

# Solco Ltd

## Appendix 4E

### Preliminary final report for the period ending 30 June 2009

(Previous Corresponding Period: Year ended 30 June 2008)

#### Results for announcement to the market

Revenues from ordinary activities	up/down	68%	to	\$27,779,135
Profit/ (loss) from ordinary activities after tax attributable to members	up/down	1400%	to	\$1,791,012
Net profit (loss) for the period attributable to members	up/down	1400%	to	\$1,791,012
<b>Dividends (distributions)</b>		Amount per security		Franked amount per security
Final dividend ( <i>Preliminary final report only</i> )		0.25 cents		N/A
Previous corresponding period		N/A		N/A
Record date for determining entitlements to the dividend		2 <sup>nd</sup> September 2009		
Anticipated payment date		5 <sup>th</sup> October 2009		
Total amount of dividend		\$499,034		
<b>Net Tangible Asset Backing</b>		Current period		Previous corresponding period
Net tangible asset backing per ordinary security		3.56 cents per share		2.65 cents per share
The above information or explanation to the results can be obtained from the commentary in the Chairman's and Managing Director's Address and the Directors' Report.				
Control was maintained over all subsidiaries during the year. Refer to note 22 to the financial statements.				
This statement is based on accounts which have been audited.				

For personal use only



## **SOLCO LTD**

ABN 27 084 656 691

**Annual report for the financial year ended  
30 June 2009**

# Annual financial report for the financial year ended 30 June 2009

	<b>Page</b>
<b>Corporate directory</b>	<b>1</b>
<b>Chairman's and Managing Director's address</b>	<b>2</b>
<b>Corporate governance statement</b>	<b>4</b>
<b>Directors' report</b>	<b>11</b>
<b>Auditor's independence declaration</b>	<b>20</b>
<b>Independent auditor's report</b>	<b>21</b>
<b>Directors' declaration</b>	<b>23</b>
<b>Index to the financial report</b>	<b>24</b>
<b>Income statement</b>	<b>25</b>
<b>Balance sheet</b>	<b>26</b>
<b>Statement of changes in equity</b>	<b>27</b>
<b>Cash flow statement</b>	<b>29</b>
<b>Notes to the financial statements</b>	<b>30</b>

**Directors:**

Steven Cole	Non-Executive Chairman
Mark Norman	Managing Director/CEO
David Richardson	Non-Executive Director
Ian Campbell	Non-Executive Director

**Company Secretary:**

Darren Crawte

**Registered Office:**

126 Sheffield Road  
WELSHPOOL WESTERN AUSTRALIA 6016  
Telephone: (08) 9334 8100  
Fax: (08) 9334 8199  
Email: info@solco.com.au

**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

For personal use only

## Chairman's and Managing Director's address

Dear Shareholders,

### Solco's performance over 2008/2009

More detailed commentary on operational and financial issues is covered elsewhere in this Annual Report but we would like to summarise three financial highlights:

- Group revenue for 2008/2009 was up 68% to \$27.8 million (compared to \$16.5 million for 2007/2008) primarily reflecting business growth in its wholesale distribution business of PV and related products;
- Group net profit for 2008/2009 was \$1.79 million (compared to a modest profit of \$0.1 million for 2007/2008, a loss of \$2.25 million for 2006/2007 and a loss of \$5.89 million for 2005/2006) reflecting a continuing and strong growth curve forward.
- A maiden final dividend for 2008/2009 of 0.25 cents per share (2008 – nil)

With the profound onset of the global financial crisis in the second half of 2008, over 2008/2009 the Company's attention was primarily:

- to narrow its primary operational focus to its core wholesale PV distribution business (Solco Choice Electric) to drive bottom line performance and disciplined business outcomes;
- 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 improve product quality and address residual product warranty issues;
- to restructure the executive team;
- to enhance the corporate and commercial capability of the Group;
- to weather, and mitigate the risks to the Company, of the global financial crisis; and
- to continuously improve our product and service offerings to best suit the changing market conditions and needs while maintaining margins.

Some industry and economic issues which impacted (some favourable, some negatively) the Group's operations over this period included:

- positive demand for solar PV products arising from short term government subsidised domestic rebate schemes, and greater social awareness of climate change impacts and the benefit of clean energy;
- the freeing up of international supplies of PV solar panels with commensurate downward pressure on prices;
- profound volatility in US\$/AUD\$ exchange rates;
- continuing political policy vagaries concerning government strategies and support for a long term clean energy outcome embracing solar as a key component;
- a general downward trend in the value, or cancellation, of government rebates for both domestic and rural programs, and renewable energy traded instruments such as Renewable Energy Certificates (REC's); and
- strong competition, especially from new entrants, in a maturing market sector for domestic retail solar grid connections, putting downward pressure on operating margins.

### Solco's strategic direction

With the reestablishment of its core profitability, and with global financial and capital markets now appearing to be in a steadier state, with material downside risks diminished, Solco is now in a position to assess its future and develop strategies to respond to the growth opportunities in the enviro-renewable energy and water sectors. Although the shape and timing of those strategies have not crystallised at present, they are expected to be developed having regard to the following conceptual framework:

- **Products:**
  - building upon and expanding its existing wholesale distribution business of solar PV, water pumping and expansion of product range; enhancing its dealer support network; strengthening its supply chain assurance; and innovation in product and customer offerings; and

- identifying, assessing and acting on strategic alliance opportunities for quality assured production of proprietary products in low cost manufacturing locations.

- **Projects:**

- delivery of small to medium commercial scale renewable energy and water pumping solutions to commercial, corporate, government and NGO customers for industrial, civic, rural, mining and select offshore regional applications; and
- considerations for capability growth and development, including through joint venture opportunities, to meet emerging market demands and opportunities for larger scale applications and installation.

- **Power Utility:**

- considerations towards strategically developing Solco's capability and capacity to position it to respond to emerging opportunities as a niche renewable energy power utility participant.

These broader strategic initiatives are comparable to those foreshadowed in the 2007/2008 Annual Report, but which were placed on hold as the Company temporarily narrowed its focus in response to risks associated with the global financial crisis.

**In conclusion**

With the continuing support of all its stakeholders, on behalf of the Board of Solco, Steven Cole (Chairman), Mark Norman (Managing Director and CEO), David Richardson (Non Executive Director) and Ian Campbell (Non Executive Director), we continue to look forward to applying our capabilities towards ensuring that Solco's future is a prosperous one.



**Steven Cole**  
Chairman



**Mark Norman**  
Managing Director and CEO

## Corporate Governance Statement for the year ended 30 June 2009

### 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 Corporate Governance Principles and Recommendations 2<sup>nd</sup> Edition 2007 ("Recommendations").

A copy of the Company's Corporate Governance Charter ("Charter") has been placed on the Company's website in the corporate governance section.

### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### **Recommendation 1.1 – Establish and disclose the functions reserved to the board and those delegated to senior executives.**

The functions and responsibilities of the Board compared with those delegated to management are reflective of the Recommendations.

#### **Recommendation 1.2 – Disclose the process for evaluating the performance of senior executives.**

The Nominations and Remuneration Committee is charged in the terms of the Charter with periodic review of the job description and performance of the CEO according to agreed performance parameters.

During the year performance review outcomes concerning the incumbent CEO at the time was reported via the Nominations and Remuneration Committee.

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

#### **Recommendation 1.3 – Provide the information in the guide to reporting on Recommendations.**

The Company is not aware of any departure from Recommendations 1.1 or 1.2. Performance evaluations for senior executives have taken place in the reporting period in accordance with the process disclosed.

### 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, and is satisfied that its Board composition meets these requirements. However, against the Recommendations technical indicia of "independence" the Company does not strictly comply with this Recommendation.

From 1 July 2008 to 7 September 2008 the Board comprised:

- 2 non-executive independent directors (Steven Cole and Ian Campbell);
- 1 non-executive director (David Richardson);
- 2 executive directors (Alex Lamond and Mark Norman).

From 8 September 2008 to 30 June 2009 the Board contracted to 4, with the departure of Alex Lamond.

**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 – Disclose the process for evaluating the performance of the Board, its committees and individual directors.**

The Nominations and Remuneration Committee is charged in the terms of the Charter with Board and Board Committee membership, succession planning and performance evaluation, as well as Board member induction, education and development.

The Company has adopted policies and procedures in the Charter concerning the evaluation and development of its directors, executives and Board committee. 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.

The Company's Board and Management Performance Enhancement Policy also is incorporated in the Charter.

