



solar solutions in water and power

annual report 2012



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Annual financial report for the financial year ended 30 June 2012

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Corporate Directory

Directors:

David Richardson	Non-Executive Chairman
Mark Norman	Non-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 Ltd

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

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CHAIRMAN'S REPORT

FY 2011/12 has been a challenging year for the PV industry and, as a result, Solco has undergone major changes to ensure the success and sustainability of our business going forward.

Legislative changes and global production over-capacity prompted a dramatic contraction in the Australian market, which had a significant impact on our business, along with others operating in the PV sector. Over-supply of product in the market led to a 45% reduction in the cost of PV modules, which had a knock-on effect to our wholesale business where PV sales represent the majority of our revenue. At the same time, changing global market dynamics were affecting component pricing at an unexpected pace.

Management responded to the tightening market by reducing operating costs through some redundancies in September and the introduction of SysPro, a new ERP software solution enabling us to better manage our inventory and customer relations.

The market was also heavily impacted by Chinese panel producers setting up operations in Australia in a bid to clear out their own backlog of product as a result of oversupply in China.

At the same time we saw a shift in the value-chain to 'downstream' installers, or Systems Integrators. As a result, we focused our attention on growing our own Direct-to-Customer Commercial Projects EPC division.

In early 2012, following write-downs of the value of our inventory holdings and after experiencing no real relief in market conditions, Solco undertook a major review of the business.

In April 2012, Anthony Coles was appointed as Chief Executive Officer, with a remit to rebuild our marketing group and refocus our operations going forward. The major changes are outlined in our Review of Operations.

OUR FUTURE

We maintain our original strategy to be a leader and shaper of the renewable energy market, I believe that we have now implemented the changes required to return Solco to the position of national leader that we held at the beginning of FY 2011/12.

Solco's ongoing challenge is to deal with the logistical issues with associated selling increased volumes of product for the same revenue. We think we have made the technical and process decisions to succeed in this difficult market.

The project sector is steadily gaining traction and Solco's achievements this year should position us well for the future.

We would like to thank our staff and shareholders for their ongoing support in what has been a difficult year for all concerned and special thanks to those employees and associates who have worked tirelessly to redefine our path.



David Richardson
Chairman

MARKET OVERVIEW

THE SOLAR MARKET

Prior to Federal and State Regulatory changes of 2008, Australia's PV sector was predominately an off-grid market in which Solco, through its acquisition of Choice Electric, held a leader position. The introduction of the Renewable Energy Target, and the creation of up-front system discounts linked to tradable "Certificates", led to the rapid growth of a "grid-connected" PV industry that Solco benefited from in FY 10/11.

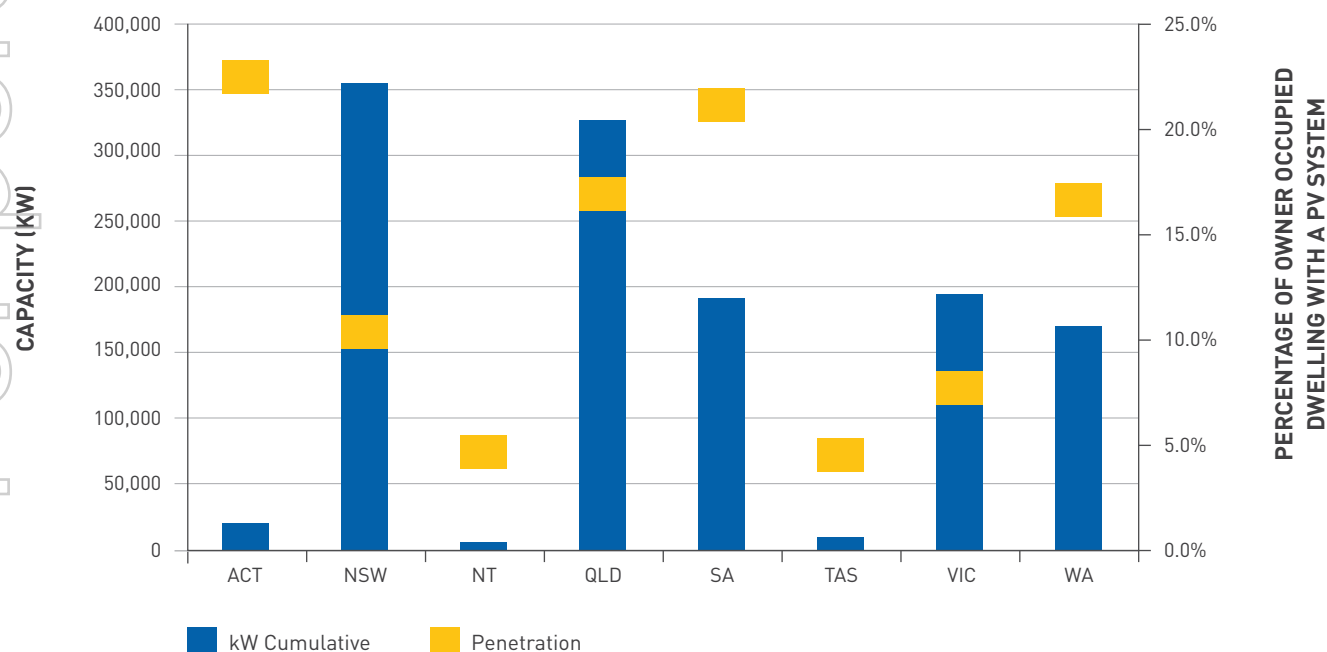
The phasing out of this support created a surge in demand in the lead-up to June 30 2011, however the cumulative effect of the accelerated winding-back of the Federal Government "STC Multiplier" from 5x to 3x, and the complete removal of a feed-in tariff in ACT and NSW saw those markets contract substantially in the latter half of 2011. Softer changes to feed-in tariffs in SA, VIC, and WA eased the impact in those markets, however, the cumulative changes saw a dramatic contraction of the whole market by January 2012, with installations falling back to 2010 levels.

Calendar year 2011 saw over 700MW of PV installed, predominately residential grid-connected. With a further 350MW installed Jan-Jun 2012, Australia's cumulative installed capacity is now over 1.5GW.¹

It is worth noting that global installed capacity in CY 2011 was 23GW, with Germany alone installing 1.5GW in the month of December in 2011. The rise of China in the last 6 months has seen another 3GW installed there in the 1st six months of this year.

It is now estimated that 8% of all suitable homes² in Australia have one of nearly 500,000 PV systems in some form or system size installed (see table below). On current estimates, this still leaves a potential 4 million+ residential market available in Australia.

