	386,820	-

	Company	
	Warranty $	Employee benefits $
Balance at 1 July 2007	393,295	-
Additional provisions recognised	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(25,802)	-
Balance at 30 June 2008	367,493	-

Warranties Provision is made for the estimated warranty claims in respect of products sold which are still under warranty at balance date. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

16. Issued capital

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
199,613,638 fully paid ordinary shares (2007: 141,861,409)	19,811,832	16,205,569	19,811,832	16,205,569

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2008		2007	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	141,861,409	16,205,569	80,043,228	14,675,569
Conversion of Options - D Richardson	9,292,929	230,000	-	-
Conversion of S.Cole Loan to Equity	7,142,857	500,000	-	-
Directors' fees / Directors' share issue	1,890,716	169,999	-	-
1:4 Rights Issue	37,788,584	2,645,201	-	-
Employee share issue	1,637,143	114,600	-	-
Placement at $0.02475 per share	-	-	61,818,181	1,530,000
Share issue costs	-	(53,537)	-	-
Balance at end of financial year	199,613,638	19,811,832	141,861,409	16,205,569

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options on issue

Share options issued by the Company carry no rights to dividends and no voting rights.

As at 30 June 2008, the Company has nil share options on issue (2007: 70,000). The options expired on 21 July 2007. There are no other options on issue at the date of this report.

17. Reserves

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Equity-settled employee benefits	-	10,760	-	10,760

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 24 to the financial statements.

18. Earnings/(Loss) per share

	Consolidated	
	2008 Cents per share	2007 Cents per share
Basic profit/(loss) per share	0.06	(1.9)
Diluted profit/(loss) per share	0.06	(1.9)

Basic profit/(loss) per share

The profit/(loss) and weighted average number of ordinary shares used in the calculation of basic profit/(loss) per share are as follows:

	2008 $	2007 $
Net profit/(loss)	119,405	(2,254,419)

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	197,424,780	115,948,582

Diluted earnings/(loss) per share

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share are as follows:

	2008 $	2007 $
Net profit/(loss)	119,405	(2,254,419)

	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	197,424,780	115,948,582

19. Commitments for expenditure

(a) Finance lease commitments

Finance leasing arrangements

Finance leases relate to 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.

Finance lease liabilities

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
No later than 1 year	47,776	18,054	47,776	18,054
Later than 1 year and not later than 5 years	-	46,843	-	46,843
Minimum future lease payments*	47,776	64,897	47,776	64,897
Less future finance charges	(721)	(2,683)	(721)	(2,683)
Present value of minimum lease payments	47,055	62,214	47,055	62,214
Included in the financial statements as: (note 14)				
Current borrowings	47,055	15,371	47,055	15,371
Non-current borrowings	-	46,843	-	46,843
	47,055	62,214	47,055	62,214

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

19. Commitments for expenditure (contd)

(b) Operating lease commitments

Operating leasing arrangements

Operating leases relate to 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.

Non-cancellable operating lease commitments

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Not longer than 1 year	319,834	314,340	244,325	236,290
Longer than 1 year and not longer than 5 years	110,037	440,336	79,484	326,382
	429,871	754,676	323,809	562,672

20. Contingent liabilities and contingent assets

There were no contingent assets nor liabilities at the year end.

21. Subsidiaries

		Ownership interest	
Name of entity	Country of incorporation	2008 %	2007 %
Parent entity			
Solco Limited	Australia	N/A	N/A
Subsidiaries			
Choice Electric Co. (Aust) Pty Ltd	Australia	100	100
Solco Industries Pty Ltd	Australia	100	100
Poly Tuff (WA) Pty Ltd	Australia	100	100
Solar Energy Systems Infrastructure Pty Ltd	Australia	100	100
Sustainable Global Business Solutions Pty Ltd	Australia	100	100

22. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Cash and cash equivalents	3,443,921	393,518	1,199,142	132,943
Deposits at call	38,000	411,616	-	-
	3,481,921	805,134	1,199,142	132,943

(b) Non-cash financing and investing activities

(i) 7,142,857 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $500,000 were issued to Gidleigh Pty Ltd, a company controlled by Steven Cole, in relation to the 2007 rights issue prospectus following shareholder approval at the EGM on 30 July 2007.

(ii) 857,142 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $60,000 were issued to John Beech (a Director of the Company – Resigned 23 November 2007) following shareholder approval at the EGM on 30 July 2007.

