

# Solco

## solar solutions in water and power

Annual Report 2011

Developing a sustainable future for Australia's renewable energy industry

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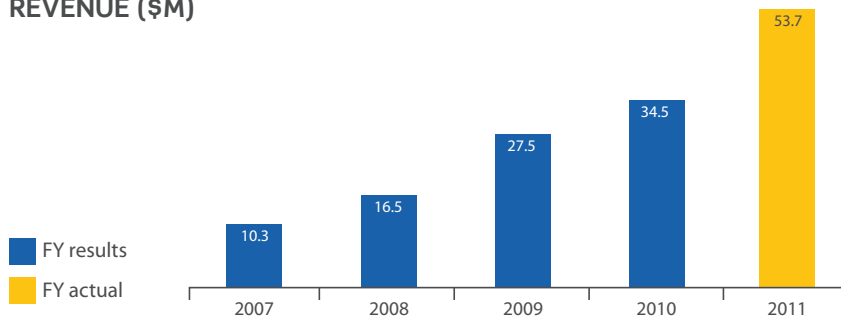
Our strategy is to continue to **grow** our wholesale division, selling **solar** products across Australia and to increase our market share of larger scale commercial installations and build-own-operate **power generation** projects through strategic joint venture **partnerships**.

## COMPANY OVERVIEW

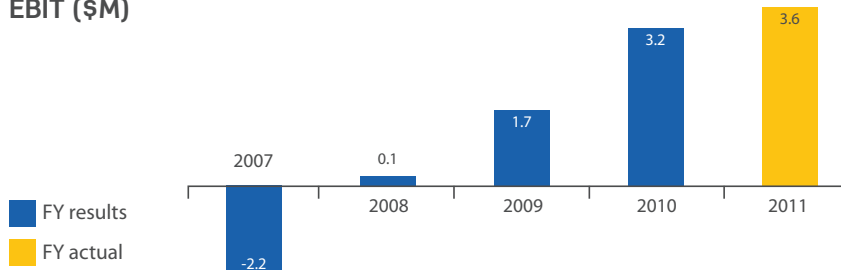


## FINANCIAL PERFORMANCE AT A GLANCE

REVENUE (\$M)



EBIT (\$M)



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## **SOLCO LTD**

ABN 27 084 656 691

**Annual report for the financial year ended  
30 June 2011**

# Annual financial report for the financial year ended 30 June 2011

	Page
Corporate directory	1
Chairman's report	2
Market overview	4
Corporate governance statement	5
Directors' report	12
Auditor's independence declaration	21
Independent auditor's report	22
Directors' declaration	24
Index to the financial report	25
Statement of comprehensive income	26
Statement of financial position	27
Statement of changes in equity	28
Statement of cash flows	29
Notes to the financial statements	30
ASX additional information	55

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## Corporate Directory

### Directors:

David Richardson	Executive Chairman
Mark Norman	Executive Director
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 Report

Financial year 2011 was a very successful year for Solco. Each division of the company achieved further growth and market expansion whilst Solco as a whole delivered a record profit.

This year marks 25 years of experience in the industry with the announcement of a third consecutive year of profit growth for the group, led by the ongoing success of the product division.

Solco has played a major role in the development of the industry over the past quarter century, continuing to offer new and innovative products to its customers. As a result, Solco has been rewarded through industry acknowledgment and company expansion.

Reaching this important milestone reinforces the success of our business strategy and our commitment to ensuring the sustainability of the industry.

Our strategy, devised in 2010 was to put in place the right foundations for further growth and market expansion. This strategy has enabled us to ensure our targets were met and will continue to be met going forward.

The Products division has continued its penetration of the wholesale solar product market in Australia, securing a number of exclusive agreements with international manufacturers and cementing our position as one of the largest solar wholesale product suppliers in the market. To keep up increasing sales volumes, we expanded our operations to include a new warehouse in Melbourne to service Victoria, southern NSW, South Australia and Tasmania.

The Pumping division signed a sole distributor contract with leading pump manufacturer Lorentz to sell their solar pumps across Australia. This has, and will, significantly increase our market share within the solar pumping market.

In line with our business strategy, we have made significant investments in our Projects and Power divisions, focusing on larger scale installations and power generation projects within the commercial, building and resources sectors. We expect both of these divisions to be significant contributors to our revenue generation in future years.

We have completed a number of new projects this year including commissioning of the Eastern Metropolitan Regional Council's Solar Tracker Project at the Red Hill Waste Management Facility and Belmont Administration Building in Western Australia.

Solco also became the first solar company to exhibit at this year's Association of Mining and Exploration Companies (AMEC) gaining greater exposure to the sector.

Our people have and will remain instrumental in taking the business to the next level of development.

Steve Missen's promotion to Chief Financial Officer is a result of his contribution to the growth of the Products division, which was reflected in rapid development over the last financial year. Steve will retain responsibility for the division as General Manager. We look forward to Steve's participation in the growth of all divisions as he settles into his new role.

Mark Norman's move to Executive Director and General Manager of the Power division highlights the Company's strategy of capitalising on opportunities within the solar power generation market. Mark's extensive knowledge and industry contacts put Solco in the right position to capitalise on this major growth market.

Financially, we have continued to deliver shareholder value with another record profit reported for financial year 2011:

Record revenue of \$53.7 million (2010: \$34.5million)  
Revenue growth of more than 56% on the previous year  
Record pre-tax profit of nearly \$3.6 million (2010: \$3.3 million)

Our strong financial position puts us in a good position to meet our growth objectives going forward.

## Outlook

25 years in the industry has given us the experience to manage the ups and downs of the sector ensuring our longevity in the future.

Our strategy is to continue to grow our wholesale division, selling solar power and pumping products across Australia and to increase our market share of grid-fed power generation through larger scale commercial installations and build-own-operate power generation projects using strategic joint venture partnerships.

The industry is going through another period of significant change with the reductions in State feed-in tariffs. However, our expertise, strong financial position and diversified business strategy will give us the opportunity to take advantage of this and other shifts in the market. We are currently looking at possible merger and acquisition opportunities to gain greater exposure into new markets.

The changes to the State tariffs will alter the appeal of solar power for many households. However, as the strong Australian dollar continues to push down the price of solar systems, grid parity is closer to becoming a reality. As PV generated electricity becomes increasingly price competitive with "point-of-sale" grid-fed power, solar power remains a compelling proposition in the residential and commercial market.

The Government's impending Carbon Tax and Small-scale Technology Certificates (STCs), the later being needed to reach the Mandatory Renewable Energy Target (MRET) of 20 per cent of power generated from renewable sources by 2020, will open up the commercial and large-scale projects market. This market has and will remain a major focus of our future growth.

With our proven business model, the right people, the right relationships and the right products, Solco is in a good position to capitalise on the current market shift, as Australia expands from a domestic to a commercial PV market.

I would like to take this opportunity to thank our Staff and Shareholders for their continued support over the past year.



**David Richardson**  
Chairman

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## Market Overview

### The Solar Market

The Australian Solar Photovoltaic (PV) market grew more than 400% in calendar year (CY) 2010 with installation of more than 380 Megawatts (MW) capacity driven by a dramatic increase in demand for small-scale residential grid-feed systems, which catapulted Australia back into the top ten Solar PV Nations. This growth outstripped the world market, which expanded 130% in 2010 to 17 Gigawatts (GW).

With the favourable 60 cent gross feed in tariff (FiT) announced in New South Wales, and similar tariffs nationwide, Solco saw a marked increase in the sale of larger systems up to 10 kilowatts (kW) in the first quarter of this financial year. After the FiT was reduced to \$0.20 in late October 2010 we saw systems scale back to an average 3 kW. However, demand remained strong.