**Recommendation 2.6 – 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 terms of office, and their status as executive/non-executive/independent, for each director for the year ending 30 June 2009 were as follows (with all directors noted as continuing as at 30 June 2009 still being in office at the date of this annual report):

Steven Cole	non-executive/independent - 1 July 2008 to 30 June 2009 (cont)
David Richardson	non-executive – 1 July 2008 to 30 June 2009 (cont)
Ian Campbell	non-executive/independent - 1 July 2008 to 30 June 2009 (cont)
Alex Lamond	executive – 1 July 2008 to 8 September 2008
Mark Norman	executive - 1 July 2008 to 30 June 2009 (cont)

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

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

Members of the Board's Nominations and Remuneration 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
Steven Cole (Chairman)	3	3
David Richardson	3	3

In accordance with the process for Board, Board Committee and director evaluation as described in the Charter such an evaluation has been considered and tentatively scheduled for third quarter 2009 rather than in the relevant period itself.



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 and 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 and disclose the code, or a summary as to:**

- 3.1.1 the practices necessary to maintain confidence in the company's integrity;**
- 3.1.2 the practices necessary to take into account legal obligations and reasonable expectations of stakeholders;**
- 3.1.3 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 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, the practices necessary to take into account legal obligations and reasonable expectations of stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

**Recommendation 3.2: Establish and 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 Charter which has been placed on the Company's website.

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

The Company is not aware of any 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 is publicly available on the Company's website.

### **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**Recommendation 4.1: The Board should establish an Audit Committee.**

The Board has established a combined Audit and Risk Management Committee.

**Recommendation 4.2: 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.**

The Company's Audit and Risk Management Committee has 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 the Company Chairman (Steven Cole) was also Chairman of that Committee.

**Recommendation 4.3: The Audit Committee should have a formal charter.**

The Company's Audit and Risk Management Committee has a formal charter as set out in the Charter.

**Recommendation 4.4: 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
Steven Cole	3	3
David Richardson	3	3
Ian Campbell	3	3

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

The Company is not aware of any departures from the Recommendations under Principle 4 except that the Audit and Risk Management Committee had as its Chairman, the Chairman of the Company.

In explanation of the reasons for this departure, the Company advises that 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, and that the costs to the Company of alternate technically compliant arrangements were not warranted having regard to the size and scale of business operations of the Company.

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 all set out in the Charter which is publicly available on the Company's website.

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

**Recommendation 5.1: Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of them.**

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level 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 all set out under the heading "Release of Price Sensitive Information Policy" in the Charter which is publicly available on the Company's website.

**PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

**Recommendation 6.1: Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings.**

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

**Recommendation 6.2: Provide the information indicated in *Guide to reporting on Principle 6*.**

Details of how the Company will communicate with its shareholders publicly is set out under the heading "Communications with Stakeholders" which is publicly available on the Company's website.

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

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

**Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The Charter includes a formal policy on risk oversight and management. The Board also has 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 risk oversight and management.

In addition, the Board has resolved, and 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. A recent Board resolution to engage external professional consultants to facilitate and assist in this exercise is expected to assure completion of this project by the end of 2009 (the project was originally scheduled for completion during 2008/2009).

Details of the Company's policy on these matters is set out under the heading "Risk Management Policy" in the Charter which is publicly available on the Company's website.

**Recommendation 7.2: The Board to require management to design and implement the risk management and internal control system to manage the Company's material business risks, and report to it on whether those risks are being managed effectively. Board to disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

An Audit and Risk Management Committee has been established as set out in the Charter with preliminary responsibility for establishment and maintaining effective risk management and internal control systems.

The Board, including through the Audit and Risk Management Committee has required management to progress matters and report to it in the terms of this Recommendation.

Further, the Board discloses that management has preliminarily reported to it as to the effectiveness of the Company's management of its material business risks, although the Board has requested a more comprehensive report from management upon completion of the more robust risk management system currently being developed (as referred to in the response to Recommendation 7.1 above) based on AS/NZ 4360.

**Recommendation 7.3: Board to disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with S.295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

The Company's CEO and CFO (or equivalent) provided the Board assurance in compliance with this Recommendation that the declaration provided in accordance with S.295A of the Corporations Act was founded on a sound system of risk management and internal control and that system was operating effectively in all material respects in relation to financial reporting risks.

**Recommendation 7.4: Provide the information indicated in *Guide to reporting on Principle 7*.**

The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3 although notes it is continuing to develop and refine its risk management and internal control processes and procedures into more robust systems and procedures based on AS/ANZ4360.

A summary of the Company's policies on risk oversight and management of material business risks is publicly available under the heading "Risk Management Policy" in the Charter on the Company's website.

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

**Recommendation 8.1: The Board should establish a remuneration committee.**

The Board has established a combined Nomination and Remuneration Committee. Refer reporting on Recommendation 2.6 above.

The remit and responsibilities of the Nominations and Remuneration Committee in respect of remuneration are set out in the Charter.

**Recommendation 8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

The structure of non-executive remuneration is clearly distinguishable from that of executive directors and senior executives.

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 and shorter term cash bonus entitlements. The Nomination and Remuneration Committee (on reference from, and in consultation with, the CEO) reviews 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 is 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 is 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. As a cash preservation strategy during the year, some longer term share options were also awarded to non-executive directors in consideration of no cash remuneration increases and expectations of extra demand for non-executive time inputs for the Company's benefit. Details of these are set out in the Remuneration Report within the Directors' Report.
- 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 8.3: Provide the information indicated in *Guide to reporting on Principle 8***

*Remuneration Committee (names of members and attendance at meetings)*

Refer to the response to Recommendation 2.6 above concerning the Company's Nomination 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 8 in that the Nominations and Remuneration Committee comprised only 2 members and the majority of the Committee were not independent (Steven Cole is independent as Chair of the Committee, and although David Richardson is non-executive he is not independent due to his substantial shareholding in the Company).

In explanation thereof, the Company considers the members of the Nomination and Remuneration Committee to be able, without the need for an additional independent member, to discharge the functions of that Committee. Refer also to the final paragraph of the above response concerning Recommendation 2.6.

Further, the issue of options to the non-executive directors as referred to above is not consistent with the statement in item 2 of Box 8.2 of the Recommendations.

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 at this early stage of the Company's re-establishment;
- the issue of options to the non-executive directors is a "non cash" means by which they can receive some modest recompense for such additional service and contributions.

*Information Publicly Available*

The 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.

EXECUTIVE SUMMARY OF COMPLIANCE WITH RECOMMENDATIONS			
Recommendation #	Compliant	Non-Compliant	If not, why not?
1	✓	-	N/A
2	-	Partial	Refer response to Recommendation 2.6 above.
3	✓	-	N/A
4	-	Partial	Refer response to Recommendation 4.4 above.
5	✓	-	N/A
6	✓	-	N/A
7	✓	-	However refer to the qualified statement in the response to Recommendation 7.4 above.
8	✓	Partial	Refer response to Recommendation 8.3 above.

For personal use only

## Directors' report

The directors of Solco Ltd submit herewith the annual financial report of the Company for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Information about directors

The names and particulars of the directors of the Company during or since the end of the financial year and up to the date of this report are:

<b>Name</b>	<b>Particulars</b>
Steven Cole Llb (Hons) FAICD	<p><u><i>Non-Executive Chairman</i></u></p> <p>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 Group Limited, Deputy Chairman of Reed Resources Limited, Deputy Chairman of the Professional Standards Councils of Australia, President of the Australian Institute of Company Directors (WA Division), Chairman of Brightwater Care Group Inc, Chairman of the QE II Medical Centre Trust 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.</p>
Christopher (Mark) Norman B. Eng. (Electronics)	<p><u><i>Managing Director / Chief Executive Officer</i></u></p> <p>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.</p> <p>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.</p> <p>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 Ltd.</p>
David Richardson MIEAust	<p><u><i>Non-Executive Director</i></u></p> <p>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 &amp; 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 is a non-executive director of Emerson Stewart Group Limited.</p> <p>Mr Richardson has extensive operational, commercial and engineering experience in Australia and internationally.</p>
Ian Campbell	<p><u><i>Non-Executive Director</i></u></p> <p>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.</p> <p>In 1990 Mr Campbell entered Federal politics as a WA Senator, holding high level Cabinet and other offices including:</p> <ul style="list-style-type: none"><li>• Parliamentary Secretary to the Treasurer</li><li>• Parliamentary Secretary to the Minister for Communications and Information Technology</li><li>• Minister for Environment and Heritage</li><li>• Minister for Human Services</li><li>• Minister for Local Government, Territories and Roads.</li></ul> <p>His international experience includes:</p> <ul style="list-style-type: none"><li>• World Bank of Governors and IMF Annual Meetings in 2002/2003;</li><li>• Leading international delegations on climate change including at UN Conventions, G8 plus 5 summits, and Asia Pacific conferences.</li></ul> <p>Mr Campbell has worked at the highest levels with international and national political and business leaders, and holds a number of non-executive directorships with other ASX listed entities.</p>

Donald (Alexander) Lamond Managing Director

Mr Lamond who was appointed managing director on 23 November 2007 and resigned during the year, had a combined 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 previous appointments included:

- ITC - an international telecom business, with satellite and VOIP activities globally; and
- A Perth based pharmaceutical and medical supply business requiring leadership and growth strategies.

