

# Solco

## solar solutions in water and power

Annual Report 2010

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**Solco is a leading provider of solar water and power solutions for a broad range of customers, environments and requirements, with specialised divisions in solar products and pumping wholesale, project management and power generation.**

**Our vision is to be Australia's first choice for sustainable energy solutions.**

Solco's Products Division has an industry leading team sourcing quality photovoltaic components from around the globe making them the preeminent supplier of packaged solar systems to the Australian market



Solco's Solar Pumping Division offers over a decade of experience as the prime supplier of a comprehensive, reliable and innovative range of quality turn-key solar pumping package solutions for rural Australia and overseas.



Solco's Projects Division offers a complete project capability of design, project management, financing, supply, installation and commissioning for all types and sizes of projects including grid, hybrid, mini-grid, remote and specialist applications.



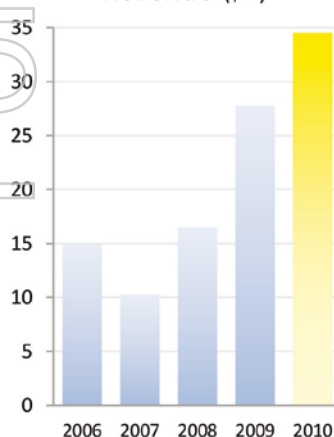
Solco's Power Division has the experience coupled with the technical and financial resources of the Solco Group to build, own and operate renewable power generation facilities to meet emerging market demands.



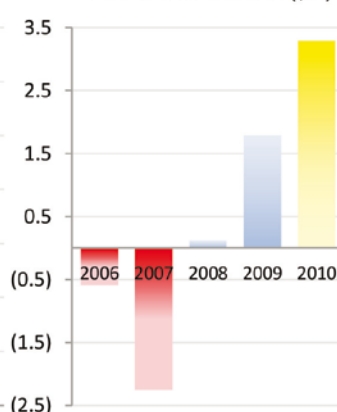
### Five year performance at a glance

\$m	2006	2007	2008	2009	2010	Growth
Revenue	14,933,723	10,309,320	16,509,392	27,779,135	<b>34,532,511</b>	24%
Profit/(Loss) before tax	(588,421)	(2,254,419)	119,405	1,791,012	<b>3,292,229</b>	84%
Profit/(Loss) before tax margin	-3.9%	-21.9%	0.7%	6.4%	<b>9.5%</b>	48%
Cash flow from operations	(2,062,441)	(1,084,984)	4,492	1,107,060	<b>2,035,454</b>	84%
Earnings/(Loss) per share (cents)	(7.60)	(1.90)	0.06	0.90	<b>2.40</b>	167%

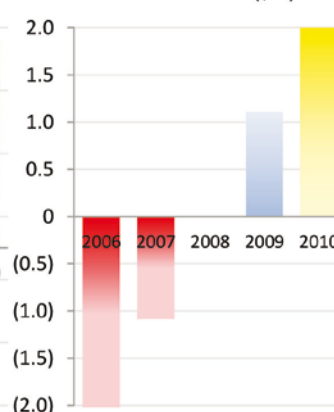
Revenue (\$m)



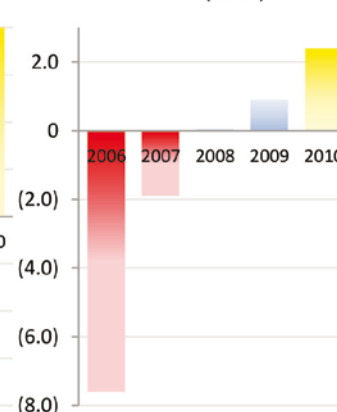
Profit before tax (\$m)



Cash flow (\$m)



EPS (cents)





## **SOLCO LTD**

ABN 27 084 656 691

**Annual report for the financial year ended  
30 June 2010**

# Annual financial report for the financial year ended 30 June 2010

	Page
Corporate directory	1
Chairman's and Managing Director's address	2
Corporate governance statement	4
Directors' report	10
Auditor's independence declaration	19
Independent auditor's report	20
Directors' declaration	22
Index to the financial report	23
Statement of comprehensive income	24
Statement of financial position	25
Statement of changes in equity	26
Statement of cash flows	27
Notes to the financial statements	28
ASX Additional Information	53

## Corporate Directory

### Directors:

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

### Company Secretary:

Darren Crawte

### Registered Office:

12 Brennan Way

BELMONT

WESTERN AUSTRALIA 6104

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:

Middletons

Level 2

6, Kings Park Road

WEST PERTH

WESTERN AUSTRALIA 6005

Telephone: (08) 9216 0900

Fax: (08) 9216 0901

### Auditor:

HLB Mann Judd

Level 4, 130 Stirling Street

PERTH

WESTERN AUSTRALIA 6000

Telephone: (08) 9227 7500

Fax: (08) 9227 7533

## Chairman's and Managing Director's Report

Dear Shareholders,

Implementation of our strategic growth initiatives during 2010 has seen the Company deliver improved earnings growth against the backdrop of a turbulent renewables market affected significantly by product shortages, falling prices, and capitulation by the government on the Carbon Pollution Reduction Scheme (CPRS). The Company's financial performance and security places it in a strong position to exploit arising opportunities outside our current endeavours, however still in line with our strategic plan.

### Our Year's Performance

Record revenue and profit growth was realised in a market where prices reduced significantly and competition increased:

- Group revenue for FY2010 was up 24% to \$34.5m as compared to \$27.8m for FY2009.
- Group net profit for FY2010 was \$3.29m an 84% increase compared to \$1.79 for FY2009 which builds upon and continues our strong growth curve
- Group net cash flow from operations increased by 84% to \$2.03m in FY2010 as compared to \$1.10m in FY2009
- A 121% increase in volume (megawatts) of solar panels shipped
- Earnings per share have increased 167% from 0.90 cents FY2009 to 2.40 cents in FY2010.

Solco's revenue growth was achieved in part as a result of the expansion of our Sales Team with an increased focus on the national market. Over and above sales growth in our traditional regions, significant penetration was made into New South Wales, South Australia and Victoria, where our presence is now affirmed. The expanded Sales and Customer Service Teams have developed and supported new high-volume customers who going forward will be significant purchasers of our products.

Strategic supply agreements with quality international and Australian manufacturers have been secured allowing Solco access, exclusive in some cases, to a complete range of products supporting our rapid growth. Additionally, to ensure our product family remains at the forefront from a technical, performance and price standpoint, we have forged new relationships and supply agreements with leading-edge new-technology providers. We have tested, certified and released these innovative products in the Australian market place ahead of the competition.

The increasingly competitive nature of the renewables marketplace, along with excursions in product price and exchange rates, has placed challenges on maintaining gross profit and resulting earnings. However, significant increased sales volume, development and implementation of new systems, along with strict management of overhead costs, have seen improved gross profits. Significantly, our employees have grown in capability, effectiveness and efficiency thereby managing the pressure of increasing sales volume.