PV DEPLOYMENT, END 2011



KEY MARKET DRIVERS

1. COMPONENT PRICING

Module (panel) prices for solar PV declined 45% in 2011, with spot prices for Chinese panels down to US\$0.80c by June 30, 2012. The massive increase in production capacity (>30GW) predominately from China, coupled to reduced global demand, led to high inventory levels and a subsequent price war that European and US manufacturers have found it difficult to compete within. Indeed all module manufacturers are under financial pressures (increasing debt, reduced revenues, declining margins).

Continuing downward pressure on inverter, racking and balance of system costs is leading to a more competitive energy generation solution from PV than previously predicted. Most financial models for Levelised Cost of Electricity (LCOE) are now out-dated and new investment money is coming into 'downstream' PV as the competitiveness of solar as an energy resource is becoming more widely known.

Looking forward, Solco sees further declines in component costs, although not as severe as in 2011, but consistent enough for us to review our vendor relationships and contractual obligations to account for these likely changes in pricing dynamics.

2. A POST-REBATE SOLAR PV-WORLD

Solco is looking forward to the post-rebate PV-world. One where feed-in tariffs are provided in equal measure to traditional electricity generation values, the Renewable Energy Target (RET) is maintained as a key target to provide confidence to large-scale solar PV investment, and the solar multiplier has been removed completely allowing solar PV to be evaluated on its own merit.

Solco believes these policy drivers have served their purpose, and now provide the industry with nothing but a negative social stigma for non-renewable electricity generators to use as a tool to maintain the status quo.

3. ELECTRICITY PRICES

Electricity prices are the single greatest market driver for the uptake of distributed generation alternatives like solar PV. With the knock-on effect of legislated infrastructure investments to support a reducing peak demand (further impacted on by the increasing installation of solar PV), electricity prices are now at levels equivalent to the cost of power from of a solar PV system in most markets. The introduction of the Carbon Tax on July 1 2012 will also exacerbate the situation with electricity prices set to rise on the back of this.

4. AUSTRALIA'S CLEAN ENERGY FUTURE

Although potentially a political football, the carbon price is focussing attention on electricity pricing and consumption. The Government has introduced a number of funding policies to support high carbon emitting industries, and key industry sectors that are not high emitters but who may be adversely affected by rising prices, with a program to support innovation and change over to a clean energy/low energy use future.

5. DATED ELECTRICITY MARKET REGULATIONS

The current structure of the Australian electricity market presents barriers to the deployment of distributed energy (like solar PV), with network charges still payable on any power that is exported to the grid, no matter how far it travels (ie: self-consumption). As the understanding of the positive impact of solar PV increases, network pricing conditions should change to reward distributed generation further supporting renewable energy sources like solar PV.

6. COMPETITIVE ENVIRONMENT

Although still a niche, and maturing industry, the Australian PV industry now comprises of some 2,000 companies employing an estimated 15,000 people. The wholesale market that Solco operated in primarily in with its Solco Solar Products business has been greatly impacted by the number of new participants, local sales offices of overseas manufacturers, and the direct-to-manufacturer opportunities available to large retailers/installers.

The Direct-to-Customer large-scale commercial market that Solco has positioned itself in with Solco Solar Projects is also confronting increased competition from residential installers as they move to maintain volume levels in the SME-commercial sector. The maturing Australian market is also being looked at seriously by the large European, North American and Chinese "Engineer, Procure, Construct" (EPC) or System integrator companies.

7. NETWORK CONNECTIVITY

Grid networks were not historically designed to cater for distributed generation from solar PV and a significant overhaul of the network rules and regulations is required to adequately and more efficiently cater for increasing amounts of PV. The elusive smart grid may see the light of day, but not in this Financial Year.

8. FINANCE, AND THE COST OF CAPITAL

Capital costs are a major barrier to the uptake of PV. The Residential market has evolved to include some innovative finance offerings and we see this as a continuing trend. It is a market that we want Solco to participate in. Leasing is also maturing for the SME Commercial sector, and Power Purchase Agreements (PPA) are becoming a standard tool for large-scale Utility projects.

The Australian market is currently limited, however, by the oversupply of LGCs and the position of strength traditional electricity retailers, who own generation assets, have on the market.

9. BANKABILITY

Bankability is the willingness of banks to fund power generation projects with equipment from proven manufacturers. Only a relatively small number of the many hundreds of PV manufacturers around the world are considered bankable, and the manufacturers that appear on such lists vary with time. As the Australian PV market matures, the issue of bankability will become increasingly important and non-bankable PV manufacturers are likely to exit the market.

More importantly, as Solco enters the Build, Own, Operate (BOO) market with its own and Joint Venture solar power generation projects, financiers will be looking for strong, stable project owners built by reputable installers whose off take is to be purchased by reliable customers. Bankability will extend downstream with finance favouring experienced PV integrators who can best service the market.

To be successful Solco will need to compete with experienced foreign EPC companies backed by international financiers with greater confidence in PV than Australia's banks.

10. MERIT ORDER EFFECT

PV is already impacting on wholesale electricity prices through the Merit Order Effect (MOE) and increased awareness of the benefits of solar PV will not only increase its appeal, but also attract larger players into the market.

MARKET SEGMENTATION

The Australian PV market is divided into four (4) segments in which Solco participates in.

Sub-market	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Off-Grid domestic	11,07	12,45	14,28	16,59	19,89	23,88	27,71	32,68	40,76	44,23	101,79
Off-Grid non-domestic	19,17	22,74	26,06	29,64	33,07	36,65	38,73	40,66	43,14	43,57	61,99
Grid-connected distributed	2,80	3,40	4,63	5,41	6,86	9,01	15,04	29,85	101,21	479,34	1236,76
Grid-connected centralised	0,54	0,54	0,66	0,66	0,76	0,76	1,01	1,32	2,53	3,79	7,40
TOTAL (MWp)	33,58	39,13	45,63	52,30	60,58	70,30	82,49	104,5	187,64	570,93	1407,94

We see the historical disproportionate skew towards "grid-connected distributed", or residential solar PV, shifting to increase percentages in the other segments.

1. OFF-GRID DOMESTIC

A small, but solid sector Solco has core competencies in, and we can foresee growth via our Wholesale business.

2. OFF-GRID NON-DOMESTIC

A growing market segment, and one in which Solco has good experience in through our Projects business.

3. GRID-CONNECT DISTRIBUTED

The largest segment that includes all grid-connect installations less than 100kW. We see a strong contribution from our Wholesale business in this segment which includes installations in the Residential (<10kW range), small-commercial (10-30kW range), and medium-commercial 30-100kW.