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

- Alex Lamond – resigned 8 September 2008

#### 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:

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

#### 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	Share options
	Number	Number
Steven Cole	7,573,514	1,000,000
Mark Norman	250,000	1,000,000
David Richardson	89,170,775	1,000,000
Ian Campbell	-	1,000,000

#### 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 executives

During and since the end of the financial year an aggregate 4,000,000 share options were granted to the following Directors and the executives of the Company as part of their remuneration:

Directors and senior management	Number of options granted	Issuing entity	Number of ordinary shares under option
Steven Cole	1,000,000	Solco Ltd	1,000,000
Mark Norman	1,000,000	Solco Ltd	1,000,000
David Richardson	1,000,000	Solco Ltd	1,000,000
Ian Campbell	1,000,000	Solco Ltd	1,000,000

#### Company secretary

**Darren Crawte** LL.B (Hons), ACA

Darren is a qualified Chartered Accountant with 10 years experience working within public practice, specifically within the area of audit and assurance both in Australia and the United Kingdom. He holds similar secretarial roles in various other listed public companies.

## Principal activities

The Group's principal activities during the course of the financial year were the provision of sustainable water and power solutions. There was no significant change in the nature of this activity during the year.

## Review of operations

Key financial results of the Company are as follows:

- Group profitability improved from a small profit of \$0.1 million in FY2008 to a record profit of \$1.79 million in FY2009.
- Total revenue for the period increased from \$16.5 million in FY2008 to \$27.8 million, an increase of 68%.
- Trade and other receivables increased from \$2.0 million in FY2008 to \$3.4 million at 30 June 2009, while inventories also increased for the same period from \$2.9 million to \$6.8 million.
- Cash at bank at 30 June 2009 of \$4.5 million.

## POWER DIVISION

Continuing volatility in the renewable energy market due to both the ongoing uncertainty in Government support programs and initiatives, and demand fluctuations and credit issues created by the Global Financial Crisis (GFC), meant this last fiscal year was a demanding however successful one for the Power Division, Solco Choice Electric. Solco Choice Electric's sales revenue grew by 75.4% over the prior fiscal year due to strong demand, primarily driven by growth in domestic grid feed photovoltaic systems.

Providing full system solutions to fulfil the needs of our customers has been a strategic goal that, with improved delivery systems and processes, we have achieved through this year. Full system supply, including all PV components, Solco Choice Electric "know-how" and rebate financing options, has been important in sustaining our sales growth and counteracting threats from new start-up competitors in the growing renewable energy market. Understanding that this alone is not enough, we have sourced from our world-wide supply base both innovative and high-quality, low-cost products to supplement our well established core brands such as Sharp, Fronius, UniRac, Solarfun, Latronics, Morningstar and others. Recently we have released these products:

- SolarMagic™ by National Semiconductor - PV panel power optimizers, the perfect solution to real world shading conditions such as trees, architectural obstructions and debris, and PV panel mismatch, ([www.solarmagic.com](http://www.solarmagic.com))
- Astronergy Solar PV Panels - encompassing a wide range of crystalline silicon and thin-film models of high-quality and price competitiveness, ([www.astronergy.com](http://www.astronergy.com))
- Aero-Sharp - Full-featured PV & wind inverters from China, with an industry leading standard 10-year warranty. These inverters will set a new price point in the Australian market, ([www.aero-sharp.com.cn](http://www.aero-sharp.com.cn))
- CLICKSYS™ by UniRAC® The new innovative design PV panel mounting system offers the most cost effective and quickest install flush-mount solution for the residential marketplace. ([www.clicksys-beam.com](http://www.clicksys-beam.com))

In conjunction with the release of these new products, Solco Choice Electric expanded its presence at ATRAA 2009, the most important conference and exhibition in Australia for PV system installers, resellers and distributors. During the event, our newly expanded national sales and customer service teams met with many customers, both current and new.



The Solar Homes and Communities Plan played a significant role in driving PV Market growth through FY2008/09, with a total of 34,000 systems being installed by the end of May 2009 since its inception. Although new applications ended early in June 2009, a further 50,000 installations need to be completed and, based upon current installation rates, this will support product sales well into next calendar year, by when the new Solar Credits Scheme will be operational.

Although the Senate recently rejected the Carbon Pollution Reduction Scheme, the Renewable Energy Target Legislation has been passed ensuring 20% of Australia's electricity will be generated by renewable sources by 2020. Payments under the new Solar Credits Scheme, which replaces the Solar Homes and Communities Plan, are now certain. However, actual payment processing may not commence till early next calendar year. Confirmation of the new Solar Credits Scheme is very positive for the solar PV industry, however the delay in payment processing and fluctuations in the traded price of Renewable Energy Certificates may delay consumer purchasing decisions until early next year.

Based upon continuing sales under the Solar Homes and Communities Plan, expected sales via the new Solar Credits Scheme, and our normal sales outside the domestic grid feed market, our expectations for growth in FY2009/10 are still optimistic.

Solco wish to thank Gary Deam for his 22 and half years as a key contributor to the commercial development of Solco Choice Electric. Although Gary has now left fulltime employment, he is still active in carrying out consulting work for Solco Choice Electric.



## WATER DIVISION

FY2008/09 has been difficult for our Solar Pumping Business, with revenues falling from \$1.09m in FY2007/08 to \$0.875m. Rural sales over prior years have been the largest contributor to revenue generated by the SunMill family of solar pumps. This year, rural sector capital spending has been constrained by the ongoing effects of the drought, reductions in government rural support and access to credit due to the Global Financial Crisis. The Federal Renewable Energy Water Pumping sub-program rebates have been cancelled, eliminating the subsidy on primarily larger, high-value pumping systems.

To be able to accommodate such fluctuations in revenue, we have outsourced the majority of mechanical and all electronics manufacturing, and retrained pumping staff to allow them to operate in both the Water and Power divisions.

In response to the decreased revenue, we are accelerating our plans to broaden the distribution of Water Division products through the Power Division while rationalising and sharing overhead costs between these groups. Additionally, we are looking at opportunities in developing countries for the production and sourcing of pumping components as well as sales opportunities for pumping systems.

With the market shift to predominantly high-pressure solar hot water systems in the Australian suburban market, we have decided to permanently suspend production of Poly Tuff's Solartech Genius™ hot water system.

We continue to manage Poly Tuff Solartech Genius™ customer referrals and warranty issues in-house and have succeeded in keeping warranty expense to our budgeted level and within our allocated reserves. Based upon the current field failure rate, we are fully reserved on our balance sheet for the life of the warranty of the remaining units in the field.

Due to its simplicity and ease of manufacture, the Solartech Genius™ can still be successful in regions where low-pressure hot water systems are still in demand. Design improvements, developed as a result of the engineering and design review of the Solartech Genius™ hot water system in 2008, have passed internal testing and can now be utilised in production. This allows evaluation of the Solartech Genius™ and the SMS manufacturing system to continue with several prospective overseas customers. However while the worldwide recession continues, funding to start new operations is difficult to obtain and may hamper progress in this area for a period.

Solco has relinquished its 30% shareholding in MB Solco, the manufacturer of the Solartech Genius™ in Malta, who decided to close operations due to their low volume of sales in this small market. Furthermore, Solco has offered to sell, for a nominal amount, its 19% share holding in Solco Europe based in Portugal who, amid the GFC and housing market crisis in Portugal and Spain, has stopped volume production. As at June 30<sup>th</sup> 2009, Solco is fully reserved for all trade debts and loans to Solco Europe.

### 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 2009.

### Dividends

No dividends were paid during the financial year.

#### Declared after end of year

After 30 June 2009 the following dividend was proposed by the Directors. The dividend has not been provided for and there are no income tax consequences.

	Cents per share	Total amount \$	Franked/unfranked	Anticipated date of payment
Final ordinary	0.25	499,034	Unfranked	30 September 2009

The financial effect of the dividend has not been brought to account in the financial statements for the financial year ended 30 June 2009 and will be recognised in subsequent financial reports.

## Share options

### Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Solco Ltd	500,000	Ordinary	12 cents each	31 December 2010
Solco Ltd	1,500,000	Ordinary	15 cents each	31 December 2010
Solco Ltd	500,000	Ordinary	16 cents each	31 December 2010
Solco Ltd	1,500,000	Ordinary	20 cents each	31 December 2010

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

No shares or interests were issued during or since the end of the financial year as a result of exercise of options.

### 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.

### Indemnification of officers

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

- 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
- 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, 16 board meetings, 3 nomination and remuneration committee meetings, and 3 audit committee meetings were held.

Directors	Board of directors		Remuneration & Nomination committee		Audit committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Steven Cole	16	16	3	3	3	3
Mark Norman	13	12 *	-	1	-	3
David Richardson	16	16	3	3	3	3
Ian Campbell	16	16	-	1	3	3
Alex Lamond	3	3	-	-	-	1

\* leave of absence on company business

### Proceedings on behalf of the Company

No persons have applied for leave pursuant to s.237 of the Corporation Act 2001 to bring, or intervene in, proceedings on behalf of Solco Ltd.