### Our Financial Position

The significant sales growth experienced by Solco during the year has meant careful management of the Company's working capital to ensure the financial and logistical capacity to meet demand for our products. This is clearly evidenced by a continued strengthening of the Group net asset position to \$12.1m at 30 June 2010 (\$7.9m - 30 June 2009). The company also has insignificant long term liabilities and a strong cash position of \$6.06m which leaves the Group well placed to fund its own growth through increased sales and the development of new opportunities.

### Our People

Solco's core group of staff has over 150 man years of experience in the renewables industry. This experience has proven instrumental in positioning the Company to successfully capture current product sales opportunities and is one of the cornerstones for future growth.

The addition of key executive staff through 2010 is designed to underpin Solco's strategic expansion into developing market sectors without comprising our current revenue and growth. Steve Missen and John Hebenton have been appointed to head our Products and Projects Business Units respectively.

## Our Strategic Direction

During 2010 we have achieved the key objective of developing a strong strategic focus at Solco. Through detailed analysis of current and emerging markets, reviewing our capabilities, products and services, researching competitive threats, and, assessing a range of external factors, we have refined and are implementing our strategic plan for further growth and market expansion.

Key objectives contained within our strategic plan are as follows:

- **Products – The wholesale distribution of solar solutions in power and water**
  - Grow and protect this core business utilising its access to products and solutions to seed Project and Power opportunities
  - Develop aggressive yet achievable sales targets to build on our current success
  - Protect and expand our dealer sales and service network
  - Ensure security of product supply and exclusive agreements with key suppliers
  - Identify and implement new technology products and release to the market
  - Recognise and manage market, commercial, political and technical risks
  - Actively engage with government, customers and the market on industry issues
- **Projects – The delivery of commercial scale power and water pumping solutions**
  - Leveraging off Solco's unrivalled access to solar project development track record, develop a specialised Projects division as a profit centre
  - s
  - Provide financing alternatives to expand Project opportunities
  - Engage with Power Utilities, Corporate Consumers and Project Developers to partner with and develop Projects
- **Power – The sale of renewable energy into the power market**
  - Identify Build-Own-Operate Power opportunities by leveraging of Solco's capabilities and success in Products and Projects
  - Carry out Power Feasibility Studies, including via Joint venture, on selected Power developments for funding and implementation

On behalf of the Board of Solco, David Richardson (Chairman), Mark Norman (Managing Director and CEO), and Ian Campbell (Non-Executive Director), we thank the staff of Solco and the Shareholders for their continued support and look forward to next phase of the evolution of Solco as a significant contributor and stakeholder within the rapidly expanding renewable energy market.



David Richardson  
Chairman



Mark Norman  
Managing Director and CEO

## Corporate Governance Statement for the year ended 30 June 2010

### 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 and disclosed in the Board Charter on the Company's website.

#### **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 2009 to 16 November 2009 the Board comprised:

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

On 16 November 2009, the Board contracted to 3, with the resignation of Steven Cole. The Board considers the current structure to be reflective of the needs of the Company at its current stage of development.



**Recommendation 2.2 – The chairperson should be an independent director.**

The Chairperson is not 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 terms of office, and their status as executive/non-executive/independent, for each director for the year ending 30 June 2010 were as follows (with all directors noted as continuing as at 30 June 2010 still being in office at the date of this annual report):

Steven Cole	non-executive/independent - 1 July 2009 to 16 November 2009
David Richardson	non-executive – 1 July 2009 to 30 June 2010 (cont)
Ian Campbell	non-executive/independent - 1 July 2009 to 30 June 2010 (cont)
Mark Norman	executive - 1 July 2009 to 30 June 2010 (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 1 meeting was held):

Director	Number of Mtgs Eligible to Attend	Number of Mtgs Attended
Steven Cole (Chairman)	1	1
David Richardson	1	1

In accordance with the process for Board, Board Committee and Director evaluation as described in the Charter such an evaluation has been considered and performed during the year.

The Company departed from the Recommendations in that:

- (a) the Nomination and Remuneration Committee comprises 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 currently has 2 members all being non-executive directors (David Richardson and Ian Campbell). Ian Campbell serves as the independent chair of the Audit and Risk Management 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 on the Company's website.

**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
David Richardson	2	2
Ian Campbell	2	2
Steven Cole	1	1

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 until 16 November 2009.

In explanation of the reasons for this departure, the Company advises that the skills and experience of the Committee's Chairman were considered the most appropriate amongst the Board members to discharge the role of Chairman of the Audit and Risk Management Committee, 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 completed the process of developing a robust system for identifying, assessing, monitoring and managing material risk throughout the organisation, including internal compliance and control systems, and procedures.

Details of the Company's policy on these matters is set out under the "Risk Management Policy" 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 on a quarterly basis.

**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.

A summary of the Company's policies on risk oversight and management of material business risks is publicly available 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 Board 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 prior 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 (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.



## Directors' report

The directors of Solco Ltd submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. 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:

Name	Particulars
David Richardson MIEAust Appointed as chairman on 16 November 2009	<p><u><i>Non-Executive Chairman</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>
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>
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>

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

- Stephen Cole – resigned 16 November 2009

### 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
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

### Directors' shareholdings

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

Directors	Fully paid ordinary shares Number	Share options Number
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

There have been no share options granted to directors and executives during or since the end of the financial year.

### 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 Group are as follows:

- Group profitability improved from a profit of \$1.79 million in FY2009 to a record profit of \$3.29 million in FY2010, an increase of 84%.
- Total revenue for the period increased from \$27.8 million in FY2009 to \$34.5 million, an increase of 24%.
- Trade and other receivables increased from \$3.4 million in FY2009 to \$4.3 million at 30 June 2010, while inventories decreased for the same period from \$6.8 million to \$4.4 million.
- Cash flow from operations increased 84% from FY2009 to \$2.03 million in FY2010.
- Cash at bank at 30 June 2010 increased to \$6.06 million as compared to \$4.53 for FY2009.

### PRODUCTS DIVISION - POWER

The past financial year established new records for the Power Division, in both sales and earnings. Our results were secured in a market experiencing significant competitive pressure and a drop in average solar photovoltaic panel pricing on a per watt basis from \$5.71 to \$3.40. Although this impacts revenue per unit item it reinforces our confidence in our strategic direction as solar generated green energy will approach black energy costs at point of sale in not too distant future.

The Solco Power Division grew sales to a record high notwithstanding supply issues across key components including inverters and PV panels. Product shortages have been a consistent market wide issue during the FY2010 with global demand for solar products outstripping manufacturers' volume predictions formed during the GFC (Global Financial Crisis). In particular, certain global component shortages such as semiconductors have been cited as the base cause. Our future strategies remain cognisant of this global constraint and include measures to mitigate the impact on our supply chain. We are broadening our range of suppliers for key components as well as forming strategic alliances which should ensure priority access to critical products.

Our 2010 financial year has seen ongoing identification and qualification of suppliers, enhancing our supply base spread across Asia, Europe, US and to the extent possible, Australia. This positioning provides a natural hedge against volatility in both product availability and currency.