(iii) 1,033,574 fully paid ordinary shares at an issue price of 10.64 cents per share for a total consideration of $109,999 were issued to Steven Cole ($45,833), John Beech ($34,166), and David Richardson ($30,000) for payment of Directors' fees following shareholder approval at the EGM on 30 July 2007.

(iv) 1,637,143 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $114,600 were issued to Solco employees pursuant to the Solco Employee Option Plan following shareholder approval.

22. Notes to the cash flow statement (contd)

(c) Reconciliation of result for the year to net cash flows from operating activities

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Profit/(loss) for the year	119,405	(2,254,419)	(1,086,322)	(2,330,053)
Loss on sale or disposal of non-current assets	17,045	10,772	-	11,317
Allowances for bad debts	(37,958)	194,676	(58,092)	(6,606)
Depreciation and amortisation	63,013	103,761	39,575	81,012
Impairment of intangible assets	-	29,615	-	29,615
Impairment of other financial assets	-	582,285	99,506	582,285
Impairment of goodwill	-	168,000	-	-
Impairment of subsidiary	-	-	-	168,000
Write-down of inventories	-	183,516	-	183,516
Equity-settled share based payment	196,518	-	196,518	-
Net write-off of fixed assets	1,586	43,097	1,586	43,097
(Increase)/decrease in assets:				
Trade and other receivables	(476,706)	(60,084)	(172,219)	418,376
Inventories	(691,520)	(168,085)	(219,066)	174,833
Other assets	57,849	73,480	31,649	117,028
Increase in current tax benefit	-	-	(395,976)	-
Increase/(decrease) in liabilities:				
Trade and other payables	706,439	136,015	(255,177)	(295,315)
Provisions	48,821	(127,613)	(25,802)	39,269
Net cash from operating activities	4,492	(1,084,984)	(1,843,820)	(783,626)

23. Financial instruments

(a) Overview

The Company and the Group have exposure to the following risks from their use of financial instruments

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk
- Capital Management

Credit risk

Credit risk is the risk of financial loss to the Company or Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the receivables from customers and receivables due from subsidiaries.

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.

Liquidity risk

Liquidity risk is the risk that the Company or Group will not be able to meet its financial obligatons as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 6 months, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted such as natural disasters.

23. Financial instruments (contd)

Liquidy and interest risk tables
The remaining contractual maturity for the non-derivative financial liabilities of the Group and the Company are shown in the tables below.

CONSOLIDATED 2008	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	No Fixed Term $	Total
Financial liabilities							
Trade payables	-	-	2,911,706	-	-	-	2,911,706
Finance lease	7.99	-	-	47,055	-	-	47,055
Bank overdraft	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	-
		-	2,911,706	47,055	-	-	2,958,761
2007							
Financial liabilities							
Trade payables	-	-	2,205,268	-	-	-	2,205,268
Finance lease	7.99	-	-	15,371	46,843	-	62,214
Bank overdraft	-	-	-	-	-	-	-
Other loans	6.00	-	-	76,490	-	500,000	576,490
		-	2,205,268	91,861	46,843	500,000	2,843,972

COMPANY 2008	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	3-12 months $	1 year to 5 years $	No Fixed Term $	Total
Financial liabilities							
Trade payables	-	-	541,337	-	-	-	541,337
Finance lease	7.99	-	-	47,055	-	-	47,055
Bank overdraft	-	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-	-
Related Party Loans	-	-	-	-	-	606,284	606,284
		-	541,337	47,055	-	606,284	1,194,676
2007							
Financial liabilities							
Trade payables	-	-	939,291	-	-	-	939,291
Finance lease	7.99	-	-	15,371	46,843	-	62,214
Bank overdraft	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	500,000	500,000
Related Party Loans	-	-	-	-	-	609,679	609,679
		-	939,291	15,371	46,843	1,109,679	2,111,184

<ins>Market risk</ins>

Market risk is the risk that changes in market prices will affect the Company and Group's income.

The Group manages market risks as follows:

Customers - by diversifying supply into different markets.
- by packaging solutions to meet specific needs.

Suppliers - by diversifying the number of suppliers for any major given product line.
- by entering into supply contracts over short to medium time frames.

23. Financial instruments (contd)

Foreign currency risk

Currency risk is the risk that the value of a financial commitment, probable transaction, recognised asset or liability will fluctuate due to changes in foreign currency rates.

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.