During the first half of CY2011, reductions in government rebates and FiT's did not keep pace with the reductions in system prices and this continued to fuel the spike in consumer demand. This created an oversupply of RET scheme Small-scale Technology Certificates (STCs) placing pressure on the Federal Government to quickly reduce the Solar Credits Multiplier and State Governments to review and then reduce certain FiT program caps, durations and tariff amounts. This has caused a softening of demand while consumers reassess their investment in Solar PV.

We predict that growth will resume based on continued falling system prices allied with increasing energy costs, as this will bring forward the timing of "point-of-sale" grid parity for residential and commercial customers. At this point, exporting energy and receiving a FiT becomes less important as the user is primarily consuming the power he generates and offsetting purchased energy, which is steadily increasing in cost due to infrastructure growth and the imposts associated with reducing carbon emissions.

Recent growth in medium-scale systems above residential size will diversify and expand the Australian market in the next few years. These projects were initially supported by Solar Cities Programs, attractive FiT's and early adopters such as local government and councils. However, with reductions in system prices, increasing energy costs and pressure on organisations to green their operations, commercial entities are adopting solar power systems at an increasing rate. This, as in Europe and the USA, will be a growth area driven by rapidly reducing system costs and a strong Australian dollar. In Australia, the non-residential market is less than 1%, whereas in the USA it is 80%. Solco is well positioned to take advantage of this shift in market direction, which fits within our strategy of increasing our market share of medium to large-scale commercial installations.

As a part of the Federal Government's carbon price initiative, AUD\$13 billion has been allocated for renewable energy investment including; AUD\$10 billion for a new commercially oriented Clean Energy Finance Corporation (CEFC), established to drive innovation through commercial investments in clean energy and AUD\$3.2 billion for existing grant funding programs supporting research, development and demonstration of new renewable energy technologies, ran by a new independent statutory body, the Australian Renewable Energy Agency (ARENA). These programs will support growth in medium and large-scale Solar PV adoption by a wide range of companies and utilities at a time when Solco is investing and expanding its Projects and Power groups to support such projects.

The solar PV market in Australia is now significant with AUD\$2billion in sales in CY2010. Growth will fluctuate with changes in those support systems that were specifically designed to incubate the market. However, grid parity, ease of installation, availability of proven technology and bankability, will all combine over the next few years to ensure solar PV becomes one of the most significant renewable sources of energy in Australia.

For the 2nd year running, both the US\$243 billion worldwide investment in the renewables market, and the energy capacity from new renewable sources in Europe and the US, topped that of traditional energy sources. With US\$51 billion invested in China, including the installation of critical Solar PV manufacturing equipment, the prospect of ongoing reductions in the cost of PV systems remains strong. Investment in new Solar PV technologies will also support step changes in pricing as manufacturing embraces next-generation products.

We believe that recent discussions around a carbon price, initiated by the Federal Government, will prompt larger businesses to closely examine solar as a viable means of offsetting carbon emissions and any liability that may be associated with a positive net carbon emission position.

Solco's business strategy is aligned to taking advantage of these ongoing market changes by putting us in a favourable position to capitalise on new opportunities through our existing retail customers, our experienced Management team and increased market exposure through our Projects and Power divisions.



## Corporate Governance Statement for the year ended 30 June 2011

### 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 with 2010 Amendments ("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: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

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: Companies should 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 Managing Director and CEO according to agreed performance parameters.

During the year performance review outcomes concerning the CEO and incumbent CFO were 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 and Executive Chairman 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: Companies should provide the information indicated in the Guide to reporting on Principle 1.**

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.

The Board comprises of three Directors, being:

- David Richardson (Executive Chairman, non independent)
- Ian Campbell (Non-executive independent director)
- Mark Norman (Executive director, non independent).

Given Mr Richardson's shareholding in the Company, and his executive role (which he assumed in February 2011), he is not considered to be an independent director and accordingly the Company did not comply with the recommendation. Notwithstanding this, 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. The Board believes, notwithstanding Mr. Richardson’s appointment to an executive position from 11 February 2011 that the Company is best served with his appointment as Executive Chairman due to the strength of his skills, experience and commitment to that role.

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

Until February 2011, the roles of the Chairperson and the Chief Executive Officer were not exercised by the same individual. From February 2011, David Richardson assumed the role as Executive Chairman, making him the Chief Executive Officer of the Company. The Board believes that this dual function is appropriate for the Company’s stage of development.

**Recommendation 2.4 – The Board should establish a nomination committee.**

The Board has a Nomination and Remuneration Committee comprising Ian Campbell and David Richardson.

**Recommendation 2.5: Companies should 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.

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

**Recommendation 2.6: Companies should provide the information indicated in the 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 2011 were as follows (with all directors noted as continuing in office at the date of this annual report):

David Richardson	Non-executive, not independent – 1 July 2010 to 10 February 2011 Executive, not independent – 11 February 2011 onwards
Ian Campbell	Non-executive/independent - 1 July 2010 onwards
Mark Norman	Executive, not independent - 1 July 2010 onwards

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

The Board seeks to achieve a balance in its structure that best reflects the needs of the Company at any particular time. Appointment to the Board will be dependent on candidates demonstrating an appropriate breadth of experience in a field of expertise that is relevant to the ongoing supervision of the Company’s affairs. This diversity of experience may include a commercial, technical, legal, corporate finance, business development, manufacturing or other background as the Board and management determine as part of its selection processes. The policy and process for the nomination, selection and appointment of new directors is available on the Company’s website.

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 Meetings Eligible to Attend	Number of Meetings Attended
David Richardson (Chairman)	1	1
Ian Campbell	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: Companies should establish a code of conduct and disclose the code or a summary of the code 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: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.**

The Company was not in compliance with this Recommendation for the entire year but established a policy during the financial year concerning diversity which is publicly available on the Company's website. The policy has clearly identifiable measurable objectives.

**Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.**

The measurable objectives that underpin the Company's commitment to increasing diversity of participation in the Company are focused on:

- the adoption, publication and promotion of this Policy by the Company,
- structuring recruitment and selection processes to recognise the value that diversity brings to the Company in recruiting the best candidate for each role,
- providing relevant and challenging professional development and training opportunities to employees,
- providing flexible work and salary arrangements to accommodate family commitments, external study, cultural traditions and other personal choices of employees,
- having a clear and transparent governance process around reward and recognition.

The policy, which came into effect from 1 June 2011, has been agreed by the board and the Company has directed its efforts to ensure these objectives are met on a continuous basis in all future activities.

**Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.**

At reporting date the Company's workforce consisted of 24% female employees. As reflected in the remuneration report there are no senior executive positions nor positions on the board filled by females, as no such position opened during the course of the financial year. The company remains committed to filling available senior and board positions as they arise with appointments based on an individual's capability to enhance the contributions of the existing board and executive team.

**Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.**

The Company is not aware of any departures from Recommendations 3.1, 3.2, 3.3 or 3.4.

Copies of the Company's current Board Members Code of Conduct and Group Code of Conduct/Values and the Company's Diversity 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: The audit committee should be structured so that it:**

- **consists only of non-executive directors**
- **consists of a majority of independent directors**
- **is chaired by an independent chair, who is not chair of the board**
- **has at least three members.**

The Company's Audit and Risk Management Committee currently consists of David Richardson and Ian Campbell. Both members were non-executive directors until 11 February 2011. On that date, David Richardson became an executive director. Ian Campbell serves as the independent chair of the Audit and Risk Management Committee. The Company was therefore not in compliance with the Recommendation from that date.

**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: Companies should provide the information indicated in the 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 Meetings Eligible to Attend	Number of Meetings Attended
Ian Campbell (Chairman)	3	3
David Richardson	3	3

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

The Company departed from the Recommendations in that:

- (a) the Audit and Risk Management Committee comprises only 2 members;
- (b) neither a majority of the Board nor a majority of the Audit and Risk Management Committee were independent.
- (c) the Committee does not comprise only non executive directors.