During FY2010 we released further new products into the Australian market following the development of strategic supply relationships, these include:

- Photovoltaic panels
- Grid connect inverters
- Solar panel energy maximisers
- Framing, racking and tracking systems
- Other supplemental parts

Our sales team expansion has been critical to our revenue growth. We have positioned Business Development Managers in all mainland states supported by Sales and Customer Service Team Members in our strategically located warehouses. With the expansion of our Victorian team during FY2010, early in FY2011 we will be opening an office and warehouse in Melbourne. This will reduce our shipping times and improve customer service for south eastern Australia. Similarly to support growth on the west coast, in April 2010 we relocated to a more centrally located office with larger warehousing and improved logistic systems.

Solco has actively developed both its Corporate and Product marketing to enhance brand awareness for both our customers and in the longer term the retail sector. We have strengthened our marketing team by employing a Marketing Co-ordinator who is actively developing strategies to support and increase our presence in the market. This includes dual branding of products with the manufacturer and Solco's logos, increased presence at trade shows and exhibitions, and targeted advertising campaigns.

With bipartisan support the Enhanced Renewable Energy Target (eRET) legislation was passed early in FY2010. This legislation brought certainty to the PV solar industry by affirming the increased RET level which guarantees 20 per cent of Australia's energy in 2020 will come from renewable sources. The new Small-scale Renewable Energy Scheme (SRES) defines the solar multiplier level and sets a fixed price of \$40 for each Renewable Energy Certificate (REC) from January 1, 2011. At this fixed REC price, a Sydney household that installs a 1.5 kilowatt solar panel system in 2011 will benefit from an upfront subsidy of \$6200. Following the other states Western Australia has now implemented a net feed in tariff at a minimum level of 47.5 cents per kWh. These actions together will support the continued growth in the domestic PV retail market.

With the favourable 60 cent gross feed in tariff announced in New South Wales, Solco has seen a marked increase in the sale of larger systems up to 10kW's into this market. It is our expectation that growth in these larger-sized systems will increase as Australia expands from primarily a domestic market to include the commercial PV market. We believe this is supported by Premier Brumby's recent comments of his desire to make Victoria a lead state in the application of larger scale renewable projects.

## **PRODUCTS DIVISION - WATER**

The sale of solar pumps and solar pumping systems remain an important and strategic part of the Products Division market offering. Solco distributes both fully assembled pumping systems and individual components through both its specialised solar pumping dealers and its solar PV distribution network.

Rural sales remain the largest contributor to revenue generated by the Sun Mill family of solar pumps. Rural capital spending has been constrained by the ongoing effects of drought, reductions in government rural support and access to credit due to the Global Financial Crisis. With the removal of the Renewable Energy Water Pumping Rebates through the last financial year, this is the first year since 2002/03 that the market has not been rebate assisted. This has resulted in a shift to smaller system sizes. However going forward with falling PV panel prices and Solco's capability to access a wider range of pumping products we expect to reverse this trend.

Combined with the strategic supply agreements for PV, the continued expansion and development of our national sales team and improving conditions through much of the Agricultural sector it is anticipated that the Water Division will see improved revenue growth and market expansion through FY2011.

Although Solco no longer manufactures the Genius solar hot water system we continue to manage warranty and service for the units in operation. Solco is fully reserved on its balance sheet for any outstanding warranties and in FY2010 prior years warranty costs are tracking budgeted reserve allocation. Solco entered into a licence agreement and sold a quantity of manufacturing equipment to a US entity this year.

## **PROJECTS DIVISION**

In line with the previously announced strategic development initiatives, Solco has appointed an Executive Manager-Projects, John Heberton, to underpin the creation of a Projects division that will target new markets for the Company.

Solco has developed a number of micro generation solar (PV) installations and is now building a Projects Division as a new profit centre.

The Projects division is focusing on:

- Industrial and Commercial Projects: which includes the design, project management and delivery of commercial scale renewable energy, mini-grid, hybrid and water pumping solutions to commercial, corporate, government and NGO customers for industrial, civic, rural, mining, remote and select offshore regional applications; and
- Power projects: where Solco will build, own and operate renewable power generation facilities to meet emerging market demands.

These initiatives leverage off Solco's design, supply and financial capabilities to provide new growth, including through joint venture, to meet the exciting emerging market demands and opportunities for larger scale project applications and renewable energy power utility participants.

## 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 2010.

## Dividends

Dividends paid to members during the financial year were as follows:

	Cents per share	Total amount \$	Franked/unfranked	Date paid
Final ordinary	0.25	499,035	Unfranked	30 September 2009

## 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	1,000,000	Ordinary	15 cents each	31 December 2010
Solco Ltd	500,000	Ordinary	16 cents each	31 December 2010
Solco Ltd	1,000,000	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:

- (a) against any liability to a third party (other than the Company or a related body corporate) unless liability arises out of conduct involving lack of good faith; and
- (b) for costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Act 2001.

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

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 7 board meetings, 1 nomination and remuneration committee meeting, and 2 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	4	4	1	1	1	1
Mark Norman	8	8	-	-	-	2
David Richardson	8	8	1	1	2	2
Ian Campbell	8	7	1	1	2	2

### 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 19 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 2010. 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:

- David Richardson Chairman and Non-Executive Director (appointed as chairman on 16 November 2009)
- Mark Norman Managing Director (appointed Executive Director on 23 November 2007 and Managing Director on 8 September 2008)
- Ian Campbell Non-Executive Director
- Steven Cole Chairman and Non-Executive Director (resigned 16 November 2009)
- 
- Andrew Simpson General Manager Choice Electric
- John Heberton Executive Manager: National Projects (appointed 23 March 2010)
- Stephen Missen Solar Products Business Unit Manager (appointed 1 July 2010)

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 \$105,000 per annum. The fees currently paid to non-executive directors are \$60,000 per annum for the non executive Chairman and \$45,000 per annum for the non executive director.

### **Remuneration of key management personnel**

2010	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 (i)	24,846	-	-	-	2,236	-	3,369	30,451	11.1%
Mark Norman	243,078	6,881	-	-	21,877	-	3,716	275,552	1.3%
David Richardson	55,071	-	-	-	4,736	-	3,369	63,176	5.3%
Ian Campbell	45,981	-	-	-	4,139	-	3,369	53,489	6.3%
<b>Executives</b>									
John Heberton (iv)	60,974	-	-	-	5,488	-	-	66,462	-
Steve Missen (v)	-	-	-	-	-	-	-	-	-
Andrew Simpson	126,585	4,898	-	-	11,834	-	-	143,317	-
	556,535	11,779	-	-	50,310	-	13,823	632,447	

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 (ii)	64,056	-	-	-	5,765	-	-	69,821	-
<b>Executives</b>									
Gary Deam (iii)	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	

(i) Resigned – 16 November 2009

(ii) Resigned – 8 September 2008

(iii) Resigned – 27 February 2009

(iv) Appointed – 23 March 2010

(v) Appointed – 1 July 2010

**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	Vested 1 January 2010
Series III	30 November 2008	31 December 2010	0.78 cents	Vested 1 January 2010
Series IV	30 November 2008	31 December 2010	0.76 cents	Vested 1 January 2010
Series V	30 November 2008	31 December 2010	0.68 cents	Vested 1 January 2010

**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:

There were no new share based payments granted as remuneration to key management personnel in the current financial year.