Foreign currency sensitivity

The following table details the effect on profit and equity after tax to a 10% change in the Australian dollar against the USD from the spot rate as at 30 June 2008 and 30 June 2007.

Consolidated	**Net profit**		**Equity**	
	2008 $	**2007 $**	**2008 $**	**2007 $**
10% appreciation in the AUD spot rate with all other variables held constant	105,197	N/A	105,197	N/A
10% depreciation in the AUD spot rate with all other variables held constant	(105,197)	N/A	(105,197)	N/A

Company	**Net profit**		**Equity**	
	2008 $	**2007 $**	**2008 $**	**2007 $**
10% appreciation in the AUD spot rate with all other variables held constant	105,197	N/A	105,197	N/A
10% depreciation in the AUD spot rate with all other variables held constant	(105,197)	N/A	(105,197)	N/A

The sensitivity analysis of the Company and Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the year. A positive number indicates an increase in profit and loss and equity.

Interest rate risk

The Group is exposed to interest rate risk as it has borrowed funds at (fixed/ variable) interest rates. The Group manages this risk by keeping such liabilities to a financially tolerable level and taking into account expected movements in interest rates.

Some of the Group's assets are subject to interest rate risk but the Group is not dependent on this income. Interest income is only incidental to the Group's operations and operating cashflows.

The exposure to interest rate risk as at 30 June 2008 and 30 June 2007 for the Group and the Company are shown in the tables below.

CONSOLIDATED	**Weighted average effective interest rate**		**Fixed maturity dates**							
2008	**%**	**Variable interest rate $**	**Less than 1 year $**	**1-2 years $**	**2-3 years $**	**3-4 years $**	**4-5 years $**	**5+ years $**	**Non interest bearing $**	**Total $**
Financial assets										
Cash and cash equivalents	4.53	3,481,921	-	-	-	-	-	-	-	3,481,921
Trade receivables	-	-	-	-	-	-	-	-	1,965,875	1,965,875
Other receivables	-	-	-	-	-	-	-	-	36,132	36,132
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	2,210,778	2,210,778
Other payables	-	-	-	-	-	-	-	-	700,928	700,928
Finance lease liabilities	7.99	-	47,055	-	-	-	-	-	-	47,055

23. Financial instruments (contd)

Related party loans	-	-	-	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	-	-	-	-

COMPANY 2008	Weighted average effective interest rate %	Variable interest rate $	Fixed maturity dates: Less than 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	5+ years $	Non interest bearing $	Total $
Financial assets										
Cash and cash equivalents	2.51	1,199,142	-	-	-	-	-	-	-	1,199,142
Trade receivables	-	-	-	-	-	-	-	-	384,417	384,417
Other receivables	-	-	-	-	-	-	-	-	208,956	208,956
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	263,956	263,956
Other payables	-	-	-	-	-	-	-	-	277,381	277,381
Finance lease liabilities	7.99	-	47,055	-	-	-	-	-	-	47,055
Related party loans	-	-	-	-	-	-	-	-	606,284	606,284
Other Loans	-	-	-	-	-	-	-	-	-	-

CONSOLIDATED 2007	Weighted average effective interest rate %	Variable interest rate $	Fixed maturity dates: Less than 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	5+ years $	Non interest bearing $	Total $
Financial assets										
Cash and cash equivalents	-	393,518	411,616	-	-	-	-	-	-	805,134
Trade receivables	-	-	-	-	-	-	-	-	1,489,169	1,489,169
Other receivables	-	-	-	48,000	-	-	-	-	68,945	116,945
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	2,205,268	2,205,268
Other Payable	-	-	-	-	-	-	-	-	-	-
Finance Lease liabilities	7.99	-	-	62,214	-	-	-	-	-	62,214
Related party loans	-	-	-	-	-	-	-	-	-	-
Other Loans	6.00	-	76,490	-	-	-	-	-	500,000	576,490

COMPANY 2007	Weighted average effective interest rate %	Variable interest rate $	Fixed maturity dates: Less than 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	5+ years $	Non interest bearing $	Total $
Financial assets										
Cash and cash equivalents	-	132,943	-	-	-	-	-	-		132,943
Trade receivables	-	-	-	-	-	-	-	-	212,198	212,198
Other receivables	-	-	-	20,000	-	-	-	-	36,251	56,251
Financial liabilities										
Trade payables	-	-	-	-	-	-	-	-	939,291	939,291
Other payables	7.99	-	-	62,214	-	-	-	-		62,214
Finance lease liabilities	-	-	-	-	-	-	-	-	500,000	500,000
Related party loans	-	-	-	-	-	-	-	-	609,679	609,679
Other Loans	-	-	-	-	-	-	-	-	-	-