4. GRID-CONNECT CENTRALISED

This segment includes large commercial systems greater than 100kW in size that will be the focus of our Projects business.

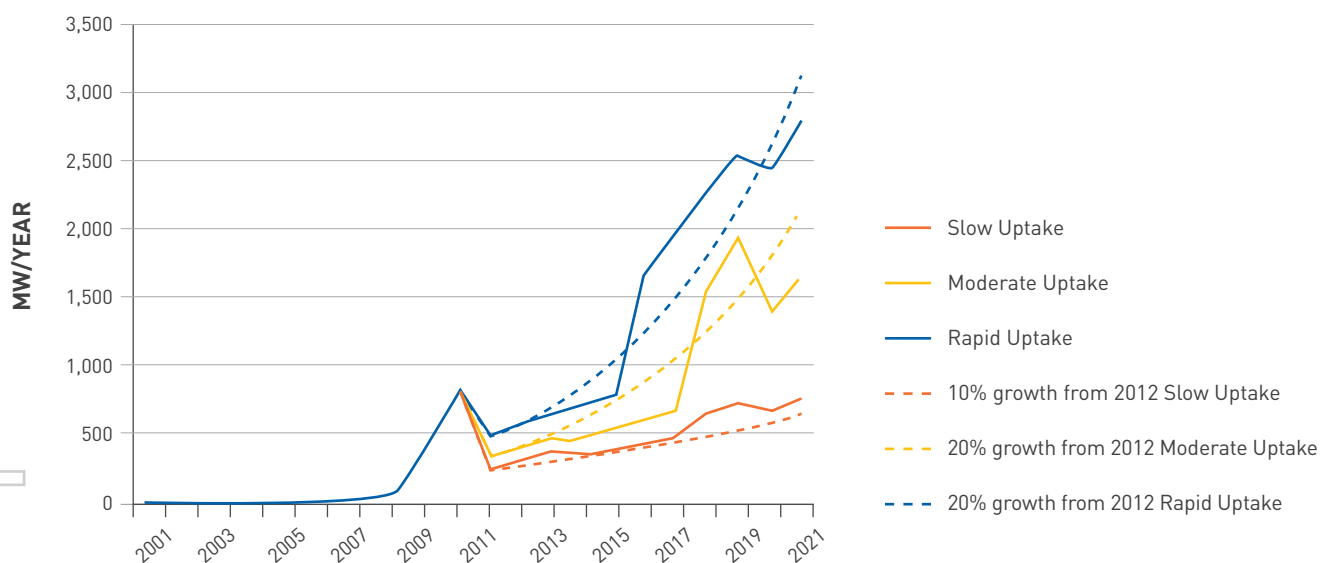
5. LARGE SCALE RENEWABLES

We see a strong future in Large/utility-scale PV in Australia and are positioning ourselves to be a leading player in this market as it evolves through our Power division.

INDUSTRY FORECAST

Industry analysts³ have provided a range (3) of scenarios of PV market size to the Australian Energy Market Operator to assist with supply and demand planning. Under their scenarios the PV industry will install between 250-800 MW a year until the latter years of the Renewable Energy Target in 2020. 2012 figures already support the Rapid Uptake scenario resulting in potentially 18GW installed in Australia by the end of 2022.

PV INDUSTRY GROWTH FORECASTS



REVIEW OF OPERATIONS

GROUP

Key financial results of the consolidated operations of the Company are as follows:

- Cash assets of \$3.49M, down 49% on June 30 2011
- Trade and other receivables of \$2.29M, down 48% on June 30 2011
- Inventories of \$3.53M, down 50% on June 30 2011
- Trade and other payables of \$2.32M, down 57% on June 30 2011
- Revenue of \$22.9M, down 57% from \$53.7M on June 30 2011
- After tax loss of \$4.38M, down 278% from profit of \$2.46M at June 30 2011

SOLCO SOLAR PRODUCTS

The wholesale "Solco Solar Products" (SSP) division responded poorly to the changing market conditions in FY 2011/12 and suffered with high staff turnover, declining inventory values, and delays in pricing adjustments brought on by changes to its core ERP software.

With the component costs of PV modules declining by 45% during the period, SSP was not responsive enough with its pricing to support the movement of its aged stock in an increasingly competitive wholesale market.

A review of the business by the Board in January 2012 saw \$4M in the value of its inventory written off, a tipping point that led to the subsequent restructuring of the wholesale business during the remainder of the Financial Year.

As the adjusted value of the stock was made available to the market, inventory levels were reduced to be more in line with our adjusted monthly turnover and more importantly, converted to cash, resulting in a positive net cash result for Q4.

Sales picked up beyond the market in Q4, however further redundancies and office relocations to reduce operating expenses in line with our reduced turnover had a detrimental impact on sales volumes. Total revenue for the wholesale business was \$22M, well short of our original forecast of \$33M and well below our potential in the market.

Other significant steps implemented in Q4 as part of the business restructure included:

- the appointment of former Choice Electric co-founder Gary Deam as General Manager
- the appointment of a new Sales & Product Manager, Paul Edwards (commenced July)
- the appointment of new sales representatives in WA, SA, VIC, NSW and QLD markets
- the doubling of our call centre/customer service personnel
- the reduction in our Engineering services overheads
- the consolidation of our warehousing facilities and the appointment of Ty Rawnsley as National Warehousing and Logistics Manager
- a reduction in our Aged Receivables
- a conversion of >90 day aged receivables/potential bad debts to cash
- completion of the consolidation of the new ERP system to support the wholesale business

We believe that our core wholesale business will grow steadily through improved operating efficiencies, cost management, a customer-service focus and product/pricing strengths.

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SOLCO PROJECTS

The EPC “Solco Solar Projects” division performed well in FY11/12 to further consolidate our investment in the establishment of this business. We successfully tendered on a number of projects, including;

- Brookton Shire Kalkarni Aged Care Facility 30kW solution
- Parkes Shire Council 208kW solution
- Mildura Council 60kw solution
- BHP 70kW “Hybrid” Off-Grid solution

Total revenues for the division totalled \$1.3M with a pipeline of \$3M of potential projects identified for H1 2013.

SOLCO POWER

There were no significant developments in the Power division.

Corporate Governance Statement for the year ended 30 June 2012

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 are 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/or CEO according to agreed performance parameters.

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 until 22 April 2012, Non-executive Chairman from 23 April 2012, non-independent)
- Ian Campbell (Non-executive independent director)
- Mark Norman (Executive director until 31 May 2012, Non-executive director from 1 June 2012, non-independent).