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 Audit and Risk Management Committee are considered able, without the need for an extra independent member, to discharge the functions of that Committee.

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: Companies should 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 those policies.**

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: Companies should provide the information indicated in the 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: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

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: Companies should provide the information indicated in the 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. The board should 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: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 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: Companies should provide the information indicated in the 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: The remuneration committee should be structured so that it:**

- **consists of a majority of independent directors**
- **is chaired by an independent chair**
- **has at least three members.**

The Company departed from the Recommendations in that:

- (a) the Nomination and Remuneration Committee comprises only 2 members;
- (b) neither the Chair of the Nomination and Remuneration Committee nor a majority of the Committee members 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.

**Recommendation 8.3: Companies should 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 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.**

Directors are prohibited from entering into transactions which limit the risk of participating in unvested entitlements under any equity based remuneration scheme.

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

Information concerning the Company's Nomination and Remuneration Committee has been identified in Recommendation 2.6 above.

Further details are set out in the Charter, which 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.

The Company departed from Recommendation 8 in that the Nominations and Remuneration Committee comprised only 2 members and the majority of the Committee (including the Chairman) were not independent. (David Richardson became an executive director on 11 February and 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 8.3 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.

## Directors' report

The directors of Solco Ltd submit herewith the annual financial report of the Company and its subsidiaries (together "the Group") for the financial year ended 30 June 2011. 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	<p><u>Executive Chairman (Non Executive Chairman until 11 February 2011)</u></p> <p>Mr Richardson is a qualified mechanical engineer who has over 31 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 also acted as a non-executive director of Emerson Stewart Group Limited until 29 April 2011.</p> <p>Mr Richardson has extensive operational, commercial and engineering experience in Australia and internationally.</p>
Christopher (Mark) Norman B. Eng. (Electronics)	<p><u>Executive Director (Managing Director to 05 April 2011)</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>Non-Executive Director</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>



### 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 April 2011
Ian Campbell	Austal Limited	August 2007 to current
	ASG Group Limited	June 2007 to current
	Proto Resources & Investments Limited	March 2008 to current
	Enerji Limited	November 2009 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	-
David Richardson	89,170,775	-
Ian Campbell	-	-

### Remuneration of directors and senior management

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

### Share options granted to Directors and 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 11 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 in both industrial and resource sectors. He is also a director of MGI Perth, a mid tier corporate advisory and accounting practice.

### Principal activities

The Group's principal activities during the course of the financial year were the wholesale distribution of solar panels and water pumping products, and the continuing development of a dedicated Projects division to increase exposure to industrial/ commercial solar or power projects.

### Review of operations

Key financial results of the Company are as follows:

- Group profitability improved from \$3.29 million profit before tax in FY2010 to a \$3.60 million profit before tax in FY2011, an increase of 9%.
- Total revenue for the period increased from \$34.5 million in FY2010 to \$53.7 million, an increase of 56%.
- Trade and other receivables increased from \$4.2 million in FY2010 to \$4.4 million at 30 June 2011, and inventories increased during the same period from \$4.4 million to \$7.0 million.
- Cash flow from operations decreased 15% from FY2010 to \$1.6 million in FY2011.
- Cash at bank at 30 June 2010 increased to \$6.78 million as compared to \$6.06million for FY2010.

### Solco Solar Products

During the past financial year we established new records in our Solar Products division in both sales and earnings. These results were secured in a market that was experiencing significant competitive pressure, significant reductions in subsidies for solar, and a decrease in average solar photovoltaic panel pricing on a per watt basis from \$3.40 to \$2.28. Although these factors impact revenue per unit item, our strong overall result has reinforced our confidence in our strategic direction as solar generated energy approaches traditional energy costs at point of sale in the not too distant future.

The Solar Products division grew sales to a record high, despite some early supply issues for key components including inverters and PV panels in Q1 of this financial year. Product shortages were a consistent issue for the market during the first quarter of FY2011 with global demand for solar products outstripping manufacturers' volume predictions formed during the GFC (Global Financial Crisis). Global shortages of specific components, such as semiconductors, have been cited as the cause. This situation reversed in Q3 and Q4 with surplus global supply estimated at 8 GW. We expect supply conditions to stabilise late FY2012 and have strategies in place to

mitigate the impact of product availability constraints on our supply chain. We are broadening our range of suppliers for key components as well as forming strategic alliances to ensure priority access to critical products.

Our 2011 financial year has seen the ongoing identification and qualification of suppliers, enhancing our supply base 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 FY2011 we released new products into the Australian market following the development of strategic supply relationships, these include:

- Panels – Bosch premium panels
- Inverters –
  - Solar Edge Inverters – cutting edge technology optimising power capture
  - Motech Inverters – high quality Taiwanese inverters imported under an exclusive supply agreement
  - Eversolar Inverters – Low-cost high-quality Chinese manufactured inverters
- Morning Star 24v MPPT's for off grid and recreational applications

Other significant steps in our development included:

- Continuing the expansion of our sales team expansion with the appointment of a second salesperson in NSW, which has been one of our best performing territories. We have placed business development managers in all mainland states supported by sales and customer service team members in our strategically located warehouses.
- We opened a 600 sq metre office and warehouse the south eastern Melbourne suburb of Mt Waverley. This has reduced our shipping times and improved customer service for south eastern Australia. The facility has also increased our despatch capacity and allowed us to achieve new levels of record monthly sales during the period.
- To further support our customers and staff, in May 2011 we commenced implementation of a new ERP (Enterprise Resource Planning) software package "Syspro" to enhance our systems capabilities
- We ran a highly successful three day customer conference at Sea World on the Gold Coast. The conference included daily programs with guest speakers providing informative seminars on PV products, pumping products and regulatory issues and directions. We also ran a series of workshops on key products including Solar Edge and Lorentz.

Solco has continued to actively develop both its corporate and product marketing to enhance brand awareness for our customers and in the longer term, the retail sector. In October 2010 we officially changed the solar products division name from "Choice Electric" to "Solco Solar Products" to align our name with our corporate identity. Our marketing co-ordinator has actively developed and executed strategies to support and increase our presence in the market including updated Trade show display collateral coupled with larger, structured magazine presence and a review of our website which is in progress at August 2011.

We believe that our core wholesale business will grow steadily through improved efficiencies and cost management, customer focus and competitive strength.

#### **Solco Solar Pumps**

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.

In January this year we were pleased to announce the signing of an exclusive supply and distribution agreement with Lorentz pumps. This was a significant milestone for our pump division and augments our proprietary Sun Mill range and also our distribution of Shurflo pumps.

In addition to existing staff in WA we established sales staff on the eastern seaboard of Australia in Q4 FY11 and have now developed a national sales and service team to support our pump customers. Our team has been actively calling on new dealers with a focus on expanding our national channel to secure growth for the pump division. Interestingly we are seeing some synergies with existing PV customers and have been able to offer a broader range of 'solar solutions' to our customers, enhancing their relationship with Solco as a 'one stop shop' for their requirements.

While we have seen an uptick in monthly sales results, we have received consistent feedback from retail outlets that the market has been negatively impacted in Q3 and Q4 FY11 by the excessive rainfall experienced on the Eastern seaboard. All outlets are remaining positive that this trend will be reversed as water dries up and pump requirements increase to move water to where it is needed. The breaking of the drought has two positive outcomes, firstly, farming community incomes will increase with good crop and livestock yields, and secondly, there is now a replenished water table in many areas that had suffered extensively due to the drought. Falling PV panel prices and our capability to access a wider range of pumping products via the Lorentz agreement place Solco in a strong position to continue to grow this division.

Our Solar Pumps division reflects our strategic direction to invest in alternative products that position Solco as an industry leader in new technologies, whilst maintaining an edge over our competitors.