### 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 20 of the annual report.

## Remuneration report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Solco Ltd's key management personnel for the financial year ended 30 June 2009. Disclosures required under AASB 124 *Related Party Disclosures* have been transferred from the financial report and have been audited. The additional disclosures 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 Ltd during the year or since the end of the year were:

- Steven Cole Chairman and Non-Executive Director
- Mark Norman Managing Director (appointed Executive Director on 23 November 2007 and Managing Director on 8 September 2008)
- David Richardson Non-Executive Director
- Ian Campbell Non-Executive Director
- Alex Lamond Managing Director (resigned 8 September 2008)
- Gary Deam Financial Controller Choice Electric (resigned 27 February 2009)
- 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

The Board's policy for determining emoluments is based on the principle of remunerating Directors and senior executives on their ability to add value to the Company (taking into account the Company's strategic plan and operations) whilst also considering market emolument packages for similar positions within the industry and in consultation with external consultants. The Board appreciates the interrelationship between this policy and Company performance. It acknowledges that it is in the best interests of shareholders to provide challenging but achievable incentives to reward senior executives for reaching the Company's stated goals. The Board will discuss these issues internally and with candidates prior to engaging additional Directors or senior executives in the future.

#### Key management personnel (excluding non-executive directors)

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.

- Fixed remuneration  
Executive directors and other key management personnel receive fixed remuneration in the form of a base salary (inclusive of statutory superannuation)
- Short term incentive  
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.
- Long term incentive  
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 2005 and is currently utilised 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**

2009	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Total	% of compensation linked to performance
	Salary & fees	Bonus	Non-monetary	Other	Superannuation		Shares & Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>									
Steven Cole	40,000	-	-	-	3,600	-	3,931	47,531	8.3%
Mark Norman	200,070	6,881	-	-	18,625	-	4,334	229,910	1.9%
David Richardson	30,000	-	-	-	2,700	-	3,931	36,631	10.7%
Ian Campbell	30,000	-	-	-	2,700	-	3,931	36,631	10.7%
Alex Lamond (i)	64,056	-	-	-	5,765	-	-	69,821	-
<b>Executives</b>									
Gary Deam (ii)	81,763	-	-	-	7,934	6,394	-	96,091	-
Andrew Simpson	110,939	4,898	-	-	10,426	-	-	126,263	-
	556,828	11,779	-	-	51,750	6,394	16,127	642,878	-

2008	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment	Total	% of compensation linked to performance
	Salary & fees	Bonus	Non-monetary	Other	Superannuation		Shares & Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>									
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 (iii)	-	-	-	-	-	-	11,918	11,918	-
<b>Executives</b>									
John Cooper (iv)	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	-
	754,971	-	-	-	68,848	-	122,518	946,337	-

- (i) Resigned – 8 September 2008
- (ii) Resigned – 27 February 2009
- (iii) Resigned – 23 November 2007
- (iv) Resigned – 30 June 2008

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

Incentive share based payment arrangements

During the financial year the following share based payment arrangements for key management personnel were in existence:

Options series	Grant date	Expiry date	Fair value per option at grant date \$	Vesting date
Series II	30 November 2008	31 December 2010	0.85 cents	Vests 1 January 2010
Series III	30 November 2008	31 December 2010	0.78 cents	Vests 1 January 2010
Series IV	30 November 2008	31 December 2010	0.76 cents	Vests 1 January 2010
Series V	30 November 2008	31 December 2010	0.68 cents	Vests 1 January 2010

The following grants of share based payment compensation to key management personnel relate to the current financial year:

Name	Options series	During the financial year				% of compensation for the year consisting of options
		No. granted	No. Vested and exercisable	% of grant vested	% of grant forfeited	
Steven Cole	Series III and V	1,000,000	nil	nil	nil	8.3%
Mark Norman	Series II and IV	1,000,000	nil	nil	nil	1.9%
David Richardson	Series III and V	1,000,000	nil	nil	nil	10.7%
Ian Campbell	Series III and V	1,000,000	nil	nil	nil	10.7%

The assessed fair value at grant date of options granted to the individuals in the above table is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this remuneration report. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and the expected price volatility of the underlying share and the risk free rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 are as follows:

Inputs into the model	Option series			
	Series II	Series III	Series IV	Series V
Grant date share price	\$0.02	\$0.02	\$0.02	\$0.02
Exercise price	\$0.12	\$0.15	\$0.16	\$0.20
Expected volatility	167%	167%	167%	167%
Option life	1.6 years	1.6 years	1.6 years	1.6 years
Dividend yield	-	-	-	-
Risk-free interest rate	4.08%	4.08%	4.08%	4.08%

**Value of options issued to Directors and executives**

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified Directors and executives:

	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date \$	Value of options lapsed at the date of lapse \$	Total \$
Steven Cole	7,300	-	-	7,300
Mark Norman	8,050	-	-	8,050
David Richardson	7,300	-	-	7,300
Ian Campbell	7,300	-	-	7,300

- (i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

**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 Mark Norman

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation and Directors fees for the year ended 30 June 2009 of \$220,000
- No termination benefits are payable

Mr David Richardson

- No fixed term agreement
- 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 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



**Mark Norman**  
**Managing Director/ CEO**  
Perth, 24 August 2009

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Solco Ltd for the year ended 30 June 2009, 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 Ltd.



**Perth, Western Australia**  
**24 August 2009**

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

For personal use only

**INDEPENDENT AUDITOR'S REPORT****To the members of  
Solco Ltd****Report on the Financial Report**

We have audited the accompanying financial report of Solco Ltd ("the company"), which comprises the balance sheet as at 30 June 2009, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration for both the company and the consolidated entity as set out on pages 25 to 53. 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 controls 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 controls. 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.

For personal use only



*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 Ltd 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 2009 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 16 to 19 of the directors' report for the year ended 30 June 2009. 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 Ltd for the year ended 30 June 2009 complies with section 300A of the Corporations Act 2001.



**HLB MANN JUDD**  
**Chartered Accountants**



**Perth, Western Australia**  
**24 August 2009**

**W M CLARK**  
**Partner**

For personal use only

## 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



**Mark Norman**  
**Managing Director/ CEO**  
Perth, 24 August 2009

For personal use only

## Index to the financial report

Contents	Page
Income statement	25
Balance sheet	26
Statement of changes in equity	27
Cash flow statement	29
Notes to the financial statements	30
1 General information	30
2 Significant accounting policies	30
3 Critical accounting judgements and key sources of estimation uncertainty	36
4 Revenue	36
5 Loss for the year	37
6 Income taxes	37
7 Trade and other receivables	38
8 Inventories	39
9 Other assets	39
10 Property plant and equipment	39
11 Intangible assets	40
12 Other financial assets	41
13 Trade and other payables	41
14 Borrowings	41
15 Provisions	42
16 Other financial liabilities	42
17 Issued capital	43
18 Reserves	43
19 Loss per share	43
20 Commitment for expenditure	44
21 Contingent liabilities and contingent assets	44
22 Subsidiaries	44
23 Notes to the cashflow statement	45
24 Financial instruments	46
25 Share based payments	50
26 Related party transactions	51
27 Dividends	53
28 Remuneration of auditors	53
29 Subsequent events	53

For personal use only

**Income statement  
for the financial year ended 30 June 2009**

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Continuing operations</b>					
Revenue	4	27,779,135	16,509,392	946,631	1,206,419
Change in inventories of finished goods and work in progress		3,927,436	693,445	(228,458)	221,001
Raw materials and consumables used		(26,787,501)	(13,906,660)	(662,396)	(1,119,176)
Gross profit		4,919,070	3,296,177	55,777	308,244
Other income	4	370,165	320,538	233,785	263,976
Employee benefit expenses		(2,137,447)	(2,402,182)	(796,024)	(1,240,965)
Depreciation and amortisation expenses		(57,973)	(63,013)	(39,837)	(39,575)
Finance costs		(33,095)	(30,556)	(6,643)	(18,267)
Research and development expenses		(7,910)	(11,603)	(7,576)	(10,883)
Advertising expenses		(121,490)	(68,198)	(31,165)	(21,182)
Company overhead expenses		(1,034,350)	(921,630)	(591,273)	(644,146)
Provision for bad and doubtful debts		(30,123)	37,958	4,036	58,092
Impairment of loans to subsidiaries and relates parties		(36,132)	-	(36,132)	(99,506)
Write off of assets		(17,645)	(1,586)	(17,645)	(1,586)
Other expenses		(22,059)	(36,500)	(22,046)	(36,500)
Profit/(loss) before tax	5	1,791,012	119,405	(1,254,743)	(1,482,298)
Income tax benefit	6	-	-	338,988	395,976
<b>Profit/(loss) for the year</b>		<b>1,791,012</b>	<b>119,405</b>	<b>(915,755)</b>	<b>(1,086,322)</b>
<b>Earnings per share</b>					
Basic (cents per share)	19	0.90	0.06		
Diluted (cents per share)	19	0.90	0.06		

Notes to the financial statements are included on pages 30 to 53.