Given Mr Richardson's shareholding in the Company, and his executive role until April 2012, he is not considered to be an independent director. Mr Norman is not considered independent on the basis that he held an executive position within the Company until 31 May 2012, which is in contrast to the recommendation in box 2.1 (point 2) of the guidance and accordingly the Company did not comply with this 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 shareholding and his executive role during the period to April 2012, that the Company is best served with his appointment as 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.

The Company only complied with this recommendation since April 2012, when it appointed Mr Anthony Coles as the Chief Executive Officer, at which time Mr Richardson’s position converted to non-executive Chairman. Prior to this Mr Richardson assumed the role as Executive Chairman, making him the Chief Executive Officer of the Company.

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. A full performance review of the Board, its Committees and individual directors were undertaken during the 2011 financial year, with the next full performance review scheduled for the 2013 financial year. This is in accordance with the Charter which requires such reviews to occur at least once every two years.

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

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 status as executive/non-executive/independent for each director for the year ending 30 June 2012 were as follows (with all directors noted as continuing in office at the date of this annual report):

David Richardson	Executive, not independent - 1 July 2011 to 22 April 2012 Non-executive, not independent - 23 April 2012 onwards
Ian Campbell	Non-executive, independent - 1 July 2011 onwards
Mark Norman	Executive, not independent - 1 July 2011 to 31 May 2012 Non-executive, not independent - 1 June 2012 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 not been performed during the year. The Charter requires these to occur at least once every two years, with the last formal evaluation done during the prior financial 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 in compliance with this Recommendation throughout the year.

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. The policy, which has clearly identifiable measurable objectives, is publicly available on the Company's website.

Progress towards meeting the objectives is detailed in recommendation 3.3.

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.

During the year the Company has directed its efforts to ensure these objectives are met, as best as possible or, where not possible, that processes and procedures are developed, amended and implemented to ensure they are met in future periods.

The Company continued to promote its Diversity Policy throughout the organisation. During the year the Company undertook a restructuring of its operations which led to redundancies. Appointments were made after allowing for criteria set out in the Company's Diversity Policy, which now forms an integral part of all new recruitment and selection 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% (30 June 2011: 24%) female employees. The percentage female employees remained unchanged compared to 30 June 2011 notwithstanding the restructuring and repositioning of the Company in the market during the year which included a reduction in the Company's overall workforce.

As reflected in the remuneration report there are no senior executive positions nor positions on the board filled by females and 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. Mr Campbell, who serves as the chair of the Audit and Risk Management Committee, is the only non-executive, independent director of the Company, and consequently the Committee. The Company was therefore not in compliance with the Recommendation during the year.

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 2 meetings were held):

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Ian Campbell (Chairman)	2	2
David Richardson	2	2

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 are 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 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 reporting year, some longer term share options were 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, who acts as the Chairman of this Committee is not considered 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 2012. 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 data-bbox="501 573 1085 595"><u>Non-Executive Chairman (Executive Chairman to 22 April 2012)</u></p> <p data-bbox="501 602 1447 768">Mr Richardson is a qualified mechanical engineer who has over 30 years of high level business experience. Mr Richardson established the successful engineering enterprise of Toussaint & Richardson in 1982, which he ran until it was acquired in 2000. More recently he was a senior executive of the large, publicly listed engineering firm Worley Parsons, serving as head of the Minerals and Metals division. Mr Richardson also acted as a non-executive director of Emerson Stewart Group Ltd until 29 April 2011.</p> <p data-bbox="501 790 1447 846">Mr Richardson has extensive operational, commercial and engineering experience in Australia and internationally.</p>
Christopher (Mark) Norman B. Eng. (Electronics)	<p data-bbox="501 882 1058 904"><u>Non-Executive Director (Executive Director to 31 May 2012)</u></p> <p data-bbox="501 911 1447 990">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 data-bbox="501 1025 1447 1133">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 data-bbox="501 1169 1447 1249">The quality of Mr Norman's hands on operational experience has been displayed in his COO role at Advanced Nanotechnology Ltd and subsequent roles as Executive Director & CEO of Solco until February 2011 and thereafter as Executive Director and Head of Power and Projects until May 2012.</p>
Ian Campbell	<p data-bbox="501 1285 715 1308"><u>Non-Executive Director</u></p> <p data-bbox="501 1314 1447 1395">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 data-bbox="501 1431 1447 1480">In 1990 Mr Campbell entered Federal politics as a WA Senator, holding high level Cabinet and other offices including:</p> <ul data-bbox="552 1487 1430 1644" style="list-style-type: none"> • Parliamentary Secretary to the Treasurer • Parliamentary Secretary to the Minister for Communications and Information Technology • Minister for Environment and Heritage • Minister for Human Services • Minister for Local Government, Territories and Roads. <p data-bbox="501 1675 852 1697">His international experience includes:</p> <ul data-bbox="552 1704 1447 1792" style="list-style-type: none"> • World Bank of Governors and IMF Annual Meetings in 2002/2003; • Leading international delegations on climate change including at UN Conventions, G8 plus 5 summits, and Asia Pacific conferences. <p data-bbox="501 1827 1447 1879">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 Ltd	April 2008 to April 2011
Ian Campbell	Austal Ltd	August 2007 to June 2012(resigned)
	ASG Group Ltd	June 2007 to current
	Proto Resources & Investments Ltd	March 2008 to current
	Enerji Ltd	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	1,000,000
David Richardson	89,712,715	1,000,000
Ian Campbell	-	1,000,000

Remuneration of directors and senior management

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

Share options granted to Directors and executives

The following share options were granted to directors of the Company during or since the end of the financial year as part of their remuneration:

Directors	Number of options granted	Number of options over ordinary shares
Mark Norman	1,000,000	1,000,000
David Richardson	1,000,000	1,000,000
Ian Campbell	1,000,000	1,000,000

No share options were granted to executives of the Company during or since the end of the financial year as part of their remuneration.

Company secretary

Darren Crawte LL.B (Hons), ACA

Darren is a qualified Chartered Accountant with 12 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 Nexia 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

The review of operations is included on pages 8 and 9 of the annual report.

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 2012.

Dividends

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the financial year.

Share options

Shares under option or issued on exercise of options

Other than the Options issued to the Directors, 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 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:

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

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

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 11 board meetings, 1 nomination and remuneration committee meeting, and 2 audit committee meetings were held.

Directors	Board of directors		Remuneration & Nomination committee		Audit committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David Richardson	11	11	1	1	2	2
Mark Norman	11	11	-	-	-	2
Ian Campbell	11	11	1	1	2	2

Proceedings on behalf of the Company

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

Non-audit services

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 24 in the annual report.