## Solco Projects

We see our Projects division as having huge growth potential, which is being fuelled by current and future market issues. The growth of the Projects division is a vital part of our long-term strategy and we will continue to utilise our industry knowledge to gain exposure into this market. We have already made a number of strategic alliances and will look for further acquisition opportunities to strengthen our position in this space.

Even in the last the financial period our Projects division demonstrated solid growth, having successfully tendered seven commercial and industrial projects during the past financial year. These comprised a diverse range of technologies including solar trackers, grid-connected roof top arrays, wireless data transmission, SolcoShare® visual display systems and remote, specialist applications.

We have made submissions to a wide range of potential clients with national solar footprints, particularly in the ACT, to establish larger-scale commercial projects utilising financial models developed during the year. These activities and the resulting growth have been enhanced by the appointment of a Solar Design Officer (Perth), Project Manager (Melbourne) and an Administration Officer (Perth) who will also support the Power division's activities.

Our established operations ideally position Solco to capture the significantly expanding project opportunities created by rapidly increasing energy tariffs, reducing system costs and commercial entities seeking to future-proof their energy costs and green their operations. In addition, our focus on remote, hybrid specialist applications is being increased to capitalise on Solco's extensive design, supply and implementation capabilities. Many of these applications are suited to the strongest performing sectors of the economy, particularly the mining industry.

## Solco Power

In line with Solco's strategy to become an independent power producer (IPP), the Power group, (utilising solar equipment from our Product group and engineering, procurement and construction management (EPCM) from our Projects group) is actively bidding on the sale of electricity from solar power stations to customers across Australia, where the financial equation delivers a return for all parties. As solar PV equipment prices decline, the levelised cost of energy (LCOE) generated also falls and becomes competitive in an expanding range of applications. The resulting market shift from subsidised domestic PV systems, to commercial, industrial and utility applications will be serviced by Solco Power providing competitive green energy, while supporting the Federal Government's Renewable Energy Target program of 20% renewables which is mandated through 2030.

Currently, the prime areas of application in the commercial market are for off-grid and mini-grid applications where diesel is the primary fuel used to generate electricity, large-scale grid applications where FiTs are offered and high peak-rate commercial customers with electricity charges above the LCOE of solar.

Off-grid and remote installations are found at mine sites, their associated mining camps, remote townships and communities, and other specialist sites. To ensure maximum diesel offset, Solco is working on technology to interface with existing diesel power stations and has already quoted such systems to potential users. With the larger scale installations required to power mine sites, ownership of the solar power system by Solco and the sale of electricity over the medium term is the model we are progressing.

The next major grid-feed application where Solco will bid to EPCM and/or sell power is the large-scale FIT solar energy auction recently released by the ACT Government. This bid calls for the sale of electricity to ActewAGL from power stations of greater than 2MW capacity, to a total of 40MW. The ACT government will support by topping up the price paid per kWh to the tendered FIT price.

Commercial businesses have seen their electricity peak-rate charges increase rapidly over the last five years. Currently for certain customers, utilities charge peak-rates of above 35c/kWh. Solco Power will offer these customers Solco Power Packages to offset their internal energy consumption without having to rely on small-scale FIT revenue to justify payback.

With continued decreases in solar power station costs, allied with increasing energy prices, the range of applications where Solco can sell electricity directly will expand rapidly over the next few years as has already been witnessed in Europe and North America.

## Changes in state of affairs

There was no significant change in the state of affairs of the Group 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Future developments

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

## Environmental regulations

The Group'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 2011.

## Dividends

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

	Cents per share	Total amount \$	Franked/unfranked	Date paid
First and final	0.375	748,552	Unfranked	18 January 2011

## Share options

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

The Company did not have any unissued shares or interests under option at the date of this report.

No such shares or interests were issued during or since the end of the financial year.

## Insurance of officers

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

## Indemnification of officers

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

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

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

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 10 board meetings, 1 nomination and remuneration committee meeting, and 3 audit committee meetings were held.

Directors	Board of directors		Remuneration & Nomination committee		Audit committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David Richardson	10	10	1	1	3	3
Mark Norman	10	10	-	-	-	2
Ian Campbell	10	9	1	1	3	3

## 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

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 27 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

## Auditor's independence declaration

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

## Remuneration report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Solco Ltd's key management personnel for the financial year ended 30 June 2011. 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:

#### (i) Directors

- David Richardson Executive Chairman (Non Executive Chairman to 11 February 2011)
- Mark Norman Executive Director
- Ian Campbell Non-Executive Director

#### (ii) Executives

- Stephen Missen Solar Products Business Unit Manager (appointed 1 July 2010 ), Chief Financial Officer (acting from 11 February 2011 and full time from 28 June 2011)
- John Hebenton Executive Manager: National Projects

### Remuneration policy and relationship between the remuneration policy and company performance

The Board's policy for determining remuneration 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 remuneration packages for similar positions within the industry and, where deemed relevant, 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 Group. The assessment is made with reference to the Company's performance during the year against budget and the market as a whole. A pool is established with reference to the year end result and each staff member is allocated a bonus based on longevity of service and other predetermined performance criteria.
- 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, where relevant, 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 Chairman and \$45,000 per annum for the non executive director.

### Remuneration of key management personnel

2011	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>									
Mark Norman	268,940	40,000	-	-	26,005	-	-	334,945	-
David Richardson	60,239	-	-	-	5,421	-	-	65,660	-
Ian Campbell	45,173	-	-	-	4,066	-	-	49,239	-
<b>Executives</b>									
John Hebenton	221,029	500	-	12,653	19,938	-	-	254,120	-
Stephen Missen (i)	195,180	500	-	-	17,611	-	-	213,291	-
	790,561	41,000	-	12,653	73,041	-	-	917,255	-

(i) Appointed – 1 July 2010

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 Hebenton (ii)	60,974	-	-	-	5,488	-	-	66,462	-
Andrew Simpson	126,585	4,898	-	-	11,834	-	-	143,317	-
	556,535	11,779	-	-	50,310	-	13,823	632,447	-

(i) Resigned – 16 November 2009

(ii) Appointed – 23 March 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

These options all lapsed unexercised on 31 December 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:

	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 \$
David Richardson	-	-	7,300	7,300
Mark Norman	-	-	8,050	8,050
Ian Campbell	-	-	7,300	7,300

**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, exclusive of superannuation and Directors fees for the year ended 30 June 2011 of \$266,000
- 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 John Heberton**

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

**Mr Stephen Missen**

- No fixed term agreement
- Pro rated annual base salary of \$234,000 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



**David Richardson**  
**Executive Chairman**  
Perth, 29 August 2011

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Solco Ltd for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia  
29 August 2011

**M R W OHM**  
Partner, HLB Mann Judd

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**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 statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 opinion.

**Matters relating to the electronic presentation of the audited financial report**

This auditor's report relates to the financial report and remuneration report of Solco Ltd for the financial year ended 30 June 2011 included on Solco Ltd's website. The company's directors are responsible for the integrity of the Solco Ltd website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

**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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.

*HLB Mann Judd*

**HLB MANN JUDD**  
Chartered Accountants



**M R W OHM**  
Partner

**Perth, Western Australia**  
29 August 2011

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## Directors' declaration

1. In the opinion of the directors of Solco Limited (the 'Company'):
  - a. the accompanying financial statements and notes 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 2011 and of its performance for the year then ended; and
    - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
  - 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.
2. 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 2011.