Options lapsed during the year are as follows:

	Value of options granted at the grant date \$	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	-	-	-	-
David Richardson	-	-	-	-
Ian Campbell	-	-	-	-

**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 Mark Norman**

- No fixed term agreement
- Pro rated annual base salary, inclusive of superannuation and Directors fees for the year ended 30 June 2010 of \$260,000
- No termination benefits are payable

**Mr David Richardson**

- No fixed term agreement
- Pro rated directors fees of \$60,000 (plus statutory superannuation) per annum
- No termination benefits are payable

**Mr Ian Campbell**

- No fixed term agreement
- Pro rated directors fees of \$45,000 (plus statutory superannuation) per annum
- No termination benefits are payable

**Mr Andrew Simpson**

- No fixed term agreement
- Pro rated annual base salary of \$123,000 plus superannuation
- No termination benefits are payable

**Mr John Heberton**

- No fixed term agreement
- Pro rated annual base salary of \$220,000 plus superannuation
- No termination benefits are payable

**Mr Steve Missen**

- No fixed term agreement
- Pro rated annual base salary of \$185,000 plus superannuation
- 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, 30 August 2010

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Solco Ltd for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no:

- a) contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Solco Ltd.



Perth, Western Australia  
30 August 2010

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



**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 consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 22 to 52.

*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 the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

*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 consolidated entity's financial position as at 30 June 2010 and of its 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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 2010 complies with section 300A of the *Corporations Act 2001*.



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



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

**Perth, Western Australia**  
**30 August 2010**

## Directors' declaration

The directors declare that:

- a. the accompanying financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

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

On behalf of the Directors



**Mark Norman**  
**Managing Director/ CEO**  
Perth, 30 August 2010

## Index to the financial report

<b>Contents</b>	<b>Page</b>
Statement of comprehensive income	24
Statement of financial position	25
Statement of changes in equity	26
Statement of cash flows	27
Notes to the financial statements	28
1 General information	28
2 Significant accounting policies	28
3 Critical accounting judgements and key sources of estimation uncertainty	36
4 Revenue	37
5 Profit for the year	37
6 Income taxes	38
7 Trade and other receivables	39
8 Inventories	39
9 Other assets	39
10 Property plant and equipment	40
11 Intangible assets	40
12 Other financial assets	41
13 Trade and other payables	41
14 Borrowings	41
15 Provisions	41
16 Issued capital	42
17 Reserves	42
18 Earnings per share	43
19 Commitment for expenditure	43
20 Contingent liabilities and contingent assets	43
21 Subsidiaries	44
22 Notes to the cash flow statement	44
23 Financial instruments	45
24 Share based payments	49
25 Related party transactions	50
26 Segment reporting	51
27 Dividends	52
28 Remuneration of auditors	52
29 Parent entity disclosures	52
30 Subsequent events	52

**Statement of comprehensive income  
for the financial year ended 30 June 2010**

	Note	Consolidated	
		2010 \$	2009 \$
<b>Continuing operations</b>			
Revenue	4	34,532,511	27,779,135
Change in inventories of finished goods and work in progress		2,239,002	3,927,436
Raw materials and consumables used		(29,946,135)	(26,787,501)
Gross profit		6,825,378	4,919,070
Other income	4	330,613	370,165
Employee benefit expenses		(2,560,245)	(2,137,447)
Research and development expenses		(8,560)	(7,910)
Advertising expenses		(123,961)	(121,490)
Company overhead expenses		(1,049,435)	(1,034,350)
Provision for bad and doubtful debts		8,625	(30,123)
Depreciation and amortisation expenses		(40,584)	(57,973)
Finance costs		(55,816)	(33,095)
Impairment of loans to subsidiaries and related parties		-	(36,132)
Write off of assets		(33,786)	(17,645)
Other expenses		-	(22,059)
Profit before tax	5	3,292,229	1,791,012
Income tax benefit	6	1,503,783	-
<b>Profit for the year</b>		4,796,012	1,791,012
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		4,796,012	1,791,012
<b>Earnings per share</b>			
Basic (cents per share)	18	2.40	0.90
Diluted (cents per share)	18	2.40	0.90

Notes to the financial statements are included on pages 28 to 52.



**Statement of financial position**  
**As at 30 June 2010**

	Note	Consolidated	
		2010 \$	2009 \$
<b>Current assets</b>			
Cash and cash equivalents	22(a)	6,064,576	4,539,143
Trade and other receivables	7	4,245,238	3,401,060
Inventories	8	4,430,723	6,794,010
Other assets	9	1,059,090	76,644
<b>Total current assets</b>		<b>15,799,627</b>	<b>14,810,857</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	90,031	140,721
Intangible assets	11	754,761	754,761
Other financial assets	12	-	-
Deferred tax asset	6	1,511,781	-
<b>Total non-current assets</b>		<b>2,356,573</b>	<b>895,482</b>
<b>Total assets</b>		<b>18,156,200</b>	<b>15,706,339</b>
<b>Current liabilities</b>			
Trade and other payables	13	5,500,409	7,402,317
Borrowings	14	-	8,477
Provisions	15	376,538	238,296
<b>Total current liabilities</b>		<b>5,876,947</b>	<b>7,649,090</b>
<b>Non-current liabilities</b>			
Borrowings	14	-	10,591
Provisions	15	104,509	190,712
Deferred tax liability	6	1,574	-
<b>Total non-current liabilities</b>		<b>106,083</b>	<b>201,303</b>
<b>Total liabilities</b>		<b>5,983,030</b>	<b>7,850,393</b>
<b>Net assets</b>		<b>12,173,170</b>	<b>7,855,946</b>
<b>Equity</b>			
Issued capital	16	19,818,256	19,811,832
Reserves	17	22,650	16,127
Accumulated losses		(7,667,736)	(11,972,013)
<b>Total equity</b>		<b>12,173,170</b>	<b>7,855,946</b>

Notes to the financial statements are included on pages 28 to 52.

**Statement of changes in equity  
for the financial year ended 30 June 2010**

**Consolidated**

	Fully paid ordinary shares \$	Share-based payment reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2009</b>	19,811,832	16,127	(11,972,013)	7,855,946
Profit for the year	-	-	4,796,012	4,796,012
<b>Total comprehensive income for the year</b>	-	-	4,796,012	4,796,012
Tax adjustment - equity	6,424	-	-	6,424
Recognition of share-based payments	-	13,823	-	13,823
Lapsed options – transfer between reserves		(7,300)	7,300	-
Payment of dividends			(499,035)	(499,035)
<b>Balance at 30 June 2010</b>	19,818,256	22,650	(7,667,736)	12,173,170
<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 comprehensive income for the year</b>	-	-	1,791,012	1,791,012
Recognition of share-based payments	-	16,127	-	16,127
<b>Balance at 30 June 2009</b>	19,811,832	16,127	(11,972,013)	7,855,946

Notes to the financial statements are included on pages 28 to 52.