Remuneration report

This report, which forms part of the directors' report, outlines the remuneration arrangements in place for the key management personnel of Solco Ltd (the "Company") for the financial year ended 30 June 2012. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

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 Non-Executive Chairman (Executive Chairman to 22 April 2012)
- Mark Norman Non-Executive Director (Executive Director to 31 May 2012)
- Ian Campbell Non-Executive Director

(ii) Executives

- Anthony Coles Chief Executive Officer (appointed 23 April 2012)
- Robert Matthews General Manager Projects/ Chief Operations Officer (appointed 14 May 2012)
- Gary Deam General Manager Products (appointed 23 April 2012)
- Stephen Missen Solar Products Business Unit Manager and Chief Financial Officer (resigned 13 April 2012)
- John Hebenton Executive Manager: National Projects (resigned 7 October 2011)

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, 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.

Non-executive directors

The Company's non-executive directors receive only fees (excluding 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 \$163,500 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 directors.

Remuneration of key management personnel

	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		
2012	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
Mark Norman	273,321	-	-	-	21,062	-	17,292	311,675	5.5%
David Richardson	60,239	-	-	-	5,421	-	17,292	82,952	20.8%
Ian Campbell	45,173	-	-	-	5,416	-	17,292	67,881	25.5%
Executives									
Anthony Coles (i)	76,834	-	309	-	6,915	-	-	84,058	-
Robert Matthews (ii)	20,213	-	-	-	1,916	-	-	22,129	-
Gary Deam (iii)	67,556	-	-	-	6,080	-	-	73,636	-
John Hebenton (iv)	74,424	-	-	-	8,480	-	-	82,904	-
Stephen Missen (v)	191,085	-	-	-	17,198	-	-	208,283	-
	808,845	-	309	-	72,488	-	51,876	933,518	

(i) Appointed - 5 December 2011

(ii) Appointed - 14 May 2012

(iii) Appointed - 10 May 2010 on a part time basis, full time effective 23 April 2012

(iv) Resigned - 7 October 2011

(v) Resigned - 13 April 2012

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	Super-annuation		Shares & Options		

Directors

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	-

Executives

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

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 VI	30 November 2011	30 November 2013	0.22 cents	50% vested on 30 November 2011, 50% vesting on 30 November 2012.

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	21,840	-	-	21,840
Mark Norman	21,840	-	-	21,840
Ian Campbell	21,840	-	-	21,840

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 David Richardson

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

Mr Mark Norman

- No fixed term agreement
- Pro rated annual base salary of \$266,000 (exclusive of statutory superannuation and director's fees) for period to 31 May 2012 (date of resignation)
- Pro rated director's fees of \$45,000 (exclusive of statutory superannuation) per annum from 1 June 2012
- No termination benefits are payable

Mr Ian Campbell

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

Mr Anthony Coles

- No fixed term agreement
- Pro rated annual base salary of \$130,000 (exclusive of statutory superannuation)
- Provided with an motor vehicle
- No termination benefits are payable

Mr Robert Matthews

- No fixed term agreement
- Pro rated annual base salary of \$164,000 (exclusive of statutory superannuation)
- No termination benefits are payable

Mr Gary Deam

- No fixed term agreement
- Pro rated annual base salary of \$112,000 (exclusive of statutory 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
Chairman
Perth, 31 August 2012



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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 2012, 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.

A handwritten signature in blue ink, appearing to read 'M R W OHM'.

Perth, Western Australia
31 August 2012

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 consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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.

Independence

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



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INDEPENDENT AUDITOR'S REPORT (continued)

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Solco Ltd for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's 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. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration 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 and remuneration report.

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 2012 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 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'M R W OHM'.

M R W OHM
Partner

Perth, Western Australia
31 August 2012

Directors' declaration

1. In the opinion of the directors of Solco Ltd (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 2012 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 2012.

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

On behalf of the Directors



David Richardson
Chairman
Perth, 31 August 2012

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**Statement of comprehensive income
for the financial year ended 30 June 2012**

	Note	Consolidated	
		2012 \$	2011 \$
Continuing operations			
Revenue	4	22,934,127	53,725,807
Change in inventories of finished goods and work in progress		(4,367,560)	(1,899,416)
Raw materials and consumables used		(17,668,309)	(42,038,490)
Gross profit		898,258	9,787,901
Other income	4	97,694	132,040
Employee benefit expenses		(3,470,098)	(3,910,724)
Research and development expenses		(13,844)	(2,144)
Advertising expenses		(67,367)	(301,520)
Company overhead expenses		(1,890,928)	(1,846,296)
Allowance for bad and doubtful debts		(318,962)	1,000
Depreciation and amortisation expenses		(119,633)	(37,460)
Finance costs		(83,326)	(221,654)
Write off of assets		(56,039)	-
Impairment of goodwill		(250,000)	-
Impairment of inventory		(837,664)	-
(Loss)/profit before tax	5	(6,111,909)	3,601,143
Income tax benefit/(expense)	6	1,734,085	(1,139,512)
(Loss)/profit for the year		(4,377,824)	2,461,631
Other comprehensive income/(loss)			
Cash flow hedges:			
Gain/(loss) taken to equity		46,151	(76,778)
Income tax (expense)/benefit on items of other comprehensive income		(13,845)	23,033
Other comprehensive income/(loss) for the year, net of tax		32,306	(53,745)
Total comprehensive (loss)/income for the year		(4,345,518)	2,407,886
(Loss)/ earnings per share			
Basic (cents per share)	17	(2.19)	1.23
Diluted (cents per share)	17	(2.19)	1.23

Notes to the financial statements are included on pages 33 to 60.

Statement of financial position
As at 30 June 2012

	Note	Consolidated	
		2012 \$	2011 \$
Current assets			
Cash and cash equivalents	21(a)	3,486,985	6,775,327
Trade and other receivables	7	2,285,877	4,370,360
Inventories	8	3,532,907	7,068,288
Other assets	9	75,508	369,937
Total current assets		9,381,277	18,583,912
Non-current assets			
Property, plant and equipment	10	325,507	250,491
Intangible assets	11	504,761	754,761
Other assets	9	86,919	57,510
Deferred tax asset	6	2,866,050	1,149,023
Total non-current assets		3,783,237	2,211,785
Total assets		13,164,514	20,795,697
Current liabilities			
Trade and other payables	12	2,318,545	5,409,264
Provisions	13	179,551	277,425
Income tax payable	6	617,392	758,507
Derivative financial instruments	14	33,576	145,211
Total current liabilities		3,149,064	6,590,407
Non-current liabilities			
Provisions	13	483,012	375,998
Total non-current liabilities		483,012	375,998
Total liabilities		3,632,076	6,966,405
Net assets		9,532,438	13,829,292
Equity			
Issued capital	15	19,811,832	19,815,044
Reserves	16	30,437	(53,745)
Accumulated losses		(10,309,831)	(5,932,007)
Total equity		9,532,438	13,829,292

Notes to the financial statements are included on pages 33 to 60.