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

On behalf of the Directors



**David Richardson**  
**Executive Chairman**  
Perth, 29 August 2011

## Index to the financial report

<b>Contents</b>	<b>Page</b>
Statement of comprehensive income	26
Statement of financial position	27
Statement of changes in equity	28
Statement of cash flows	29
Notes to the financial statements	30
1 General information	30
2 Significant accounting policies	30
3 Critical accounting judgements and key sources of estimation uncertainty	38
4 Revenue	39
5 Profit for the year	40
6 Income taxes	40
7 Trade and other receivables	41
8 Inventories	42
9 Other assets	42
10 Property plant and equipment	42
11 Intangible assets	43
12 Trade and other payables	43
13 Provisions	44
14 Derivative Financial Instruments	44
15 Issued capital	45
16 Reserves	45
17 Earnings per share	45
18 Commitment for expenditure	46
19 Contingent liabilities and contingent assets	46
20 Subsidiaries	46
21 Notes to the cash flow statement	46
22 Financial instruments	47
23 Share based payments	51
24 Related party transactions	51
25 Segment reporting	53
26 Dividends	53
27 Remuneration of auditors	53
28 Parent entity disclosures	54
29 Subsequent events	54

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**Statement of comprehensive income  
for the financial year ended 30 June 2011**

	Note	Consolidated	
		2011 \$	2010 \$
<b>Continuing operations</b>			
Revenue	4	53,725,807	34,532,511
Change in inventories of finished goods and work in progress		(1,899,416)	2,239,002
Raw materials and consumables used		(42,038,490)	(29,946,135)
Gross profit		9,787,901	6,825,378
Other income	4	132,040	330,613
Employee benefit expenses		(3,910,724)	(2,560,245)
Research and development expenses		(2,144)	(8,560)
Advertising expenses		(301,520)	(123,961)
Company overhead expenses		(1,846,296)	(1,049,435)
Allowance for bad and doubtful debts		1,000	8,625
Depreciation and amortisation expenses		(37,460)	(40,584)
Finance costs		(221,654)	(55,816)
Write off of assets		-	(33,786)
Profit before tax	5	3,601,143	3,292,229
Income tax (expense)/benefit	6	(1,139,512)	1,503,783
<b>Profit for the year</b>		<b>2,461,631</b>	<b>4,796,012</b>
Other comprehensive income/ (loss)			
Cash flow hedges:			
Loss taken to equity		(76,778)	-
Income tax benefit on items of other comprehensive income		23,033	-
<b>Other comprehensive loss for the year, net of tax</b>		<b>(53,745)</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>2,407,886</b>	<b>4,796,012</b>
<b>Earnings per share</b>			
Basic (cents per share)	17	1.23	2.40
Diluted (cents per share)	17	1.23	2.40

Notes to the financial statements are included on pages 30 to 54.

**Statement of financial position**  
**As at 30 June 2011**

	Note	Consolidated	
		2011 \$	2010 \$
<b>Current assets</b>			
Cash and cash equivalents	21(a)	6,775,327	6,064,576
Trade and other receivables	7	4,370,360	4,245,238
Inventories	8	7,068,288	4,430,723
Other assets	9	369,937	1,059,090
<b>Total current assets</b>		<b>18,583,912</b>	<b>15,799,627</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	250,491	90,031
Intangible assets	11	754,761	754,761
Other assets	9	57,510	-
Deferred tax asset	6	1,149,023	1,510,207
<b>Total non-current assets</b>		<b>2,211,785</b>	<b>2,354,999</b>
<b>Total assets</b>		<b>20,795,697</b>	<b>18,154,626</b>
<b>Current liabilities</b>			
Trade and other payables	12	5,409,264	5,500,409
Provisions	13	277,425	376,538
Income tax payable	6	758,507	-
Derivative financial instruments	14	145,211	-
<b>Total current liabilities</b>		<b>6,590,407</b>	<b>5,876,947</b>
<b>Non-current liabilities</b>			
Provisions	13	375,998	104,509
<b>Total non-current liabilities</b>		<b>375,998</b>	<b>104,509</b>
<b>Total liabilities</b>		<b>6,966,405</b>	<b>5,981,456</b>
<b>Net assets</b>		<b>13,829,292</b>	<b>12,173,170</b>
<b>Equity</b>			
Issued capital	15	19,815,044	19,818,256
Reserves	16	(53,745)	22,650
Accumulated losses		(5,932,007)	(7,667,736)
<b>Total equity</b>		<b>13,829,292</b>	<b>12,173,170</b>

Notes to the financial statements are included on pages 30 to 54.

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**Statement of changes in equity  
for the financial year ended 30 June 2011**

Consolidated

	Fully paid ordinary shares \$	Share-based payment reserve \$	Cash flow hedge reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2010</b>	19,818,256	22,650	-	(7,667,736)	12,173,170
Profit for the year	-	-	-	2,461,631	2,461,631
Other Comprehensive income	-	-	(53,745)	-	(53,745)
<b>Total comprehensive income for the year</b>	-	-	(53,745)	2,461,631	2,407,886
Tax adjustment - equity	(3,212)	-	-	-	(3,212)
Lapsed options - transfer between reserves	-	(22,650)	-	22,650	-
Payment of dividends	-	-	-	(748,552)	(748,552)
<b>Balance at 30 June 2011</b>	19,815,044	-	(53,745)	(5,932,007)	13,829,292
<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

Notes to the financial statements are included on pages 30 to 54.



**Statement of cash flows  
for the financial year ended 30 June 2011**

	Note	Consolidated	
		2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		58,324,587	37,109,316
Payments to suppliers and employees		(56,620,794)	(35,257,437)
Interest and other costs of finance paid		(153,221)	(55,816)
Interest received		106,651	239,390
<b>Net cash provided by operating activities</b>	21(c)	<b>1,657,223</b>	<b>2,035,453</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(197,920)	(33,729)
Proceeds from insurance		-	41,812
<b>Net cash provided by/(used) in investing activities</b>		<b>(197,920)</b>	<b>8,083</b>
<b>Cash flows from financing activities</b>			
Repayment of hire purchase liabilities		-	(19,068)
Dividends paid		(748,552)	(499,035)
<b>Net cash used in financing activities</b>		<b>(748,552)</b>	<b>(518,103)</b>
<b>Net increase in cash and cash equivalents</b>		<b>710,751</b>	<b>1,525,433</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>6,064,576</b>	<b>4,539,143</b>
<b>Cash and cash equivalents at the end of the financial year</b>	21(a)	<b>6,775,327</b>	<b>6,064,576</b>

Notes to the financial statements are included on pages 30 to 54.

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## Notes to the financial statements for the financial year ended 30 June 2011

### 1. General information

Solco Ltd (the Company, and together with its subsidiaries, the Group) 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 Group's principal activities during the course of the financial year were the wholesale distribution of solar panels and water pumping products, and the continuing development of a dedicated Projects division to increase exposure to industrial/ commercial solar or power projects.

### 2. Significant accounting policies

#### Basis of preparation

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

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Solco Limited and its subsidiaries.

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments which have been measured at fair value. 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.

#### Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS 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 29 August 2011.

#### 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 accounting policies and key sources of estimation uncertainty.

#### Adoption of new and revised Accounting Standards

##### Changes in accounting policy on initial application of Accounting Standards

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

## 2. Significant accounting policies (contd)

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 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".

## 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) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

### (g) Income tax

The income tax expense or benefit 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

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at re-valued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at re-valued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (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.

## 2. Significant accounting policies (contd)

### (l) Cash and cash equivalents (contd)

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.

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 Group. 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 Group, 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 Group 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.

## 2. Significant accounting policies (contd)

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

### (r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### (s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the 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.

### (t) 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.

### (u) 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.

## 2. Significant accounting policies (contd)

### (u) Financial assets (contd)

#### *(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.

If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

#### *(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.

### (v) 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 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.



## 2. Significant accounting policies (contd)

### (v) Derecognition of financial assets and financial liabilities (contd)

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.

### (w) 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.

### (x) 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.

### (y) 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.

### (z) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and participating forward contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

## 2. Significant accounting policies (contd)

### (z) Derivative financial instruments and hedging (contd)

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of participating forward contracts is determined by reference to option valuations using market rates as inputs.

For the purposes of hedge accounting, hedges are classified as:

- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- a hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

#### (i) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

### (aa) 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 AIFRS 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:

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

*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 using a Black-Scholes model using the assumptions detailed in Note 23.