**Balance sheet  
as at 30 June 2009**

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Current assets</b>					
Cash and cash equivalents	23(a)	4,539,143	3,481,921	158,510	1,199,142
Trade and other receivables	7	3,401,060	1,965,875	54,347	384,417
Inventories	8	6,794,010	2,902,115	368,888	632,876
Other assets	9	76,644	59,096	54,315	49,901
<b>Total current assets</b>		<b>14,810,857</b>	<b>8,409,007</b>	<b>636,060</b>	<b>2,266,336</b>
<b>Non-current assets</b>					
Property, plant and equipment	10	140,721	194,488	82,540	124,290
Intangible assets	11	754,761	754,761	-	-
Other financial assets	12	-	36,132	3,073,522	2,436,577
<b>Total non-current assets</b>		<b>895,482</b>	<b>985,381</b>	<b>3,156,062</b>	<b>2,560,867</b>
<b>Total assets</b>		<b>15,706,339</b>	<b>9,394,388</b>	<b>3,792,122</b>	<b>4,827,203</b>
<b>Current liabilities</b>					
Trade and other payables	13	7,402,317	2,876,374	417,922	525,531
Borrowings	14	8,477	47,055	8,477	47,055
Provisions	15	238,296	158,635	192,729	127,769
<b>Total current liabilities</b>		<b>7,649,090</b>	<b>3,082,064</b>	<b>619,128</b>	<b>700,355</b>
<b>Non-current liabilities</b>					
Borrowings	14	10,591	-	10,591	-
Provisions	15	190,712	263,517	190,712	256,529
Other financial liabilities	16	-	-	606,284	606,284
<b>Total non-current liabilities</b>		<b>201,303</b>	<b>263,517</b>	<b>807,587</b>	<b>862,813</b>
<b>Total liabilities</b>		<b>7,850,393</b>	<b>3,345,581</b>	<b>1,426,715</b>	<b>1,562,168</b>
<b>Net assets</b>		<b>7,855,946</b>	<b>6,048,807</b>	<b>2,365,407</b>	<b>3,265,035</b>
<b>Equity</b>					
Issued capital	17	19,811,832	19,811,832	19,811,832	19,811,832
Reserves	18	16,127	-	16,127	-
Accumulated losses		(11,972,013)	(13,763,025)	(17,462,552)	(16,546,797)
<b>Total equity</b>		<b>7,855,946</b>	<b>6,048,807</b>	<b>2,365,407</b>	<b>3,265,035</b>

Notes to the financial statements are included on pages 30 to 53.

**Statement of changes in equity  
for the financial year ended 30 June 2009**

Consolidated

	Fully paid ordinary shares \$	Share-based payment reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2007</b>	16,205,569	10,760	(13,893,190)	2,323,139
Profit for the year	-	-	119,405	119,405
<b>Total recognised income and expense</b>	-	-	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)
<b>Balance at 30 June 2008</b>	<b>19,811,832</b>	-	<b>(13,763,025)</b>	<b>6,048,807</b>
<b>Balance at 1 July 2008</b>	19,811,832	-	(13,763,025)	6,048,807
Profit for the year	-	-	1,791,012	1,791,012
<b>Total recognised income and expense</b>	-	-	1,791,012	1,791,012
Recognition of share-based payments	-	16,127	-	16,127
<b>Balance at 30 June 2009</b>	<b>19,811,832</b>	<b>16,127</b>	<b>(11,972,013)</b>	<b>7,855,946</b>

Notes to the financial statements are included on pages 30 to 53.

For personal use only

**Statement of changes in equity  
for the financial year ended 30 June 2009**

Company

	Fully paid ordinary shares \$	Share-based payment reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2007</b>	16,205,569	10,760	(15,471,235)	745,094
Loss for the year	-	-	(1,086,322)	(1,086,322)
<b>Total recognised income and expense</b>	-	-	(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)
<b>Balance at 30 June 2008</b>	<b>19,811,832</b>	<b>-</b>	<b>(16,546,797)</b>	<b>3,265,035</b>
<b>Balance at 1 July 2008</b>	19,811,832	-	(16,546,797)	3,265,035
Loss for the year	-	-	(915,755)	(915,755)
<b>Total recognised income and expense</b>	-	-	(915,755)	(915,755)
Recognition of share-based payments	-	16,127	-	16,127
<b>Balance at 30 June 2009</b>	<b>19,811,832</b>	<b>16,127</b>	<b>(17,462,552)</b>	<b>2,365,407</b>

Notes to the financial statements are included on pages 30 to 53.

For personal use only

**Cash flow statement  
for the financial year ended 30 June 2009**

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		29,292,917	17,849,914	1,549,976	1,423,155
Payments to suppliers and employees		(28,300,950)	(17,935,236)	(2,218,258)	(3,326,164)
Interest and other costs of finance paid		(33,095)	(30,556)	(6,643)	(18,267)
Interest received		148,188	120,370	12,102	77,456
<b>Net cash provided by/(used in) operating activities</b>	23(c)	<b>1,107,060</b>	<b>4,492</b>	<b>(662,823)</b>	<b>(1,843,820)</b>
<b>Cash flows from investing activities</b>					
Amounts advanced (to)/from related parties		-	(36,132)	(334,090)	123,765
Payments for property, plant and equipment		(26,871)	(37,570)	(20,752)	(20,251)
Proceeds from sale of property, plant and equipment		5,020	3,182	5,020	-
<b>Net cash provided by/(used) in investing activities</b>		<b>(21,851)</b>	<b>(70,520)</b>	<b>(349,822)</b>	<b>103,514</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of equity securities		-	2,875,202	-	2,875,202
Payment for share issue costs		-	(53,537)	-	(53,537)
Repayment of hire purchase liabilities		(27,987)	(15,160)	(27,987)	(15,160)
Repayment of borrowings		-	(63,690)	-	-
<b>Net cash provided by/(used) in financing activities</b>		<b>(27,987)</b>	<b>2,742,815</b>	<b>(27,987)</b>	<b>2,806,505</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,057,222</b>	<b>2,676,787</b>	<b>(1,040,632)</b>	<b>1,066,199</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>3,481,921</b>	<b>805,134</b>	<b>1,199,142</b>	<b>132,943</b>
<b>Cash and cash equivalents at the end of the financial year</b>	23(a)	<b>4,539,143</b>	<b>3,481,921</b>	<b>158,510</b>	<b>1,199,142</b>

Notes to the financial statements are included on pages 30 to 53.



## 1. General information

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

Solco Ltd'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 19 August 2009.

### 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.

### Critical 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 current and future periods.

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

## 2. Significant accounting policies (contd)

### 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.

At the date of authorisation of the financial report, the following Standards and Interpretations were published but not mandatory for 30 June 2009 reporting periods.

• 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 Australian Accounting Standards arising from AASB 123'	Effective for annual reporting periods beginning on or after 1 January 2009
• AASB 2008 -1 'Amendments to Australian Accounting Standards – Share Based Payments: Vesting Conditions and Cancellations'	Effective for annual reporting periods beginning on or after 1 January 2009
• Revised AASB 3 'Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'.	Effective for annual reporting periods beginning on or after 1 July 2009
• AASB 2008-08 Amendments to IAS 39 'Financial Instruments: Recognition and Measurements'	Effective for annual reporting periods beginning on or after 1 July 2009
• AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Effective for annual reporting periods beginning on or after 1 July 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.

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) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

### (g) 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)

### (g) 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 or taxable profit or loss.

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

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

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

### (h) 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.

### (i) 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.

Collectability 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.

### (j) 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.

### (k) 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.

## 2. Significant accounting policies (contd)

### (l) 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.

### (m) Property, plant and equipment

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

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

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

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

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

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

#### *Leasehold improvements*

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

### (n) 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.

## 2. Significant accounting policies (contd)

(o) **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.

(p) **Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

(q) **Issued Capital**

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

(r) **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.

(s) **Share-based payments**

The fair value at grant date is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

### 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 adjustments 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-Scholes model using the assumptions detailed in Note 25.

*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 2009 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	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Continuing operations</b>				
Revenue from the sale of goods	27,779,135	16,509,392	946,631	1,206,419
	<u>27,779,135</u>	<u>16,509,392</u>	<u>946,631</u>	<u>1,206,419</u>
<b>Other Income</b>				
Interest revenue	148,188	120,370	12,102	77,456
Sub-lease rentals	179,485	165,623	179,485	165,623
Foreign exchange gains	39,425	-	39,425	-
Government grants	-	14,460	-	14,460
Other income	3,067	20,085	2,773	6,437
<b>Total revenue from continuing operations</b>	<u>370,165</u>	<u>320,538</u>	<u>233,785</u>	<u>263,976</u>

**Government grants**

No government grants were recognised as income by the Group during the financial year (2008: \$14,460).