**Statement of changes in equity
for the financial year ended 30 June 2012**

Consolidated

	Fully paid ordinary shares \$	Share-based payment reserve \$	Cash flow hedge reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2011	19,815,044	-	(53,745)	(5,932,007)	13,829,292
Loss for the year	-	-	-	(4,377,824)	(4,377,824)
Other comprehensive income	-	-	32,306	-	32,306
Total comprehensive loss for the year	-	-	32,306	(4,377,824)	(4,345,518)
Tax adjustment - equity	(3,212)	-	-	-	(3,212)
Recognition of share-based payments	-	51,876	-	-	51,876
Balance at 30 June 2012	19,811,832	51,876	(21,439)	(10,309,831)	9,532,438

	Fully paid ordinary shares \$	Share-based payment reserve \$	Cash flow hedge reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2010	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)
Total comprehensive income for the year	-	-	(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)
Balance at 30 June 2011	19,815,044	-	(53,745)	(5,932,007)	13,829,292

Notes to the financial statements are included on pages 33 to 60.

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**Statement of cash flows
for the financial year ended 30 June 2012**

	Note	Consolidated	
		2012 \$	2011 \$
Cash flows from operating activities			
Receipts from customers		27,167,618	58,324,587
Payments to suppliers and employees		(30,161,502)	(56,620,794)
Interest and other costs of finance paid		(58,201)	(153,221)
Interest received		93,883	106,651
Income tax paid		(141,115)	-
Net cash (used in)/provided by operating activities	21(c)	(3,099,317)	1,657,223
Cash flows from investing activities			
Payments for property, plant and equipment		(194,649)	(197,920)
Proceeds from the sale of property, plant and equipment		5,624	-
Net cash used in investing activities		(189,025)	(197,290)
Cash flows from financing activities			
Dividends paid		-	(748,552)
Net cash used in financing activities		-	(748,552)
Net (decrease)/increase in cash and cash equivalents		(3,288,342)	710,751
Cash and cash equivalents at the beginning of the financial year		6,775,327	6,064,576
Cash and cash equivalents at the end of the financial year	21(a)	3,486,985	6,775,327

Notes to the financial statements are included on pages 33 to 60.

Notes to the financial statements for the financial year ended 30 June 2012

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 Ltd and its subsidiaries.

The financial report has been prepared on a historical cost basis, 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 31 August 2012.

Going Concern

The Group recorded a net loss after tax for the year ended 30 June 2012 of \$4,377,824 (2011: profit after tax of \$2,461,631) and had a net working capital surplus of \$6,232,213 at reporting date (30 June 2011: surplus of \$11,993,505).

The solar energy industry experienced significant restructuring during the reporting period which impacted the Group's revenues and earnings. Notwithstanding the loss incurred for the year, the Directors are of the view that the Group is a going concern, based on the following reasons:

- The Group had a net working capital position of \$6,232,213 at 30 June 2012
- The Group had a cash in bank balance of \$3,486,985 at 30 June 2012 with no long term debt.
- A significant part of the loss incurred was attributable to a drastic reduction in the prices of solar panels during the year. The market has subsequently stabilised and the Group believes that its revised inventory purchasing strategies will prevent significant further losses being incurred should prices continue to decline at rates experienced during 2011/2012.
- The Board of Directors, along with its senior management team, have identified and implemented strategies which it believes will return the Group to a profitable position. Some of these strategies include revised inventory purchasing policies, amended inventory handling and holding strategies, a reduction in overheads and targeting a revised and expanded market.

The Group has an external financing facility available (refer Note 21(d) for details) which it could use to access short term funding should the need arise. The Directors are also confident that the Group will be successful in raising additional funds through the issue of new equity, should the need arise.

Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report. Accordingly the 30 June 2012 financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

2. Significant accounting policies (contd)

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 2012, 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 2012. 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.

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 Ltd ("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 or receivable 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. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. Significant accounting policies (contd)

(b) Revenue and income recognition (contd)

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the contract;
- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Group.

(d) Foreign currency translation

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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference 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 income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. Significant accounting policies (contd)

(g) Income tax (contd)

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Solco Ltd and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

Solco Ltd recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated group.

(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 recognised 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.

2. Significant accounting policies (contd)

(i) Trade receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories are valued using the 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 tangible and intangible assets other than goodwill

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 comprises of cash at bank, cash on hand and short term deposits with an original maturity of three months or less.

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2. Significant accounting policies (contd)

(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.

(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.

2. Significant accounting policies (contd)

(p) Employee benefits (contd)

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. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(q) Issued Capital

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

(r) 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 balance sheet.

Cash flows are included in the statement of cash flows 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(t) Share-based payments

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in Note 23.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Solco Ltd (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 17).

2. Significant accounting policies (contd)

(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.

(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.

2. Significant accounting policies (contd)

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

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

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

(ii) Financial liabilities

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

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

(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. Such impairment loss shall not be reversed in subsequent periods.

(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.

2. Significant accounting policies (contd)

(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.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(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.

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. 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.

2. Significant accounting policies (contd)

(z) Derivative financial instruments and hedging (contd)

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

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.

(ab) Parent entity financial information

The financial information for the parent entity, Solco Ltd, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiary entities which are accounted for at cost in the parent entity's financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of 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 experience 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 are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 11.