*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 differences will impact the current and deferred tax provisions in the periods in which such determination are made. At 30 June 2011 management believe there are no material judgement areas which would result in the actual final outcome differing from the calculated income tax.

*Warranty claims*

The Group offers a variety of warranty periods depending upon the goods sold. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

*Recoverability of deferred income tax assets*

The Board has recognised deferred tax assets during the year, including \$734,013 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	
	2011	2010
	\$	\$
<b>Continuing operations</b>		
Revenue from the sale of goods	53,725,807	34,532,511
	<u>53,725,807</u>	<u>34,532,511</u>
<b>Other income</b>		
Interest revenue	106,651	239,390
Sub-lease rentals	24,673	49,411
Other income	716	41,812
<b>Total revenue from continuing operations</b>	<u>132,040</u>	<u>330,613</u>

## 5. Profit for the year

### Other expenses

The result for the year includes the following expenses:

	Consolidated	
	2011	2010
	\$	\$
Depreciation		
Plant and equipment	36,120	34,372
Leased motor vehicles	1,340	6,212
	37,460	40,584
Foreign exchange losses	239,616	210,550
Rental expenses relating to operating leases	800,168	422,632
Write off of assets:		
Plant and equipment	-	33,786
Write down of inventories to net realisable value	-	53,000
Share-based payments		
Equity settled share-based payments	-	13,823

## 6. Income taxes

### a) Recognised in the statement of comprehensive income

	Consolidated	
	2011	2010
	\$	\$
The major components of the tax expense/(income) are:		
Current tax expense	758,507	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	321,219	(1,503,783)
Deferred tax - overprovision in prior year	59,786	-
Total tax expense/(income) attributable to continuing operations	1,139,512	(1,503,783)

### b) Amounts charged or credited directly to equity

Deferred income tax related to items charged/(credited) directly to equity:		
Capital raising expenses	3,212	6,424
Revaluation of cash flow hedges	(23,033)	-
Income tax expense/(benefit) reported in equity	(19,821)	6,424

### c) 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	
	2011	2010
	\$	\$
Profit from operations before income tax expense	3,601,143	3,292,229
Income tax expense calculated at 30%	1,080,343	987,669
Share-issue expenses	(3,212)	3,456
Investment allowance	-	3,512
Sundry items	2,595	(5,259)
Previously unrecognised tax losses used	-	(1,018,542)
Overprovision of prior year deferred tax	59,786	-
Previous years temporary differences unrecognised	-	(1,116,001)
Previous years timing differences recognised	-	(358,618)
Income tax expense/(benefit)	1,139,512	(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.

**6. Income taxes (contd)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>d) Deferred tax assets</b>		
Temporary differences		
Receivables	49,807	31,983
Inventories	-	100,650
Other assets	-	40,335
Payables	137,336	72,074
Provisions	183,350	144,314
Derivatives	43,563	-
Equity	3,212	6,424
Unused tax losses	734,013	1,116,001
	<b>1,151,281</b>	<b>1,511,781</b>
<b>e) Unrecognised temporary differences</b>		
There are no temporary differences for which deferred tax assets or liabilities have not been recognised.		
<b>f) Tax Losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	-	-
Potential asset at 30%	-	-
<b>g) Current tax liability provided for</b>	<b>758,507</b>	<b>-</b>
<b>h) Deferred tax liability</b>		
Prepayments	<b>2,258</b>	<b>1,574</b>

**Tax Consolidation Legislation**

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

**7. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<u>Current</u>		
Trade receivables	4,536,383	4,351,847
Allowance for doubtful debts	(166,023)	(106,609)
	<b>4,370,360</b>	<b>4,245,238</b>
<u>Ageing of past due but not impaired trade receivables</u>		
30 – 60 days	960,858	1,052,810
60 – 90 days	89,166	149,861
90 – 120 days	483,519	563,076
Total	<b>1,533,543</b>	<b>1,765,747</b>

An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts increased by \$59,414 (2010: decreased by \$23,457). This movement was recognised in profit for the year.

In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the balance date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairment.

7. Trade and other receivables (contd)

Ageing of impaired trade receivables

	Consolidated	
	2011 \$	2010 \$
60 – 90 days	48,555	18,935
90 – 120 days	6,298	4,208
120 + days	111,170	83,466
<b>Total</b>	<b>166,023</b>	<b>106,609</b>

8. Inventories

	Consolidated	
	2011 \$	2010 \$
Raw materials	17,125	15,073
Work in progress	56,479	56,479
Finished goods	6,994,684	4,359,171
	<b>7,068,288</b>	<b>4,430,723</b>

**Inventory expense**

Inventories recognised as an expense for the Group during the year ended 30 June 2011 amounted to \$42,038,490 (2010: \$29,946,135). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to \$nil (2010: \$53,000). The expense has been included in 'raw materials and consumables used' in the statement of comprehensive income.

9. Other assets

	Consolidated	
	2011 \$	2010 \$
<u>Current</u>		
Prepayments	369,937	1,059,090
	<b>369,937</b>	<b>1,059,090</b>
<u>Non Current</u>		
Deposits	57,010	-
	<b>57,010</b>	<b>-</b>

10. Property, plant and equipment

**Gross carrying amount**

	Consolidated			
	Plant and Equipment at cost \$	Motor vehicles at cost \$	Software at cost \$	Total \$
<b>Balance at 1 July 2009</b>	365,391	127,065	-	492,456
Additions	33,728	-	-	33,728
Disposals	(51,994)	(86,894)	-	(138,888)
Assets written off	(67,200)	-	-	(67,200)
<b>Balance at 30 June 2010</b>	<b>279,925</b>	<b>40,171</b>	<b>-</b>	<b>320,096</b>
Additions	68,155	-	129,765	197,920
<b>Balance at 30 June 2011</b>	<b>348,080</b>	<b>40,171</b>	<b>129,765</b>	<b>518,016</b>

**Accumulated depreciation/ amortisation and impairment**

<b>Balance at 1 July 2009</b>	(258,919)	(92,816)	-	(351,735)
Disposals	40,287	64,815	-	105,102
Write off of assets charged to profit	57,152	-	-	57,152
Depreciation expense	(34,372)	(6,212)	-	(40,584)
<b>Balance at 30 June 2010</b>	<b>(195,852)</b>	<b>(34,213)</b>	<b>-</b>	<b>(230,065)</b>
Depreciation expense	(36,120)	(1,340)	-	(37,460)
<b>Balance at 30 June 2011</b>	<b>(231,972)</b>	<b>(35,553)</b>	<b>-</b>	<b>(267,525)</b>

**Net book value**

As at 30 June 2010	84,073	5,958	-	90,031
As at 30 June 2011	116,108	4,618	129,765	250,491

## 11. Intangible assets

	Consolidated			
	Goodwill \$	Technology rights \$	Patents & Trademarks \$	Total \$
<b>Gross carrying amount</b>				
<b>Balance at 1 July 2009</b>	2,981,589	295,000	22,149	3,298,738
Additions/(disposals)	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>2,981,589</b>	<b>295,000</b>	<b>22,149</b>	<b>3,298,738</b>
Additions/(disposals)	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>2,981,589</b>	<b>295,000</b>	<b>22,149</b>	<b>3,298,738</b>
<b>Accumulated amortisation and impairment</b>				
<b>Balance at 1 July 2009</b>	(2,226,828)	(295,000)	(22,149)	(2,543,977)
Amortisation expense	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>(2,226,828)</b>	<b>(295,000)</b>	<b>(22,149)</b>	<b>(2,543,977)</b>
Amortisation expense	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>(2,226,828)</b>	<b>(295,000)</b>	<b>(22,149)</b>	<b>(2,543,977)</b>
<b>Net book value</b>				
As at 30 June 2010	754,761	-	-	754,761
As at 30 June 2011	754,761	-	-	754,761

Goodwill acquired through business combinations have been allocated to one cash generating unit, being Solco Solar Products Pty Ltd. This is also the reportable segment for impairment testing. For the purpose of impairment testing, the recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on the profit before tax for the 2011 financial year.