**Statement of cash flows  
for the financial year ended 30 June 2010**

	<u>Note</u>	<u>Consolidated</u>	
		<u>2010</u>	<u>2009</u>
		<u>\$</u>	<u>\$</u>
<b>Cash flows from operating activities</b>			
Receipts from customers		37,109,316	29,292,917
Payments to suppliers and employees		(35,257,437)	(28,300,950)
Interest and other costs of finance paid		(55,816)	(33,095)
Interest received		239,390	148,188
<b>Net cash provided by/(used in) operating activities</b>	22(c)	<u>2,035,453</u>	<u>1,107,060</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(33,729)	(26,871)
Proceeds from insurance claim of stolen property, plant and equipment		41,812	5,020
<b>Net cash provided by/(used) in investing activities</b>		<u>8,083</u>	<u>(21,851)</u>
<b>Cash flows from financing activities</b>			
Repayment of hire purchase liabilities		(19,068)	(27,987)
Dividends paid		(499,035)	-
<b>Net cash (used) in financing activities</b>		<u>(518,103)</u>	<u>(27,987)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,525,433	1,057,222
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>4,539,143</u>	<u>3,481,921</u>
<b>Cash and cash equivalents at the end of the financial year</b>	22(a)	<u>6,064,576</u>	<u>4,539,143</u>

Notes to the financial statements are included on pages 28 to 52.

## Notes to the financial statements for the financial year ended 30 June 2010

### 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:

12 Brennan Way  
BELMONT WESTERN AUSTRALIA 6104

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 Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been presented so that it is also in conformity with the revised standard.

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 30 August 2010.

#### 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 2010 reporting periods.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 January 2010) prescribes certain changes to existing standards.
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group Treasury Share Transactions will be withdrawn from the application date.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments will become mandatory for the Group's 30 June 2011 financial statements.
- AASB 2009-14 Amendments to Australian Interpretations – Prepayment of a Minimum Funding Requirement – AASB 14 makes amendments to Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing an equity instrument to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required.
- AASB 2010 -4 amendments contained in AASB 2010-4 - amendments relate to accounting policy changes in the year of adoption (AASB 1); revaluation basis as deemed cost (AASB 1); use of deemed cost for operations subject to rate regulation (AASB 1); clarification of disclosures (AASB 7); clarification of statement of changes in equity (AASB 101); significant events and transactions (AASB 134); and fair value of award credits (AASB Interpretation 13). The amendments are mandatory from 1 January 2011 and are not expected to have a significant impact on the financial statements.

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 parent entity 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 comprise the financial statements of Solco Limited ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of

## 2. Significant accounting policies (contd)

potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Business combinations have been accounted for using the acquisition method of accounting.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (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.

#### *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.

### (c) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8 Operating Segments. Since the change in accounting policy only affects presentation and disclosure aspects, there has been no impact on earnings per share.

## 2. Significant accounting policies (contd)

### (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) Finance costs

Finance 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. Finance 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

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 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.

## 2. Significant accounting policies (contd)

### (h) Acquisitions of assets

The acquisition 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.

### (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 statement of financial position.

### (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 statement of comprehensive income during the financial period in which they are incurred.



## 2. Significant accounting policies (contd)

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
• Intangibles	10 years
• Technology rights	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance 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 statement of comprehensive income 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 statement of comprehensive income.

### *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.

### **(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 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.

## 2. Significant accounting policies (contd)

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 statement of financial position.

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.

### (t) Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

#### (i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

#### (ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

#### (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### (iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

**(u) Derecognition of financial assets and financial liabilities**

**(i) Financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset, or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**(v) Impairment of financial assets**

The Group assesses at each balance date whether a financial asset or group of financial assets is impaired.

**(i) Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(ii) Financial assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(w) **Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(x) **Intangible assets**

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

(y) **Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**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 24.

*Income Taxes*

The Group is subject to income taxes in Australia. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred tax provisions in the periods in which such determination are made. At 30 June 2010 management believe there are no material judgement areas which would result in the actual final outcome differing from the calculated income tax.

### 3. Critical accounting judgements and key sources of estimation uncertainty (contd)

#### *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.

#### *Recoverability of deferred income tax assets*

The Board has recognised deferred tax assets during the year, including \$1.1m in relation to unused tax losses. The asset has been recognised on the basis that the Board considers it probable that:

- The Company will continue to meet the legislative requirements for carrying forward existing income tax losses under the *Income Tax Assessment Act 1997*; and

sufficient taxable profit will be available in future years to allow all or part of the deferred income tax asset to be utilised. The Board has formed this view on the basis of the Company's current strategy and profit forecasts and assumes that there are no material changes to these forecasts, the ownership of the Company, or the legislative environment in which the Company operates.

### 4. Revenue

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

	Consolidated	
	2010 \$	2009 \$
<b>Continuing operations</b>		
Revenue from the sale of goods	34,532,511	27,779,135
	<u>34,532,511</u>	<u>27,779,135</u>
<b>Other income</b>		
Interest revenue	239,390	148,188
Sub-lease rentals	49,411	179,485
Foreign exchange gains	-	39,425
Other income	41,812	3,067
<b>Total revenue from continuing operations</b>	<u>330,613</u>	<u>370,165</u>

### 5. Profit for the year

#### **Other expenses**

The result for the year includes the following expenses:

	Consolidated	
	2010 \$	2009 \$
Depreciation		
Plant and equipment	34,372	44,554
Leased motor vehicles	6,212	13,419
	<u>40,584</u>	<u>57,973</u>
Foreign exchange losses	210,550	-
Rental expenses relating to operating leases	422,632	344,933
Write off of assets:		
Plant and equipment	33,786	17,645
	<u>33,786</u>	<u>17,645</u>
Write down of inventories to net realisable value	53,000	190,777
Share-based payments		
Equity settled share-based payments	13,823	16,127

## 6. Income taxes

Recognised in the statement of comprehensive income

Consolidated	
2010	2009
\$	\$

The major components of the tax expense/(income) are:

Current tax expense	-	-
Deferred tax income relating to the origination and reversal of temporary differences	(1,503,783)	-
Total tax income attributable to continuing operations	(1,503,783)	-

(a) 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	
	2010	2009
	\$	\$
Profit/(loss) before income tax expense from operations	3,292,229	1,791,012
Income tax expense/(benefit) calculated at 30%	987,669	537,304
Share-issue expenses	3,456	(24,193)
Share-based payments	-	4,838
Investment allowance	3,512	-
Impairment of loans	-	10,840
Other impairments	-	5,294
Sundry items	(5,259)	(1,498)
Previously unrecognised tax losses used	(1,018,542)	-
Previous years temporary differences unrecognised	(1,116,001)	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	(532,585)
Previous years timing differences recognised	(358,618)	-
Income tax benefit	(1,503,783)	-