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

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 2012 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 \$2,457,366 (2011: \$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 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	
	2012	2011
	\$	\$
Continuing operations		
Revenue from the sale of goods	22,934,127	53,725,807
	<u>22,934,127</u>	<u>53,725,807</u>
Other income		
Interest revenue	93,883	106,651
Sub-lease rentals	-	24,673
Other income	3,811	716
Total revenue from continuing operations	<u>97,694</u>	<u>132,040</u>

5. (Loss)/profit for the year

Other expenses

The result for the year includes the following expenses:

	Consolidated	
	2012	2011
	\$	\$
Depreciation		
Plant and equipment	41,922	36,120
Leased motor vehicles	4,171	1,340
Software	73,540	-
	<u>119,633</u>	<u>37,460</u>
Foreign exchange losses	191,420	239,616
Rental expenses relating to operating leases	720,334	800,168
Write off of assets:		
Plant and equipment	56,039	-
Write down of inventories to net realisable value	837,664	-
Share-based payments		
Equity settled share-based payments	51,876	-

6. Income taxes

a) Recognised in the statement of comprehensive income

	Consolidated	
	2012	2011
	\$	\$
The major components of the tax expense/(income) are:		
Current tax expense	-	758,507
Deferred tax (income)/expense relating to the origination and reversal of temporary differences	(1,734,085)	321,219
Deferred tax - overprovision in prior year	-	59,786
Total tax (income)/expense attributable to continuing operations	<u>(1,734,085)</u>	<u>1,139,512</u>

b) Amounts charged or credited directly to equity

Deferred income tax related to items charged/(credited) directly to equity:

Capital raising expenses	3,212	3,212
Revaluation of cash flow hedges	13,845	(23,033)
Income tax expense/(benefit) reported in equity	<u>17,057</u>	<u>(19,821)</u>

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	
	2012	2011
	\$	\$
(Loss)/Profit from operations before income tax expense	(6,111,909)	3,601,143
Income tax expense calculated at 30%	(1,833,573)	1,080,343
Share-issue expenses	(3,212)	(3,212)
Sundry items	12,137	2,595
Impairment of intangible assets	75,000	-
Share based payments	15,563	-
Overprovision of prior year deferred tax	-	59,786
Income tax expense/(benefit)	<u>(1,734,085)</u>	<u>1,139,512</u>

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)

	Consolidated	
	2012	2011
	\$	\$
d) Deferred tax assets		
Temporary differences		
Receivables	145,645	49,807
Other assets	13,229	-
Payables	69,471	137,336
Provisions	173,083	183,350
Derivatives	10,073	43,563
Equity	-	3,212
Unused tax losses	2,457,364	734,013
	<u>2,868,865</u>	<u>1,151,281</u>

The Group has tax losses arising in Australia of \$2,457,364 (2011:\$734,013) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

e) Deferred tax liability

Prepayments	2,815	2,258
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f) Net deferred tax assets

Reflected in the statement of financial position as follows:

Deferred tax assets	2,868,865	1,151,281
Deferred tax liability	(2,815)	(2,258)
Deferred tax assets (net)	<u>2,866,050</u>	<u>1,149,023</u>

Reconciliation of net deferred tax assets

Opening balance as of 1 July	1,149,023	1,510,207
Tax income/(expense) during the year recognised in profit or loss	1,734,085	(381,005)
Tax income/(expense) during the year recognised in other comprehensive income	(17,058)	19,821
Closing balance as at 30 June	<u>2,866,050</u>	<u>1,149,023</u>

g) Unrecognised temporary differences

There are no temporary differences for which deferred tax assets or liabilities have not been recognised.

h) Tax Losses

There are no unused tax losses for which no deferred tax asset has been recognised (2011: Nil).

i) Current tax liability provided for

	617,392	758,507
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Tax Consolidation Legislation

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

7. Trade and other receivables

	Consolidated	
	2012	2011
	\$	\$
<u>Current</u>		
Trade receivables	2,771,359	4,536,383
Allowance for doubtful debts	(485,482)	(166,023)
	<u>2,285,877</u>	<u>4,370,360</u>
<u>Ageing of past due but not impaired trade receivables</u>		
30 – 60 days	632,812	960,858
60 – 90 days	147,291	89,166
90 – 120 days	110,543	483,519
Total	<u>890,646</u>	<u>1,533,543</u>

7. Trade and other receivables (contd)

The average credit period on sales of goods and rendering of services is 30 days. 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 \$319,459 (2011: increased by \$59,414). This movement was recognised in the statement of comprehensive income as part of the loss 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.

Ageing of impaired trade receivables

	Consolidated	
	2012 \$	2011 \$
60 – 90 days	-	48,555
90 – 120 days	14,031	6,298
120 + days	471,451	111,170
Total	485,482	166,023

8. Inventories

	Consolidated	
	2012 \$	2011 \$
Raw materials	-	17,125
Work in progress	832,179	56,479
Finished goods	2,700,728	6,994,684
	3,532,907	7,068,288

Inventory expense

Inventories recognised as an expense for the Group during the year ended 30 June 2012 amounted to \$17,668,309 (2011: \$42,038,490). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to \$837,664 (2011: nil). The expense has been included in the the statement of comprehensive income as part of the loss for the year.

9. Other assets

	Consolidated	
	2012 \$	2011 \$
<u>Current</u>		
Prepayments	75,508	369,937
	75,508	369,937
<u>Non Current</u>		
Deposits	86,919	57,010
	86,919	57,010

10. Property, plant and equipment

	Consolidated			
	Plant and Equipment at cost \$	Motor Vehicles at cost \$	Software at cost \$	Total \$
Gross carrying amount				
Balance at 1 July 2010	279,925	40,171	-	320,096
Additions	68,155	-	129,765	197,920
Balance at 30 June 2011	348,080	40,171	129,765	518,016
Category re-allocation	(77,140)	77,140	-	-
Additions	47,985	39,251	119,769	207,005
Disposals	-	(53,182)	-	(53,182)
Assets written off	(8,614)	(15,684)	-	(24,298)
Balance at 30 June 2012	310,311	87,696	249,534	647,541

10. Property, plant and equipment (contd)

	Consolidated			
	Plant and Equipment at cost \$	Motor Vehicles at cost \$	Software at cost \$	Total \$
Accumulated depreciation/ amortisation and impairment				
Balance at 1 July 2010	(195,852)	(34,213)	-	(230,065)
Depreciation expense	(36,120)	(1,340)	-	(37,460)
Balance at 30 June 2011	(231,972)	(35,553)	-	(267,525)
Category re-allocation	60,445	(60,445)	-	-
Disposals	-	43,352	-	43,352
Assets written off	6,088	15,684	-	21,772
Depreciation expense	(41,922)	(4,171)	(73,540)	(119,633)
Balance at 30 June 2012	(207,361)	(41,133)	(73,540)	(322,034)
Net book value				
As at 30 June 2011	116,108	4,618	129,765	250,491
As at 30 June 2012	102,950	46,563	175,994	325,507

11. Intangible assets

	Consolidated \$
Goodwill	
Gross carrying amount	
Balance at 1 July 2010	2,981,589
Additions/(disposals)	-
Balance at 30 June 2011	2,981,589
Additions/(disposals)	-
Balance at 30 June 2012	2,981,589
Accumulated amortisation and impairment	
Balance at 1 July 2010	(2,226,828)
Amortisation expense	-
Balance at 30 June 2011	(2,226,828)
Amortisation expense	-
Impairment expense	(250,000)
Balance at 30 June 2012	(2,476,828)
Net book value	
As at 30 June 2011	754,761
As at 30 June 2012	504,761

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 forecast profits before tax for the 2013 financial year.