The discount rate applied to cash flow projections is 11.67% and cash flows beyond the first year are extrapolated using a conservative one percent growth rate, which is considered at the lower end of the average growth rate for the industry generally.

The carrying amount of goodwill allocated to the cash generating unit amounts to \$754,761 (2010: \$754,761).

### Key assumptions used in value in use calculations

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the cash generating unit.

- Growth rates of one percent per annum for the following four periods.
- In calculating the terminal value a growth rate of one percent was used.
- Bond rates - the yield on a ten year government bond rate at the beginning of the budgeted year is used.

### Impact of possible changes in key assumptions

Neither using growth rates of zero percent in the value in use calculation nor increasing the pre-tax discount rate for the cash generating unit by ten percent would result in a need to reduce the carrying amount of the intangible asset.

## 12. Trade and other payables

	Consolidated	
	2011 \$	2010 \$
Trade payables	3,956,035	4,193,027
Employee entitlements	474,641	346,882
Other payables	978,588	960,500
	<b>5,409,264</b>	<b>5,500,409</b>

### 13. Provisions

	Consolidated	
	2011	2010
	\$	\$
<b>Current</b>		
Warranty	55,168	222,000
Employee benefits	222,257	154,538
	<b>277,425</b>	<b>376,538</b>
<b>Non-current</b>		
Warranty	375,998	97,298
Employee benefits	-	7,211
	<b>375,998</b>	<b>104,509</b>
<b>Balance at 1 July 2009</b>		332,811
Additional provisions recognised		64,311
Reductions arising from payments/other sacrifices of future economic benefits		(77,824)
<b>Balance at 30 June 2010</b>		319,298
Additional provisions recognised		152,443
Reductions arising from payments/other sacrifices of future economic benefits		(40,575)
<b>Balance at 30 June 2011</b>		431,166

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.

### 14. Derivative Financial Instruments

	Consolidated	
	2011	2010
	\$	\$
<b>Current Liabilities</b>		
Forward currency contracts – cash flow hedges	145,211	-
	<b>145,211</b>	<b>-</b>

#### Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign currency rates.

#### Forward currency contracts – cash flow hedges

The Group makes a number of inventory purchases in foreign currency. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward exchange contracts to purchase US Dollars and/or Euros. These contracts are hedging highly probable forecast purchases and they are timed to mature when payments are scheduled to be made.

The cash flows are expected to occur between 1 and 5 months from 1 July 2011 and the profit or loss within costs of sales will be affected over the next few years as the inventory is either used in production or sold.

Details of outstanding contracts at reporting date are disclosed in Note 22.

#### Movement in forward currency contract cash flow hedge reserve

	Consolidated	
	2011	2010
	\$	\$
Opening Balance	-	-
Charged to other comprehensive income (net of tax)	53,745	-
Closing Balance	<b>53,745</b>	<b>-</b>



**15. Issued capital**

199,613,638 fully paid ordinary shares  
(2010: 199,613,638)

Consolidated	
2011	2010
\$	\$
19,815,044	19,818,256

	2011		2010	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	199,613,638	19,818,256	199,613,638	19,811,832
Tax adjustment - equity	-	(3,212)	-	6,424
Balance at end of financial year	199,613,638	19,815,044	199,613,638	19,818,256

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 2011, the Company has no share options on issue (2010: 3,000,000). There are also no other options on issue at the date of this report. Further details of options granted to Directors are contained in note 23 to the financial statements.

**16. Reserves**

	Consolidated	
	2011	2010
	\$	\$
Cash flow hedge reserve	(53,745)	-
Equity-settled employee benefits	-	22,650
	(53,745)	22,650

*Share based payment reserve*

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 23 to the financial statements.

*Cash flow hedge reserve*

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

**17. Earnings per share**

	Consolidated	
	2011	2010
	Cents per share	Cents per share
Basic earnings per share	1.23	2.40

**Basic earnings per share**

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

	2011	2010
	\$	\$
Net profit	2,461,631	4,796,012

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

2011	2010
No.	No.
199,613,638	199,613,638

**Diluted earnings per share**

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

## 18. Commitments for expenditure

### (a) 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

	Consolidated	
	2011	2010
	\$	\$
Not longer than 1 year	227,166	199,790
Longer than 1 year and not longer than 5 years	174,588	267,526
	401,754	467,316

## 19. Contingent liabilities and contingent assets

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2011 and no contingent assets or liabilities were incurred in the interval between the period end and the date of this financial report.

## 20. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
<b>Parent entity</b>			
Solco Ltd	Australia	N/A	N/A
<b>Subsidiaries</b>			
Soico Solar Products Pty Ltd	Australia	100	100
Soico 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

## 21. 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	
	2011	2010
	\$	\$
Cash and cash equivalents	6,775,327	6,026,576
Deposits at call	-	38,000
	6,775,327	6,064,576

### (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	
	2011	2010
	\$	\$
Profit for the year	2,461,631	4,796,012
Allowances for bad and doubtful debts	(1,000)	(8,625)
Depreciation and amortisation	37,460	40,584
Write-down of inventories	-	53,000
Equity-settled share based payment	-	13,823
Write-off of fixed assets	-	33,786
Net foreign exchange (gain)/loss	239,616	210,550
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables	(363,739)	(877,366)
Inventories	(2,637,565)	2,109,786
Other assets	631,644	(982,447)
Deferred tax asset	380,321	(1,503,783)
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	(91,144)	(1,901,906)
Deferred tax liability	684	-
Current tax liability	758,507	-
Derivative financial instrument	68,433	-
Provisions	172,375	52,039
<b>Net cash from operating activities</b>	<b>1,657,223</b>	<b>2,035,453</b>

**(d) Financing facilities**

	Consolidated	
	2011	2010
	\$	\$
Invoice financing facility		
• amount used	-	-
• amount unused	3,500,000	2,000,000
	<b>3,500,000</b>	<b>2,000,000</b>

**22. Financial instruments**

**(a) Overview**

The Group has 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.

## 22. Financial instruments (contd)

### (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 maturities for its non-derivative financial assets and liabilities and have been prepared on the following basis:

Financial assets - based on the undiscounted contractual maturities including interest that will be earned on those assets except where the 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.

	CONSOLIDATED						
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total
2011	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>							
Non-interest bearing	427,918	4,370,360	-	-	-	-	4,798,278
Variable interest rate	6,347,409	-	-	-	-	-	6,347,409
	<u>6,775,327</u>	<u>4,370,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,145,687</u>
<b>Financial liabilities</b>							
Non-interest bearing	-	5,233,193	176,071	-	-	-	5,409,264
Fixed interest rate	-	-	-	-	-	-	-
	<u>-</u>	<u>5,233,193</u>	<u>176,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,409,264</u>

	CONSOLIDATED						
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	No fixed term	Total
2010	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>							
Non-interest bearing	496,574	4,245,238	-	-	-	-	4,741,812
Variable interest rate	5,568,002	-	-	-	-	-	5,568,002
	<u>6,064,576</u>	<u>4,245,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,309,814</u>
<b>Financial liabilities</b>							
Non-interest bearing	-	5,352,840	147,569	-	-	-	5,500,409
Fixed interest rate	-	-	-	-	-	-	-
	<u>-</u>	<u>5,352,840</u>	<u>147,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,500,409</u>

The following table details the Group's liquidity analysis for its derivative financial instruments. The table is based upon undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflow/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by referenced to the projected interest rates as illustrated by the yield curves existing at the balance date.