**5. Profit/(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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loss on disposal of property, plant and equipment	-	(1,065)	-	-

**(b) Other expenses**

The result for the year includes the following expenses:

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Depreciation				
Plant and equipment	44,554	47,717	26,418	24,279
Leased motor vehicles	13,419	15,296	13,419	15,296
	<u>57,973</u>	<u>63,013</u>	<u>39,837</u>	<u>39,575</u>
Interest and finance charges paid/payable	33,095	30,556	6,643	18,267
Rental expenses relating to operating leases	344,933	323,479	236,399	235,556
Research and development	7,910	11,603	7,576	10,883
<b>Write off of assets:</b>				
Demonstration equipment	-	1,586	-	1,586
Plant and equipment	17,645	-	17,645	-
	<u>17,645</u>	<u>1,586</u>	<u>17,645</u>	<u>1,586</u>
Write down of inventories to net realisable value	190,777	-	190,777	-
<b>Share-based payments</b>				
Equity settled share-based payments	16,127	-	16,127	-

**6. Income taxes**

**Recognised in the income statement**

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Income tax benefit</b>				
Benefit of income tax losses transferred to subsidiaries	-	-	(338,988)	(395,976)
	<u>-</u>	<u>-</u>	<u>(338,988)</u>	<u>(395,976)</u>
<b>(b) Income is attributable to:</b>				
Loss from continuing operations	-	-	(338,988)	(395,976)
Aggregate income tax benefit	<u>-</u>	<u>-</u>	<u>(338,988)</u>	<u>(395,976)</u>



## 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Profit/(loss) before income tax expense from operations	1,791,012	119,405	(1,254,743)	(1,482,298)
Income tax expense/(benefit) calculated at 30%	537,304	35,822	(376,423)	(444,689)
Share-issue expenses	(24,193)	(24,404)	(24,193)	(24,404)
Share-based payments	4,838	58,955	4,838	58,955
Impairment of loans	10,840	-	10,840	29,852
Other impairments	5,294	476	5,294	476
Sundry items	(1,498)	32	(1,498)	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(532,585)	(70,881)	42,156	(16,166)
	-	-	(338,988)	(395,976)

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	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(c) Tax Losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	10,209,657	9,079,698	10,209,657	9,079,698
Potential asset calculated at 30%	3,062,897	2,732,909	3,062,897	2,723,909
<b>(d) Unrecognised temporary differences</b>				
Temporary differences for which deferred tax assets have not been recognised :				
Provisions	1,040,274	887,531	927,548	761,274
Other	61,363	93,258	27,404	65,931
	1,101,637	980,789	954,953	827,205

### Tax Consolidation Legislation

Solco Ltd implemented the tax consolidation legislation as of 1 August 2004. The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate Solco Ltd for any tax payable assumed and are compensated by Solco Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Solco Ltd under the tax consolidation legislation.

## 7. Trade and other receivables

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<u>Current</u>				
Trade receivables	3,531,126	2,270,800	117,254	455,060
Allowance for doubtful debts (i)	(130,066)	(304,925)	(62,907)	(70,643)
	3,401,060	1,965,875	54,347	384,417

- (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 \$174,859 (2008: decreased by \$23,228) in the Group and decreased by \$7,736 (2008: decreased by \$56,228) in the Company. This movement was recognised in profit for the year.

## 8. Inventories

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Raw materials	139,358	174,888	139,358	174,888
Work in progress	109,479	294,479	109,479	294,479
Finished goods	6,545,173	2,432,748	120,051	163,509
	<b>6,794,010</b>	<b>2,902,115</b>	<b>368,888</b>	<b>632,876</b>

### Inventory expense

Inventories recognised as an expense for the Group during the year ended 30 June 2009 amounted to \$26,787,501 (2008: \$13,906,660).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2009 amounted to \$190,777 (2008: \$Nil). The expense has been included in 'raw materials and consumables used' in the income statement.

## 9. Other assets

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<u>Current</u>				
Prepayments	76,644	59,096	54,315	49,901
	<b>76,644</b>	<b>59,096</b>	<b>54,315</b>	<b>49,901</b>

## 10. Property, plant and equipment

	Consolidated		
	Plant and Equipment at cost \$	Leased motor vehicles at cost \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2007</b>	430,080	159,275	589,355
Additions	37,570	-	37,570
Disposals	(22,597)	-	(22,597)
Write off of assets charged to profit	(3,606)	-	(3,606)
<b>Balance at 30 June 2008</b>	441,447	159,275	600,722
Additions	26,871	-	26,871
Disposals	-	(32,210)	(31,210)
Impairment	(102,927)	-	(102,927)
<b>Balance at 30 June 2009</b>	<b>365,391</b>	<b>127,065</b>	<b>492,456</b>
<b>Accumulated depreciation/ amortisation and impairment</b>			
<b>Balance at 1 July 2007</b>	(271,917)	(91,290)	(363,207)
Disposals	18,350	-	18,350
Write off of assets charged to profit	1,636	-	1,636
Depreciation expense	(47,717)	(15,296)	(63,013)
<b>Balance at 30 June 2008</b>	(299,648)	(106,586)	(406,234)
Disposals	-	27,189	27,189
Write off of assets charged to profit	85,283	-	85,283
Depreciation expense	(44,554)	(13,419)	(57,973)
<b>Balance at 30 June 2009</b>	<b>(258,919)</b>	<b>(92,816)</b>	<b>(351,735)</b>
<b>Net book value</b>			
As at 30 June 2008	141,799	52,689	194,488
As at 30 June 2009	106,472	34,249	140,721

10. Property, plant and equipment (contd)

	Company		
	Plant and equipment at cost \$	Leased motor vehicles at cost \$	Total \$
<b>Gross carrying amount</b>			
<b>Balance at 1 July 2007</b>	236,664	159,275	395,939
Additions	20,251	-	20,251
Write off of assets charged to profit	(3,222)	-	(3,222)
<b>Balance at 30 June 2008</b>	253,693	159,275	412,968
Additions	20,752	-	20,752
Disposals	-	(32,210)	(32,210)
Write off of assets charged to profit	(102,927)	-	(102,927)
<b>Balance at 30 June 2009</b>	171,518	127,065	298,583
<b>Accumulated depreciation/ amortisation and impairment</b>			
<b>Balance at 1 July 2007</b>	(159,449)	(91,290)	(250,739)
Write off of assets charged to profit	1,636	-	1,636
Depreciation expense	(24,279)	(15,296)	(39,575)
<b>Balance at 30 June 2008</b>	(182,092)	(106,586)	(288,678)
Disposals	-	27,189	27,189
Write off of assets charged to profit	85,283	-	85,283
Depreciation expense	(26,418)	(13,419)	(39,837)
<b>Balance at 30 June 2009</b>	(123,227)	(92,816)	(216,043)
<b>Net book value</b>			
As at 30 June 2008	71,601	52,689	124,290
As at 30 June 2009	48,291	34,249	82,540

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	
	2009 \$	2008 \$	2009 \$	2008 \$
Plant and equipment	44,554	47,717	26,418	24,279
Leased motor vehicle	13,419	15,296	13,419	15,296
	57,973	63,013	39,837	39,575

11. Intangible assets

	Consolidated			
	Goodwill \$	Technology rights \$	Patents & Trademarks \$	Total \$
<b>Gross carrying amount</b>				
Balance at 1 July 2007	2,981,589	295,000	22,149	3,298,738
Additions/(disposals)	-	-	-	-
<b>Balance at 30 June 2008</b>	2,981,589	295,000	22,149	3,298,738
Additions/(disposals)	-	-	-	-
<b>Balance at 30 June 2009</b>	2,981,589	295,000	22,149	3,298,738
<b>Accumulated amortisation and impairment</b>				
Balance at 1 July 2007	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Amortisation expense	-	-	-	-
<b>Balance at 30 June 2008</b>	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Amortisation expense	-	-	-	-
<b>Balance at 30 June 2009</b>	(2,226,828)	(295,000)	(22,149)	(2,543,977)
<b>Net book value</b>				
As at 30 June 2008	754,761	-	-	754,761
As at 30 June 2009	754,761	-	-	754,761

For personal use only

12. Other financial assets

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<u>Non-current</u>				
Shares in controlled entities	-	-	4,151,239	4,151,239
Impairment of shares in controlled entities	-	-	(1,923,618)	(1,923,618)
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)
	-	-	2,227,621	2,227,621
<u>Non-current</u>				
Loans to subsidiaries	-	-	945,406	279,329
Impairment of loans to subsidiaries	-	-	(99,505)	(99,505)
Loans to related parties	132,926	132,926	132,926	132,926
Impairment of loans to related parties	(132,926)	(96,794)	(132,926)	(96,794)
	-	36,132	845,901	208,956
Disclosed in the financial statements as:				
Non-current other financial assets	-	36,132	3,073,522	2,436,577
	-	36,132	3,073,522	2,436,577