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	
	2010	2009
	\$	\$
<b>(b) Deferred tax assets</b>		
Temporary differences		
Receivables	31,983	-
Inventories	100,650	-
Other assets	40,335	-
Payables	72,074	-
Provisions	144,315	-
Equity	6,424	-
Unused tax losses	1,116,001	
	1,511,781	-

**(c) Unrecognised temporary differences**

Temporary differences for which deferred tax assets have not been recognised :

Provisions	-	1,040,274
Other	-	61,363
	-	<u>1,101,637</u>

## Prepayments

Consolidated	
2010	2009
\$	\$
1,059,090	76,644
1,059,090	76,644

## 10. Property, plant and equipment

### Gross carrying amount

#### Balance at 1 July 2008

Additions

Disposals

Assets written off

#### Balance at 30 June 2009

Additions

Disposals and assets written off

Assets written off directly to profit

#### Balance at 30 June 2010

### Accumulated depreciation/ amortisation and impairment

#### Balance at 1 July 2008

Disposals

Write off of assets charged to profit

Depreciation expense

#### Balance at 30 June 2009

Disposals and assets written off

Write off of assets charged to profit

Depreciation expense

#### Balance at 30 June 2010

### Net book value

As at 30 June 2009

As at 30 June 2010

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

Plant and equipment 2 – 8 years

Leased motor vehicle 6 years

Consolidated		
Plant and Equipment at cost \$	Motor vehicles at cost \$	Total \$
441,447	159,275	600,722
26,871	-	26,871
-	(32,210)	(31,210)
(102,927)	-	(102,927)
365,391	127,065	492,456
33,728	-	33,728
(51,994)	(86,894)	(138,888)
(67,200)	-	(67,200)
279,925	40,171	320,096
(299,648)	(106,586)	(406,234)
-	27,189	27,189
85,283	-	85,283
(44,554)	(13,419)	(57,973)
(258,919)	(92,816)	(351,735)
40,287	64,815	105,102
57,152	-	57,152
(34,372)	(6,212)	(40,584)
(195,852)	(34,213)	(230,065)
106,472	34,249	140,721
84,073	5,958	90,031

## 11. Intangible assets

### Gross carrying amount

#### Balance at 1 July 2008

Additions/(disposals)

#### Balance at 30 June 2009

Additions/(disposals)

#### Balance at 30 June 2010

### Accumulated amortisation and impairment

#### Balance at 1 July 2008

Amortisation expense

#### Balance at 30 June 2009

Amortisation expense

#### Balance at 30 June 2010

### Net book value

As at 30 June 2009

As at 30 June 2010

Consolidated			
Goodwill \$	Technology rights \$	Patents & Trademarks \$	Total \$
2,981,589	295,000	22,149	3,298,738
-	-	-	-
2,981,589	295,000	22,149	3,298,738
-	-	-	-
2,981,589	295,000	22,149	3,298,738
(2,226,828)	(295,000)	(22,149)	(2,543,977)
-	-	-	-
(2,226,828)	(295,000)	(22,149)	(2,543,977)
-	-	-	-
(2,226,828)	(295,000)	(22,149)	(2,543,977)
754,761	-	-	754,761
754,761	-	-	754,761



## 12. Other financial assets

### Non-current

Shares in other unlisted (non-traded) entities not under control of Solco  
Impairment of shares in other unlisted (non-traded) entities

Consolidated	
2010	2009
\$	\$
310,505	310,505
(310,505)	(310,505)
-	-

### Non-current

Loans to related parties  
Impairment of loans to related parties

Consolidated	
2010	2009
\$	\$
132,926	132,926
(132,926)	(132,926)
-	-
Disclosed in the financial statements as:	
Non-current other financial assets	
-	-
-	-

## 13. Trade and other payables

Trade payables  
Employee entitlements  
Other payables

Consolidated	
2010	2009
\$	\$
4,193,027	6,850,193
346,883	214,072
960,500	338,052
5,500,409	7,402,317

## 14. Borrowings

### **Secured – at amortised cost**

#### Current

Lease liabilities (note 20)

#### Non-current

Lease liabilities (note 20)

Disclosed in the financial statements as:

Current borrowings  
Non-current borrowings

Consolidated	
2010	2009
\$	\$
-	8,477
-	10,591
-	19,068
Disclosed in the financial statements as:	
Current borrowings	8,477
Non-current borrowings	10,591
-	19,068

## 15. Provisions

### Current

Warranty  
Employee benefits

Consolidated	
2010	2009
\$	\$
222,000	145,913
154,538	92,383
376,538	238,296

15. Provisions(contd)

Non-current

Warranty  
Employee benefits

Consolidated	
2010	2009
\$	\$
97,298	186,898
7,211	3,814
104,509	190,712

**Balance at 1 July 2008**

Additional provisions recognised

Reductions arising from payments/other sacrifices of future economic benefits

**Balance at 30 June 2009**

Additional provisions recognised

Reductions arising from payments/other sacrifices of future economic benefits

**Balance at 30 June 2010**

Consolidated	
Warranty	Employee benefits
\$	\$
386,820	35,332
47,259	67,259
(101,268)	(6,394)
332,811	96,197
64,311	132,712
(77,824)	(67,160)
319,298	161,749

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. Issued capital

199,613,638 fully paid ordinary shares  
(2009: 199,613,638)

Consolidated	
2010	2009
\$	\$
19,818,256	19,811,832

**Fully paid ordinary shares**

Balance at beginning of financial year

Tax adjustment - equity

Balance at end of financial year

2010		2009	
No.	\$	No.	\$
199,613,638	19,811,832	199,613,638	19,811,832
-	6,424	-	-
199,613,638	19,818,256	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 2010, the Company has 3,000,000 share options on issue (2009: 4,000,000). 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 24 to the financial statements.

17. Reserves

Equity-settled employee benefits

Consolidated	
2010	2009
\$	\$
22,650	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.

## 18. Earnings per share

Basic earnings per share

### 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:

Net profit

Weighted average number of ordinary shares for the purposes of basic earnings per share

### Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share.

## 19. Commitments for expenditure

### (a) Finance lease commitments

#### Finance leasing arrangements

Finance leases in the previous financial year related to motor vehicles under finance leases.

#### Finance lease liabilities

No later than 1 year

Later than 1 year and not later than 5 years

Minimum future lease payments\*

Less future finance charges

Present value of minimum lease payments

Included in the financial statements as: (note 14)

Current borrowings

Non-current borrowings

\* 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. 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

Not longer than 1 year

Longer than 1 year and not longer than 5 years

## 20. Contingent liabilities and contingent assets

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2010 and no contingent assets or liabilities were incurred in the interval between the period end and the date of this financial report.