23. Financial instruments (contd)

Capital Management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, to ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and finance lease liabilities. The lease liabilities are considered immaterial to the Group's operations.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market taking into account the level of the Group's operations. During 2008 and 2007, the Group and the Company had no net debt and therefore net gearing ratios were 0% in both years.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair value of short term money instruments are determined by refenece to amounts determined by the Group's banks; and
- The fair value of finance lease liabilities has been determined as being equal to the present value of the minimum lease payments discounted using prevailing market interest rates.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair value.

	2008		2007	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Consolidated				
Financial assets				
Cash and cash equivalents	3,481,921	3,481,921	805,134	805,134
Trade and other receivables	1,965,875	1,965,875	1,489,169	1,489,169
Inventories	2,902,115	2,902,115	2,210,595	2,210,595
Loans and receivables	36,132	36,132	20,000	20,000
Property, plant and equipment	194,488	194,488	226,148	226,148
Financial liabilities				
Trade and other payables	2,911,706	2,911,706	2,205,268	2,205,268
Borrowings	47,055	47,055	515,371	515,371

	2008		2007	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Parent				
Financial assets				
Cash and cash equivalents	1,199,142	1,199,142	132,943	132,943
Trade and other receivables	384,417	384,417	212,198	212,198
Inventories	632,876	632,876	413,810	413,810
Loans and receivables	208,956	208,956	36,251	36,251
Property, plant and equipment	124,290	124,290	145,200	145,200
Financial liabilities				
Trade and other payables	1,147,620	1,147,620	939,291	939,291
Borrowings	47,055	47,055	515,371	515,371

24. Share-based payments

Employee share options

The Group has an Employee Share Option Plan ("ESOP") for executives and employees of the Group. In accordance with the provisions of the ESOP, as approved by shareholders at a previous annual general meeting, executives and employees may be granted options at the discretion of the directors.

Each employee share option converts into one ordinary share of Solco Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is at the sole discretion of the directors subject to the total number of outstanding options being issued under the ESOP not exceeding 5% of the Company's issued capital at any one time.

The exercise price is calculated with reference to a formula contained within the rules governing the ESOP and which rewards employees against the extent of the Company's performance on the capital markets. Where appropriate the directors have established appropriate vesting conditions to incentivise executives and employees to remain in the employ of the Company.

Options issued to directors are not issued under the ESOP but are subject to approval by shareholders and attach vesting conditions as appropriate.

Other share based payment arrangements

(i) 7,142,857 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $500,000 were issued to Gidleigh Pty Ltd, a company controlled by Steven Cole, in relation to the 2007 rights issue prospectus following shareholder approval at the EGM on 30 July 2007.

(ii) 857,142 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $60,000 were issued to John Beech (a Director of the Company – resigned 23 November 2007) following shareholder approval at the EGM on 30 July 2007.

(iii) 1,033,574 fully paid ordinary shares at an issue price of 10.64 cents per share for a total consideration of $109,999 were issued to Steven Cole ($45,833), John Beech ($34,166), and David Richardson ($30,000) for payment of Directors' fees following shareholder approval at the EGM on 30 July 2007.

(iv) 1,637,143 fully paid ordinary shares at an issue price of 7 cents per share for a total consideration of $114,600 were issued to Solco employees pursuant to the Solco Employee Option Plan following shareholder approval.

Share based payment arrangements in existence during period

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Share-based payment reserve	70,000	30.11.05	21.07.07	27 cents	10,760

The options expired during the period.

The following reconciles the outstanding share options granted as share based payments at the beginning and end of the financial year:

	2008		2007	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	70,000	10,760	70,000	10,760
Expired during the financial year	(70,000)	(10,760)	-	-
Balance at end of the financial year (i)	-	-	70,000	10,760
Exercisable at end of the financial year	-	-	70,000	10,760

(i) Balance at end of the financial year

There were no outstanding share options at 30 June 2008.

25. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 21 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in the Remuneration Report which forms part of the Directors' Report and has been audited.

ii. Loans to key management personnel

There were no loans to key management personnel during the year.

iii. Key management personnel equity holdings

Fully paid ordinary shares of Solco Limited

	Balance at 1 July 2007 No.	Balance on appointment No.	Other Changes during the year No.	Received on exercise of options No.	Balance on resignation No.	Balance at 30 June 2008 No.
2008						
Directors						
Steven Cole	-	N/A	7,573,514	-	N/A	7,573,514
Alex Lamond (i)	-	-	400,000	-	N/A	400,000
Mark Norman (i)	-	N/A	250,000	-	N/A	250,000
David Richardson	61,818,181	N/A	18,059,665	9,292,929	N/A	89,170,775
Ian Campbell (i)	-	-	-	-	N/A	-
John Beech (ii)	223,810	N/A	1,234,126	-	1,457,936	N/A
Key Management						
John Cooper (v)	1,732,368	N/A	125,000	-	1,857,368	N/A
Gary Deam	-	N/A	125,000	-	N/A	125,000
Andrew Simpson	-	N/A	80,000	-	N/A	80,000

	Balance at 1 July 2006 No.	Balance on appointment No.	Other changes during the year No.	Received on exercise of options No.	Balance on resignation No.	Balance at 30 June 2007 No.
2007						
Directors						
Steven Cole	-	N/A	-	-	N/A	-
John Beech (ii)	223,810	N/A	-	-	N/A	223,810
David Richardson	-	N/A	61,818,181	-	N/A	61,818,181
Robin Forbes (iii)	992,158	N/A	-	-	992,158	-
Key Management						
Mark Norman (i)	-	-	-	-	-	-
Dermot Patterson (vi)	-	N/A	-	-	-	-
Michael Starling (iv)	-	N/A	-	-	-	-
John Cooper (v)	1,732,368	N/A	-	-	N/A	1,732,368
Gary Deam	577,456	N/A	(577,456)	-	N/A	-

(i) Appointed 23 November 2007
(ii) Resigned 23 November 2007
(iii) Resigned 23 May 2007
(iv) Resigned 25 May 2007
(v) Resigned 30 June 2008
(vi) Resigned 25 August 2006

iv. Other transactions with key management personnel of the Group

(i) John Beech and Associates Pty Ltd (a related entity of Mr John Beech), provided consulting services during the year totaling $16,500 to Sustainable Global Business Solutions Pty Ltd (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 finalise fee earning strategic consulting services to third party organizations.

(ii) During the year the Company issued 7,142,857 shares as repayment of a loan for $500,000 which had been extended to the Company by Gidleigh Pty Ltd, a company controlled by Steven Cole. The issue was approved by shareholders on 30 July 2007.

(c) Transactions with other related parties

Other related parties include:

- the parent entity
- entities with joint control or significant influence over the Group
- associates
- joint ventures in which the entity is a venturer
- subsidiaries
- other related parties.

25. Related party transactions (contd)

Transactions between Solco Limited and other related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

	Consolidated		Company	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Revenue				
Sale of goods to subsidiary	-	-	5,490	63,598
Corporate recharges	-	-	-	312,000
Purchases				
Purchase of goods from subsidiary	-	-	382,595	297,115

As a result of the Group being tax consolidated, the Company is responsible for all tax obligations. During the year the Company recognised an Income tax benefit of $395,976 for which it has been fully compensated by the subsidiairy companies, which has been shown as an intercompany loan transaction.

All transactions were made on normal commercial terms and conditions and at market rates.

The balances arising from transactions between the Company and its other related parties are disclosed in Note 7, 12 & 13.

All amounts advanced to or payable to related parties are unsecured, interest free, have no fixed repayment date and are subordinate to other liabilities.

No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions and balances between the Company and its subsidiaries were eliminated in the preparation of the consolidated financial statements of the Group.

(d) Parent entities

The parent entity in the Group is Solco Limited. Interests in subsidiaries are set out in Note 21.

26. Remuneration of auditors

	Consolidated		Company	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Auditor of the parent entity				
Audit or review of the financial report	57,800	40,210	49,000	30,000
Preparation of the tax return	-	-	-	-
Other non-audit services	-	-	-	-
	57,800	40,210	49,000	30,000
Related practice of the parent entity auditor				
Other non-audit services	-	-	-	-
	-	-	-	-
Other auditors				
Auditing the financial report	-	-		
Review of the financial report	-	-		
Preparation of the tax return	-	-		
Other non-audit services	-	-		
	-	-		
Related practice of the other auditors				
Other non-audit services	-	-		
	57,800	40,210		

The auditor of Solco Ltd is HLB Mann Judd.

27. Post balance sheet events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.