13. Trade and other payables

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Trade payables	6,850,193	2,210,779	63,712	263,955
Employee entitlements	214,072	164,890	213,838	80,520
Other payables	338,052	500,705	140,372	181,056
	7,402,317	2,876,374	417,922	525,531

14. Borrowings

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<u>Secured – at amortised cost</u>				
<u>Current</u>				
Lease liabilities (note 20)	8,477	47,055	8,477	47,055
<u>Non-current</u>				
Lease liabilities (note 20)	10,591	-	10,591	-
	19,068	47,055	19,068	47,055
Disclosed in the financial statements as:				
Current borrowings	8,477	47,055	8,477	47,055
Non-current borrowings	10,591	-	10,591	-
	19,068	47,055	19,068	47,055

**15. Provisions**

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<u>Current</u>				
Warranty	145,913	146,096	100,346	126,769
Employee benefits	92,383	12,539	92,383	-
	238,296	158,635	192,729	126,769
<u>Non-current</u>				
Warranty	186,898	240,724	186,898	240,724
Employee benefits	3,814	22,793	3,814	15,805
	190,712	263,517	190,712	256,529

	Consolidated	
	Warranty	Employee benefits
	\$	\$
Balance at 1 July 2008	386,820	35,332
Additional provisions recognised	47,259	67,259
Reductions arising from payments/other sacrifices of future economic benefits	(101,268)	(6,394)
Balance at 30 June 2009	332,811	96,197
	Company	
	Warranty	Employee benefits
	\$	\$
Balance at 1 July 2008	367,493	15,805
Additional provisions recognised	21,019	67,259
Reductions arising from payments/other sacrifices of future economic benefits	(101,268)	(6,394)
Transfer of balance from subsidiary	-	19,527
Balance at 30 June 2009	287,244	96,197

The warranty 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.

The employee benefits provision represents long service leave accrued and provision for bonus.

**16. Other financial liabilities**

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<u>Non-current</u>				
Loans from subsidiaries	-	-	606,284	606,284
	-	-	606,284	606,284

## 17. Issued capital

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
199,613,638 fully paid ordinary shares (2008: 199,613,638)	19,811,832	19,811,832	19,811,832	19,811,832

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.

	2009		2008	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	199,613,638	19,811,832	141,861,409	16,205,569
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
Share issue costs	-	-	-	(53,537)
Balance at end of financial year	199,613,638	19,811,832	199,613,638	19,811,832

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 2009, the Company has 4,000,000 share options on issue (2008: Nil). The options expire on 31 December 2010 at various exercise prices. There are no other options on issue at the date of this report. Further details of options granted to Directors are contained in note 25 to the financial statements.

## 18. Reserves

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Equity-settled employee benefits	16,127	-	16,127	-

The equity-settled employee benefits reserve arises on the grant of share options to directors, executives and senior employees. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to directors and employees is made in note 25 to the financial statements.

## 19. Earnings per share

	Consolidated	
	2009	2008
	Cents per share	Cents per share
Basic earnings per share	0.90	0.06

### Basic earnings per share

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

	2009	2008
	\$	\$
Net profit	1,791,012	119,405

  

	2009	2008
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	199,613,638	197,424,780

### Diluted earnings per share

The diluted earnings per share is the same as basic earnings per share.

## 20. Commitments for expenditure

### (a) Finance lease commitments

#### Finance leasing arrangements

Finance leases relate to motor vehicles under finance leases expiring in two years. At the end of the lease term, the Group will own the motor vehicles.

#### Finance lease liabilities

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
No later than 1 year	9,482	47,776	9,482	47,776
Later than 1 year and not later than 5 years	10,991	-	10,991	-
Minimum future lease payments*	20,473	47,776	20,473	47,776
Less future finance charges	(1,405)	(721)	(1,405)	(2,683)
Present value of minimum lease payments	19,068	47,055	19,068	47,055
Included in the financial statements as: (note 14)				
Current borrowings	8,477	47,055	8,477	47,055
Non-current borrowings	10,591	-	10,591	-
	19,068	47,055	19,068	47,055

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

### (b) Operating lease commitments

#### Operating leasing arrangements

Operating leases relate to offices and warehouses under non-cancellable operating leases expiring within one year. 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Not longer than 1 year	112,217	319,834	79,484	244,325
Longer than 1 year and not longer than 5 years	-	110,037	-	79,484
	112,217	429,871	79,484	323,809

## 21. Contingent liabilities and contingent assets

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2009 and no contingent assets or liabilities were incurred in the interval between the period end and the date of this financial report.

## 22. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
<b>Parent entity</b>			
Solco Ltd	Australia	N/A	N/A
<b>Subsidiaries</b>			
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

For personal use only

### 23. 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	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash and cash equivalents	4,501,143	3,443,921	158,510	1,199,142
Deposits at call	38,000	38,000	-	-
	<u>4,539,143</u>	<u>3,481,921</u>	<u>158,510</u>	<u>1,199,142</u>

#### (b) Non-cash financing and investing activities

During the current financial year, there was no non-cash financing or investing activities.

During the prior financial year, the following non-cash transactions took place:

- (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.

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

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Profit/(loss) for the year	1,791,012	119,405	(915,755)	(1,086,322)
Loss on sale of disposal of non-current assets	-	17,045	-	-
Allowances for bad debts	30,123	(37,958)	(4,036)	(58,092)
Depreciation and amortisation	57,973	63,013	39,837	39,575
Impairment loans to subsidiaries and related parties	36,132	-	36,132	99,506
Write-down of inventories	190,777	-	190,777	-
Equity-settled share based payment	16,127	196,518	16,127	196,518
Write-off of fixed assets	17,645	1,586	17,645	1,586
Net foreign exchange (gain)/loss	(39,340)	-	(39,425)	-
<b>(Increase)/decrease in assets:</b>				
Trade and other receivables	(1,465,309)	(476,706)	334,106	(172,219)
Inventories	(4,043,332)	(691,520)	112,636	(219,066)
Other assets	(17,548)	57,849	(4,414)	31,649
Increase in current tax benefit	-	-	(338,988)	(395,976)
<b>Increase/(decrease) in liabilities:</b>				
Trade and other payables	4,490,612	706,439	(123,415)	(255,177)
Provisions	42,188	48,821	15,948	(25,802)
Net cash from operating activities	<u>1,107,060</u>	<u>4,492</u>	<u>(662,823)</u>	<u>(1,843,820)</u>



**23. Notes to the cash flow statement (contd)**

**(d) Financing facilities**

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Invoice financing facility				
• amount used	-	-	-	-
• amount unused	2,000,000	-	-	-
	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

**24. 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

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this note and the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**Credit risk management**

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 management**

Liquidity risk is the risk that the Company or Group will not be able to meet its financial obligations 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.

Liquidity and interest risk tables

The following tables detail the Company's and Group's remaining contractual maturing for its non-derivative financial assets and liabilities and have been prepared on the following basis:

- Financial assets - based on the undiscounted contractual maturities including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period; and
- Financial liabilities - based on undiscounted cash flows on the earliest date on which the Group can be required to pay, including both interest and principal cash flows.

24. Financial instruments (contd)

2009	CONSOLIDATED							
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total	
	\$	\$	\$	\$	\$	\$	\$	
<b>Financial assets</b>								
Non-interest bearing	325,232	3,401,060	-	-	-	-	3,726,292	
Variable interest rate	4,213,911	-	-	-	-	-	4,213,911	
	4,539,143	3,401,060	-	-	-	-	7,940,203	
<b>Financial liabilities</b>								
Non-interest bearing	-	7,246,117	156,200	-	-	-	7,402,317	
Fixed interest rate	-	-	8,477	10,591	-	-	19,068	
	-	7,246,117	164,677	10,591	-	-	7,421,385	

2008	CONSOLIDATED							
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total	
	\$	\$	\$	\$	\$	\$	\$	
<b>Financial assets</b>								
Non-interest bearing	370,639	1,965,875	-	-	-	36,132	2,372,646	
Variable interest rate	3,111,282	-	-	-	-	-	3,111,282	
	3,481,921	1,965,875	-	-	-	36,132	5,483,928	
<b>Financial liabilities</b>								
Non-interest bearing	-	2,773,638	102,736	-	-	-	2,876,374	
Fixed interest rate	-	-	47,055	-	-	-	47,055	
	-	2,773,638	149,802	-	-	-	2,923,439	

2009	COMPANY							
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total	
	\$	\$	\$	\$	\$	\$	\$	
<b>Financial assets</b>								
Non-interest bearing	-	54,347	-	-	-	506,913	561,260	
Variable interest rate	158,510	-	-	-	-	-	158,510	
	158,510	54,347	-	-	-	506,913	719,770	
<b>Financial liabilities</b>								
Non-interest bearing	-	261,722	156,200	-	-	606,284	1,024,206	
Fixed interest rate	-	-	8,477	10,591	-	-	19,068	
	-	261,722	164,677	10,591	-	606,284	1,043,274	

2008	COMPANY							
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total	
	\$	\$	\$	\$	\$	\$	\$	
<b>Financial assets</b>								
Non-interest bearing	-	383,417	-	-	-	208,956	592,373	
Variable interest rate	1,199,142	-	-	-	-	-	1,199,142	
	1,199,142	383,417	-	-	-	208,956	1,792,515	
<b>Financial liabilities</b>								
Non-interest bearing	-	477,198	48,393	-	-	606,284	1,131,815	
Fixed interest rate	-	-	47,055	-	-	-	47,055	
	-	477,198	95,448	-	-	606,284	1,178,880	

## 24. Financial instruments (contd)

### Market risk

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.