Consolidated	
2010	2009
Cents per share	Cents per share
2.40	0.90

2010	2009
\$	\$
4,796,012	1,791,012
2010	2009
No.	No.
199,613,638	199,613,638

Consolidated	
2010	2009
\$	\$
-	9,482
-	10,991
-	20,473
-	(1,405)
-	19,068
-	8,477
-	10,591
-	19,068

Consolidated	
2010	2009
\$	\$
199,790	112,217
267,526	-
467,316	112,217

## 21. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2010 %	2009 %
Parent entity			
Solco Ltd	Australia	N/A	N/A
Subsidiaries			
Choice Electric Co. (Aust) Pty Ltd	Australia	100	100
Solco Industries Pty Ltd	Australia	100	100
Poly Tuff (WA) Pty Ltd	Australia	100	100
Solar Energy Systems Infrastructure Pty Ltd	Australia	100	100
Sustainable Global Business Solutions Pty Ltd	Australia	100	100

## 22. Notes to the statement of cash flows

### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, 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 statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	2010 \$	2009 \$
Cash and cash equivalents	6,026,576	4,501,143
Deposits at call	38,000	38,000
	<b>6,064,576</b>	<b>4,539,143</b>

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

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

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

	Consolidated	
	2010 \$	2009 \$
Profit for the year	4,796,012	1,791,012
Allowances for bad and doubtful debts	(8,625)	30,123
Depreciation and amortisation	40,584	57,973
Impairment of loans to related parties	-	36,132
Write-down of inventories	53,000	190,777
Equity-settled share based payment	13,823	16,127
Write-off of fixed assets	33,786	17,645
Net foreign exchange (gain)/loss	210,550	(39,340)
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables	(877,366)	(1,465,309)
Inventories	2,109,786	(4,043,332)
Other assets	(982,447)	(17,548)
Deferred tax benefit net of tax payable	(1,503,783)	-
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	(1,901,906)	4,490,612
Provisions	52,039	42,188
<b>Net cash from operating activities</b>	<b>2,035,453</b>	<b>1,107,060</b>

## 22. Notes to the statement of cash flows(contd)

### (d) Financing facilities

Invoice financing facility

- amount used
- amount unused

Consolidated	
2010	2009
\$	\$
-	-
2,000,000	2,000,000
2,000,000	2,000,000

## 23. Financial instruments

### (a) Overview

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 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 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 Group's activities. The Group, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### (b) Credit risk management

Credit risk is the risk of financial loss to the 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.

### (c) Liquidity risk management

Liquidity risk is the risk that the 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 Group's remaining contractual maturing for it 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 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.

### 23. Financial instruments (contd)

2010	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	496,574	4,245,238	-	-	-	-	4,741,812
Variable interest rate	5,568,002	-	-	-	-	-	5,568,002
	6,064,576	4,245,238	-	-	-	-	10,309,814
<b>Financial liabilities</b>							
Non-interest bearing	-	5,352,840	147,569	-	-	-	5,500,409
Fixed interest rate	-	-	-	-	-	-	-
	-	5,352,840	147,569	-	-	-	5,500,409

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

#### (d) Market risk

Market risk is the risk that changes in market prices will affect the 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.

#### (e) 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 the current year and prior year, exchange rate exposures have been 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:

	Assets		Liabilities	
	2010 \$	2009 \$	2010 \$	2009 \$
EURO	1,296	18,270	51,696	625,431
USD	907,950	21,979	2,473,518	287
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 2010 and 30 June 2009.

	Consolidated	
	2010 \$	2009 \$
Net profit	151,257	56,436
Equity	151,257	56,436

The sensitivity analysis of the 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

It is the policy of the Group 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	0.85	8,926,200	10,526,465
Buy Euros	0.68	637,500	931,473

#### **(f) 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 \$27,840 (2009: \$21,070) 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.

#### **(g) 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 only ordinary share capital. 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 2010 and 2009, the Group 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.

**(h) Fair value of financial assets and liabilities**

As of 1 July 2009, the Group has adopted the amendments to AASB 7 Financial Instruments: Disclosures which require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Consolidated				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Assets</b>				
Available-for-sale financial				
Shares in unlisted (non traded)	-	310,505	-	310,505
Less impairment of shares	-	(310,505)	-	(310,505)
	-	-	-	-
<b>Liabilities</b>	-	-	-	-

The company does not have any assets that fall in level 2 or 3 that are not fully provided for.

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 (2009: net fair values).

**24. Share-based payments**

**Employee share options**

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

Each employee share option converts into one ordinary share of Solco 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.



## 24. Share-based payments (contd)

### 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 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

There were 500,000 options of both series III and V which lapsed during the year.

There were no new share based payments granted during the current financial year. The fair value of the share options recognized as an expense in the current year, as a result of share options granted in the previous financial year was \$13,823.

The fair value of the share options granted during the previous financial year was \$16,127. 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:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	4,000,000	0.17	-	-
Granted during the financial year	-	-	4,000,000	0.17
Expired/lapsed during the financial year	(1,000,000)	0.18	-	-
Balance at end of the financial year (i)	3,000,000	0.16	4,000,000	0.17
Exercisable at end of the financial year	3,000,000	0.16	-	-

#### (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 0.5 years (2009:1.5).

## 25. Related party transactions

### (a) Equity interests in related parties

#### Equity interests in subsidiaries

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

### (b) Transactions with key management personnel

#### i. Key management personnel compensation

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

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

	Consolidated	
	2010 \$	2009 \$
Short term employee benefits	568,314	575,001
Post employment benefits	50,310	51,750
Share based payments	13,823	16,127
	<b>632,447</b>	<b>642,878</b>

#### 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>2010</b>						
<b>Directors</b>						
Steven Cole(i)	7,573,514	-	(892,528)	-	6,680,986	N/A
Mark Norman	250,000	-	-	-	N/A	250,000
David Richardson	89,170,775	-	-	-	N/A	89,170,775
Ian Campbell	-	-	-	-	N/A	-
<b>Executives</b>						
Andrew Simpson	80,000	-	-	-	N/A	80,000
John Heberton(ii)	-	-	-	-	N/A	-
Stephen Missen(iii)	-	-	-	-	N/A	-
	<b>97,074,289</b>	<b>-</b>	<b>(892,528)</b>	<b>-</b>	<b>6,680,986</b>	<b>89,500,775</b>
<b>2009</b>						
<b>Directors</b>						
Steven Cole	7,573,514	-	-	-	N/A	7,573,514
Alex Lamond (iv)	400,000	-	-	-	400,000	N/A
Mark Norman	250,000	-	-	-	N/A	250,000
David Richardson	89,170,775	-	-	-	N/A	89,170,775
Ian Campbell	-	-	-	-	N/A	-
<b>Executives</b>						
Gary Deam (v)	125,000	-	-	-	125,000	N/A
Andrew Simpson	80,000	-	-	-	N/A	80,000
	<b>97,599,289</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>525,000</b>	<b>97,074,289</b>

(i) Resigned 16 November 2009

(ii) Appointed 23 March 2010

(iii) Appointed 1 July 2010

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

(v) Resigned 27 February 2009

## 25. 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>2010</b>									
<b>Directors</b>									
Steven Cole	1,000,000	-	-	-	(1,000,000)	-	-	1,000,000	-
Mark Norman	1,000,000	-	-	-	-	1,000,000	-	1,000,000	1,000,000
David Richardson	1,000,000	-	-	-	-	1,000,000	-	1,000,000	1,000,000
Ian Campbell	1,000,000	-	-	-	-	1,000,000	-	1,000,000	1,000,000
	4,000,000	-	-	-	(1,000,000)	3,000,000	-	4,000,000	3,000,000
<b>2009</b>									
<b>Directors</b>									
Steven Cole	-	-	1,000,000	-	-	1,000,000	1,000,000	-	-
Mark Norman	-	-	1,000,000	-	-	1,000,000	1,000,000	-	-
David Richardson	-	-	1,000,000	-	-	1,000,000	1,000,000	-	-
Ian Campbell	-	-	1,000,000	-	-	1,000,000	1,000,000	-	-
	-	-	4,000,000	-	-	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 \$23,534 (2009:\$21,135). Mr Mark Norman acquired stock and assets from the Group to the value of \$633 (2009:nil) The purchases were made on normal arm's length terms and conditions.