	CONSOLIDATED				
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total
2011	\$	\$	\$	\$	\$
Derivative liabilities – Gross settled:					
Inflows	722,650	4,274,239	-	-	4,996,889
Outflows	(743,600)	(4,398,500)	-	-	(5,142,100)
	<u>(20,950)</u>	<u>(124,261)</u>	<u>-</u>	<u>-</u>	<u>(145,211)</u>
2010	\$	\$	\$	\$	\$
Derivative liabilities – Gross settled:					
Inflows	-	-	-	-	-
Outflows	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 22. Financial instruments (contd)

### (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 and participating forward 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	
	2011 \$	2010 \$	2011 \$	2010 \$
EURO	412,122	1,296	289,622	51,696
USD	583,284	907,950	1,939,773	2,473,518

### 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 2011 and 30 June 2010.

	Consolidated	
	2011 \$	2010 \$
Net profit	123,399	151,257
Equity	123,399	151,257

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	1.0394	4,463,100	4,316,482
Buy Euros	0.7291	679,000	929,834

### (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.

## 22. Financial instruments (contd)

### (f) Interest rate risk management (contd)

#### 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 \$31,737 (2010: \$27,840) 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 2011 and 2010, 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

AASB 7 Financial Instruments: Disclosures 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 2011 and 30 June 2010 respectively.

Consolidated				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>2011</b>				
<b>Assets</b>	-	-	-	-
<b>Liabilities</b>				
Derivatives used for hedging	-	145,211	-	145,211
	-	145,211	-	145,211
<b>Consolidated</b>				
<b>2010</b>				
<b>Assets</b>	-	-	-	-
<b>Liabilities</b>	-	-	-	-

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

The fair value of financial instruments that are not traded in an active market (for example, the over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

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 other financial liabilities recorded in the financial statements approximate their net fair values (2010: net fair values).

### 23. Share-based payments

#### Employee share options

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

Each employee share option converts into one ordinary share of Solco Ltd on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is at the sole discretion of the directors subject to the total number of outstanding options being issued under the ESOP not exceeding 5% of the Company's issued capital at any one time.

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

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

#### Share based payment arrangements in existence during period

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

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Series 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

All options in series II to V lapsed unexercised at 31 December 2010. There were no new share based payments granted during the current financial year.

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

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	3,000,000	0.16	4,000,000	0.17
Granted during the financial year	-	-	-	-
Expired/lapsed during the financial year	(3,000,000)	0.16	(1,000,000)	0.18
Balance at end of the financial year	-	-	3,000,000	0.16
Exercisable at end of the financial year	-	-	3,000,000	0.16

### 24. 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 20 to the financial statements.

#### (b) Transactions with key management personnel

##### 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	
	2011 \$	2010 \$
Short term employee benefits	844,214	568,314
Post employment benefits	73,041	50,310
Share based payments	-	13,823
	917,255	632,447

## 24. Related party transactions (contd)

### 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>2011</b>						
<b>Directors</b>						
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>						
John Hebenton	-	-	-	-	N/A	-
Stephen Missen	-	-	-	-	N/A	-
	<b>89,420,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89,420,775</b>
<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 Hebenton(ii)	-	-	-	-	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>

(i) Resigned 16 November 2009

(ii) Appointed 23 March 2010

### 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>2011</b>									
<b>Directors</b>									
Mark Norman	1,000,000	-	-	-	(1,000,000)	-	-	-	-
David Richardson	1,000,000	-	-	-	(1,000,000)	-	-	-	-
Ian Campbell	1,000,000	-	-	-	(1,000,000)	-	-	-	-
	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,000,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<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
	<b>4,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,000,000)</b>	<b>3,000,000</b>	<b>-</b>	<b>4,000,000</b>	<b>3,000,000</b>

### 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 \$5,901 (2010:\$ 23,534). Mr Mark Norman acquired stock and assets from the Group to the value of \$108 (2010: \$633). The purchases were made on normal arm's length terms and conditions.



## 24. Related party transactions (contd)

### (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 20.

## 25. Segment Reporting

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.

## 26. 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	0.375	748,552	Unfranked	18 January 2011

## 27. Remuneration of auditors

	Consolidated	
	2011 \$	2010 \$
<b>Auditor of the group</b>		
Audit or review of the financial report	56,950	55,943
Other services (assurance related)	3,000	-
	<u>59,950</u>	<u>55,943</u>

The auditor of Solco Ltd is HLB Mann Judd.

## 28. Parent Entity Disclosures

### Financial position

	2011	2010
	\$	\$
<b>Assets</b>		
Current assets	862,357	576,259
Non-current assets	2,320,932	1,686,168
<b>Total assets</b>	<b>3,183,289</b>	<b>2,262,427</b>
<b>Liabilities</b>		
Current liabilities	1,176,093	896,077
Non-current liabilities	669,266	705,374
<b>Total liabilities</b>	<b>1,845,359</b>	<b>1,601,451</b>
<b>Equity</b>		
Issued capital	19,811,833	19,811,833
Retained earnings	(18,473,903)	(19,173,507)
Share-based payments reserve	-	22,650
	<b>1,337,930</b>	<b>660,976</b>
<b>Financial Performance</b>		
Profit/(Loss) for the year	1,425,503	(1,219,218)
<b>Total comprehensive income</b>	<b>1,425,503</b>	<b>(1,219,218)</b>

### 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 2011 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 2011 for the acquisition of property, plant and equipment.

## 29. Subsequent events

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

## Additional ASX information as at 28 September 2011

### 1. Number of holders of equity securities

#### Ordinary share capital

199,613,638 fully paid ordinary shares are held by 1,569 individual shareholders.

### 2. Distribution of holders of equity securities

	Fully paid ordinary shares	Number of equity security holders
1 – 1,000	12,013	48
1,001 – 10,000	3,399,576	532
10,001 – 100,000	31,650,801	833
100,001 and over	164,551,248	156
	<b>199,613,638</b>	<b>1,569</b>

### 3. Less than marketable parcels of shares

The number of shareholdings held in less than marketable parcels is 216 given a share value of 10.0 cents per share.

### 4. 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.

### 5. Substantial shareholders

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

### 6. 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	24,417,796	12.23
3. Gypsy Hill Pty Ltd	20,505,051	10.27
4. Mr David Richardson	6,847,543	3.43
5. National Nominees Limited	3,055,840	1.53
6. Redbrook Nominees Pty Ltd	2,400,000	1.20
7. Sanjo Pty Ltd	1,800,000	0.90
8. Gidleigh Pty Ltd	1,184,741	0.59
9. Mrs Erla Dawn Riley	1,100,000	0.55
10. Mr John Sean Cooper	1,083,037	0.54
11. Sanjo Pty Ltd	1,000,000	0.50
12. Seaspin Pty Ltd	1,000,000	0.50
13. Mr Klaas Pool & Mrs Heather Joan Pool	900,000	0.45
14. Brookfield Capital Pty Ltd	890,347	0.45
15. IMAJ Pty Ltd	800,000	0.40
16. Mr Gilbert Richard Cren Lumsdaine	720,619	0.36
17. Mr David Leroy Boyles	700,000	0.35
18. Tamnic Pty Ltd	700,000	0.35
19. Citicorp Nominees Pty Ltd	658,856	0.33
20. HSBC Custory Nominees (Australia) Ltd	617,565	0.31
	<b>132,199,576</b>	<b>66.21</b>

**7. Unquoted equity securities**

At the date of this report, the company did not have any unquoted equity securities.

**8. Unquoted equity security holdings greater than 20%**

At the date of this report, the company did not have any unquoted equity securities.

**9. 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".

**10. Restricted Securities**

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

**11. 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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For more information visit [www.austlii.edu.au/au/other/dfat/special/energy](http://www.austlii.edu.au/au/other/dfat/special/energy)

Developing a **sustainable future**  
for Australia's **renewable energy** industry

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