### Foreign currency risk management

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. In prior year, the transactions involved were not considered material enough to warrant the use of derivative financial instruments to hedge such exposures. However, in the current year, exchange rate exposures are managed utilising forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date is as follows:

	Liabilities		Assets	
	2009 \$	2008 \$	2009 \$	2008 \$
EURO	625,431	-	18,270	427,743
USD	287	-	21,979	624,228
GBP	-	-	17,007	-

### Foreign currency sensitivity

The following table details the effect on profit and equity after tax to a 10% increase in the Australian dollar against the USD and EURO from the spot rate as at 30 June 2009 and 30 June 2008.

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Net profit	56,436	(105,197)	-	(105,197)
Equity	56,436	(105,197)	-	(105,197)

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 an increase in equity where the Australian dollar strengthens against the respective currencies. For a weakening of the Australian Dollar against the respective currencies there would be an equal and opposite impact on the profit and other equity, and the balances above would be negative.

### Foreign currency contracts

During the current financial year, the Group adopted the policy of entering into foreign exchange forward contracts to manage their foreign currency risk associated with purchase transactions.

The following table details the forward foreign currency contracts outstanding at reporting date:

	Average exchange rate	Foreign Currency	Contract value AUD\$
Buy US dollars	0.793	285,000	359,214
Buy Euro dollars	0.554	390,000	704,304

## 24. Financial instruments (contd)

### Interest rate risk management

The Group is exposed to interest rate risk as it has borrowed funds at both fixed and 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 cash flows.

### Interest rate sensitivity analysis

The sensitivity analyses of the Group's exposure to interest rate risk at the reporting date has been determined based on the change of 50 basis points in interest rates.

At reporting date, if interest rates had been 50 basis points higher and all other variables were constant, the Group's net profit would have increased by \$21,070 (2008: \$15,556) with a corresponding increase in equity. Where interest rates decreased, there would be an equal and opposite impact on the profit.

The Group's sensitivity to interest rates has increased during the current period due to the increase in variable cash and cash equivalents.

### 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 2009 and 2008, 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.

### Fair value of financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 2. The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their values (2008: net fair values).

## 25. 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 Ltd 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.

Director share options are not issued under the ESOP but are subject to approval by shareholders and attach vesting conditions as appropriate.

### 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 \$
Series I	70,000	30.11.05	21.07.07	27 cents	15.37 cents
Series II	500,000	20.11.08	31.12.10	12 cents	0.85 cents
Series III	1,500,000	20.11.08	31.12.10	15 cents	0.78 cents
Series IV	500,000	20.11.08	31.12.10	16 cents	0.76 cents
Series V	1,500,000	20.11.08	31.12.10	20 cents	0.68 cents

Series I options expired during the previous financial year.

The fair value of the share options granted during the financial year is \$16,127 (2008: \$Nil). Options were priced using a Black-Scholes pricing model. Expected volatility is based on the movement of the underlying share price around its average share price over the expected term of the option. The Directors have determined the expected period of exercise to be similar to the option life based on historical experience.

Inputs into the model	Option series			
	Series II	Series III	Series IV	Series V
Grant date share price	\$0.02	\$0.02	\$0.02	\$0.02
Exercise price	\$0.12	\$0.15	\$0.16	\$0.20
Expected volatility	167%	167%	167%	167%
Option life	1.6 years	1.6 years	1.6 years	1.6 years
Dividend yield	-	-	-	-
Risk-free interest rate	4.08%	4.08%	4.08%	4.08%

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

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	-	-	70,000	0.15
Granted during the financial year	4,000,000	0.17	-	-
Expired during the financial year	-	-	(70,000)	(0.15)
Balance at end of the financial year (i)	4,000,000	0.17	-	-
Exercisable at end of the financial year	-	-	-	-

### (i) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 1.5 years (2008: Nil).

**26. 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 22 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 have been audited.

The aggregate compensation paid to key management personnel of the Company and Group is set out below:

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Short term employee benefits	568,607	754,971	282,019	395,922
Post employment benefits	51,750	68,848	25,382	36,533
Other benefits	6,394	-	-	-
Share based payments	16,127	122,518	16,127	122,518
	642,878	946,337	323,528	554,973

**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 Ltd

	Balance at 1 July 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 No.
<b>2009</b>						
<b>Directors</b>						
Steven Cole	7,573,514	-	-	-	-	7,573,514
Alex Lamond (i)	400,000	-	-	-	400,000	N/A
Mark Norman	250,000	-	-	-	-	250,000
David Richardson	89,170,775	-	-	-	-	89,170,775
Ian Campbell	-	-	-	-	-	-
<b>Key Management</b>						
Gary Deam (iii)	125,000	-	-	-	125,000	N/A
Andrew Simpson	80,000	-	-	-	-	80,000
	97,599,289	-	-	-	525,000	97,074,289
<b>2008</b>						
<b>Directors</b>						
Steven Cole	-	-	7,573,514	-	-	7,573,514
Alex Lamond (i)	-	-	400,000	-	-	400,000
Mark Norman (ii)	-	-	250,000	-	-	250,000
David Richardson	61,818,181	-	18,059,665	9,292,929	-	89,170,775
Ian Campbell (ii)	-	-	-	-	-	-
John Beech (ii)	223,810	-	1,234,126	-	1,457,936	N/A
<b>Key Management</b>						
John Cooper (iv)	1,732,368	-	125,000	-	1,857,368	N/A
Gary Deam	-	-	125,000	-	-	125,000
Andrew Simpson	-	-	80,000	-	-	80,000
	63,774,359	-	27,847,305	9,292,929	3,315,304	97,599,289

(i) Appointed 23 November 2007 and resigned 8 September 2008

(ii) Appointed 23 November 2007

(iii) Resigned 27 February 2009

(iv) Resigned 30 June 2008

## 26. Related party transactions (contd)

### Share options of Solco Ltd

	Balance at 1 July No.	Balance on appointment/ (resignation) No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Vested but not exercisable No.	Vested during year No.	Vested and exercisable at 30 June No.
<b>2009</b>									
<b>Directors</b>									
Steven Cole	-	-	1,000,000	-	-	1,000,000	-	-	-
Mark Norman	-	-	1,000,000	-	-	1,000,000	-	-	-
David Richardson	-	-	1,000,000	-	-	1,000,000	-	-	-
Ian Campbell	-	-	1,000,000	-	-	1,000,000	-	-	-
	-	-	4,000,000	-	-	4,000,000	-	-	-

#### iv. Other transactions with key management personnel of the Group

(i) During the year, Mr David Richardson acquired stock and assets from the Group to the value of \$21,135. The purchases were made on normal arm's length terms and conditions.

#### (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.

#### Transactions between Solco Ltd and other related parties

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

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Revenue</b>				
Sale of goods to subsidiary	-	-	25,694	5,490
<b>Purchases</b>				
Purchase of goods from subsidiary	-	-	263,641	382,595

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 \$338,988 (2008: \$395,976) for which it has been fully compensated by the subsidiary 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 12 and 16.

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

During the year, a provision of \$36,132 (2008: \$99,506) was raised in respect of 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 entity

The parent entity in the Group is Solco Ltd. Interests in subsidiaries are set out in Note 22.

## 27. Dividends

After 30 June 2009 the following dividend was proposed by the Directors for the financial year ended 30 June 2009. The dividend has not been provided for. The declaration and subsequent payment of the dividend has no income tax consequences.

	Cents per share	Total amount \$	Franked/unfranked	Anticipated date of payment
Final ordinary	0.25	499,034	Unfranked	30 September 2009

The financial effect of the dividend has not been brought to account in the financial statements for the financial year ended 30 June 2009 and will be recognised in subsequent financial reports.

## 28. Remuneration of auditors

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Auditor of the parent entity</b>				
Audit or review of the financial report	50,236	57,800	39,736	49,000
	50,236	57,800	39,736	49,000

The auditor of Solco Ltd is HLB Mann Judd.

## 29. 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.

For personal use only