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

Other related parties include:

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

There were no other transactions entered into with related parties by the Group.

#### (d) Parent entity

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

## 26. Segment Reporting

The Company has adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Company's operating segments have been determined with reference to the monthly management accounts used by the chief operating decision maker to make decisions regarding the Company's operations and allocation of working capital.

Due to the size and nature of the Company, the Board as a whole has been determined as the chief operating decision maker.

The Company operates in one business segment and one geographical segment, namely the renewable energy industry in Australia. AASB 8 Operating Segments states that similar operating segments can be aggregated to form one reportable segment. Also, based on the quantitative thresholds included in AASB 8, there is only one reportable segment, wholesaling of solar panels. None of the other operating segments currently meet any of the prescribed quantitative thresholds, and as such do not have to be reported separately. Solco Limited has therefore decided to aggregate all their segments into one reportable operating segment.

The revenues and results of this segment are those of the Company as a whole and are set out in the statement of comprehensive income. The segment assets and liabilities of this segment are those of the Company and are set out in the statement of financial position.

This does not represent any changes in disclosure from the predecessor Standard AASB 114 Segment reporting.

## 27. Dividends

During the current financial year, the following dividend was declared and paid by the Directors

	Cents per share	Total amount \$	Franked/unfranked	Date of payment
Final ordinary	0.25	499,035	Unfranked	30 September 2009

## 28. Remuneration of auditors

	Consolidated	
	2010 \$	2009 \$
<b>Auditor of the group</b>		
Audit or review of the financial report	55,943	50,236
	55,943	50,236

The auditor of Solco Ltd is HLB Mann Judd.

## 29. Parent Entity Disclosures

### Financial position

	30 June 2010 \$	30 June 2009 \$
<u>Assets</u>		
Current assets	576,259	636,060
Non-current assets	1,686,168	3,156,062
Total assets	2,262,427	3,792,122
<u>Liabilities</u>		
Current liabilities	896,077	619,128
Non-current liabilities	705,374	807,587
Total liabilities	1,601,451	1,426,715
<u>Equity</u>		
Issued capital	19,811,833	19,811,832
Retained earnings	(19,173,507)	(17,462,552)
Share-based payments reserve	22,650	16,127
	660,976	2,365,407

### Financial Performance

Loss for the year	(1,219,218)	(915,755)
Other comprehensive income	-	-
Total comprehensive income	(1,219,218)	(915,755)

### Guarantees entered into by the parent entity

There have been no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.

### Contingencies of the parent entity

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2010 which related to the parent entity.

### Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity had no commitments at 30 June 2010 for the acquisition of property, plant and equipment.

## 30. 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.

## Additional ASX information as at 30 September 2010

### Number of holders of equity securities

#### Ordinary share capital

199,613,638 fully paid ordinary shares are held by 1,611 individual shareholders.

### Distribution of holders of equity securities

	Fully paid ordinary shares	Number of equity security holders
1 – 1,000	7,890	39
1,001 – 10,000	3,462,581	544
10,001 – 100,000	33,462,144	882
100,001 and over	162,681,023	148
	<b>199,613,638</b>	<b>1,613</b>

The number of shareholdings held in less than marketable parcels is 163 given a share value of 13.5 cents per share.

### Voting rights

The voting rights attached to each class of equity security are as follows:

#### Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

### Substantial shareholders

Ordinary shareholders	Fully paid ordinary shares
	Number
Mr David Richardson and related entities	89,170,775
	<b>89,170,775</b>

### Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares	
	Number	Percentage
1. Samvara Pty Ltd	61,818,181	30.97
2. JP Morgan Nominees Australia Limited	26,977,003	13.51
3. Gypsy Hill Pty Ltd	20,505,051	10.27
4. Mr David Richardson	6,847,543	3.43
5. National Nominees Limited	3,073,840	1.54
6. Gidleigh Pty Ltd	2,984,495	1.50
7. Mr John Sean Cooper	1,449,887	0.73
8. Sanjo Pty Ltd	1,250,000	0.63
9. Ian Sandover & Associates Pty Ltd	1,215,000	0.61
10. Erla Dawn Riley	1,100,000	0.55
11. Mr John Harrison Valder and Mrs Kay Ormonde	1,000,000	0.50
12. Brookfield Capital Pty Ltd	890,347	0.45
13. Mr Gilbert Richard Cren Lumsdaine	800,000	0.40
14. GPS Holdings Pty Ltd	764,727	0.38
15. Mr William Bruce Sinclair	754,506	0.38
16. Sanjo Pty Ltd	750,000	0.38
17. ABN AMRO Clearing Sydney Nominees Pty Ltd	732,745	0.37
18. Mrs Michelle Marian Middleton	615,420	0.31
19. IMAJ Pty Ltd	600,000	0.30
20. Merrill Lynch (Australia) Nominees Pty Ltd	590,979	0.30
	<b>134,719,724</b>	<b>67.51</b>

#### Unquoted equity securities

Class	Unlisted options	
	Number	Number of holders
1. Unlisted options exercisable at 12 cents on or before 31 December 2010	500,000	1
2. Unlisted options exercisable at 16 cents on or before 31 December 2010	500,000	1
3. Unlisted options exercisable at 15 cents on or before 31 December 2010	1,000,000	2
4. Unlisted options exercisable at 20 cents on or before 31 December 2010	1,000,000	2
	<b>3,000,000</b>	<b>6</b>

All options have no voting rights

#### Unquoted equity security holdings greater than 20%

Class	Option holder	Unlisted options	
		Number	Percentage
1,2	Christopher Norman	1,000,000	100.00
3,4	David Richardson	1,000,000	50.00
3,4	Ian Campbell	1,000,000	50.00

#### Securities exchange listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited (ASX). The Company's ASX code is "SOO".

#### Restricted Securities

There are no restricted securities or securities in voluntary escrow at the date of this report

#### On-market Buy Back

At the date of this report, the company is not involved in an on-market buy back.

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## Solco offices

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## Solco websites

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[www.sunmill.com.au](http://www.sunmill.com.au)  
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