The opening balance of goodwill of \$754,761 was assessed for impairment at reporting date. The assessment of the recoverable amount resulted in an impairment loss being recognised of \$250,000.

The discount rate applied to cash flow projections is 10.46% (2011: 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 amounted to \$504,761 (2011: \$754,761). Based upon this assessment the Directors believe the remaining carrying amount of goodwill of \$504,761 to be appropriate.

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 years two to five;
- The terminal value was assessed for reasonableness in relation to earnings multiples;
- Bond rates - the yield on a ten year government bond rate at the beginning of the budgeted year is used.

11. Intangible assets (contd)

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

Trade payables⁽ⁱ⁾
Employee entitlements
Other payables

Consolidated	
2012	2011
\$	\$
1,775,787	3,956,036
321,018	474,641
221,740	978,587
2,318,545	5,409,264

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.

13. Provisions

Current

Warranty
Employee benefits

Consolidated	
2012	2011
\$	\$
158,360	55,168
21,191	222,257
179,551	277,425

Non-current

Warranty

483,012	375,998
483,012	375,998

Movement in warranty provisions

Balance at 1 July 2010	319,298
Additional provisions recognised	152,443
Reductions arising from payments/other sacrifices of future economic benefits	(40,575)
Balance at 30 June 2011	431,166
Additional provisions recognised	248,406
Reductions arising from payments/other sacrifices of future economic benefits	(38,200)
Balance at 30 June 2012	641,372

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 total also includes a post sale service provision.

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

14. Derivative financial instruments

Current Liabilities

Forward currency contracts – cash flow hedges

Consolidated	
2012	2011
\$	\$
33,576	145,211
33,576	145,211

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 4 months from 1 July 2012 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.

14. Derivative financial instruments (contd)

Movement in forward currency contract cash flow hedge reserve

	Consolidated	
	2012	2011
	\$	\$
Opening Balance	53,745	-
Charged to other comprehensive income (net of tax)	(32,306)	53,745
Closing Balance	21,439	53,745

15. Issued capital

	Consolidated	
	2012	2011
	\$	\$
199,613,638 fully paid ordinary shares (2011: 199,613,638)	19,811,832	19,815,044

	2012		2011	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	199,613,638	19,815,044	199,613,638	19,818,256
Tax adjustment - equity	-	(3,212)	-	(3,212)
Balance at end of financial year	199,613,638	19,811,832	199,613,638	19,815,044

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

Share options

The Company has a share based payment option schemes under which options to subscribe for the Company's shares have been granted to certain executives and other employees. Details of options granted and on issue are contained in note 23 to the financial statements.

16. Reserves

	Consolidated	
	2012	2011
	\$	\$
Cash flow hedge reserve	(21,439)	(53,745)
Equity-settled employee benefits	51,876	-
	30,437	(53,745)

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. (Loss)/ earnings per share

	Consolidated	
	2012	2011
	Cents per share	Cents per share
Basic (loss)/ earnings per share	(2.19)	1.23

Basic (loss)/ earnings per share

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

	2012	2011
	\$	\$
Net (loss)/ profit	(4,377,824)	2,461,631

17. (Loss)/ earnings per share (contd)

Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share

2012 No.	2011 No.
199,613,638	199,613,638

Diluted (loss)/ earnings per share

Diluted (loss)/ earnings per share is the same as basic (loss)/ earnings per share.

18. Commitments for expenditure

Operating lease commitments

Operating leasing arrangements

Operating leases relate to offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The Group also leases office equipment under non-cancellable leases.

Non-cancellable operating lease commitments

Not longer than 1 year
Longer than 1 year and not longer than 5 years

Consolidated	
2012 \$	2011 \$
257,614	227,166
61,366	174,588
318,980	401,754

19. Contingent liabilities and contingent assets

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2012 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	
		2012 %	2011 %
Parent entity			
Solco Ltd	Australia	N/A	N/A
Subsidiaries			
Solco Solar Products Pty Ltd	Australia	100	100
Solco Industries Pty Ltd	Australia	100	100
Poly Tuff (WA) Pty Ltd	Australia	100	100
Solar Energy Systems Infrastructure Pty Ltd	Australia	100	100
Sustainable Global Business Solutions Pty Ltd	Australia	100	100

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:

Cash and cash equivalents

Consolidated	
2012 \$	2011 \$
3,486,985	6,775,327
3,486,985	6,775,327

(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.

21. Notes to the statement of cash flows (contd)

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

	Consolidated	
	2012	2011
	\$	\$
(Loss)/ profit for the year	(4,377,824)	2,461,631
Allowances for bad and doubtful debts	318,962	(1,000)
Depreciation and amortisation	119,633	37,460
Write-down of inventories	837,664	-
Equity-settled share based payment	51,876	-
Write-off of assets	56,039	-
Impairment of Goodwill	250,000	-
Net foreign exchange (gain)/loss	191,420	239,616
Profit on sale of assets	(5,624)	-
(Increase)/decrease in assets:		
Trade and other receivables	1,574,101	(363,739)
Inventories	2,697,717	(2,637,565)
Other assets	208,981	631,644
Deferred tax asset	(1,734,643)	380,321
Increase/(decrease) in liabilities:		
Trade and other payables	(3,165,719)	(91,144)
Deferred tax liability	558	684
Current tax liability	(141,115)	758,507
Derivative financial instrument	(65,483)	68,433
Provisions	84,140	172,375
Net cash from operating activities	(3,099,317)	1,657,223

(d) Financing facilities

	Consolidated	
	2012	2011
	\$	\$
Invoice financing facility		
• amount used	-	-
• amount unused	500,000	3,500,000
	500,000	3,500,000

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.

22. Financial instruments (contd)

(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.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(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 \$
2012							
Financial assets							
Non-interest bearing	196,055	2,285,877	-	-	-	-	2,481,932
Variable interest rate	3,290,930	-	-	-	-	-	3,290,930
	<u>3,486,985</u>	<u>2,285,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,772,862</u>
Financial liabilities							
Non-interest bearing	-	2,218,733	99,812	-	-	-	2,318,545
Fixed interest rate	-	-	-	-	-	-	-
	<u>-</u>	<u>2,218,733</u>	<u>99,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,318,545</u>

	CONSOLIDATED						
	Less than 1 month \$	1 - 3 months \$	3 months to 1 year \$	1 - 5 years \$	5+ years \$	No fixed term \$	Total \$
2011							
Financial assets							
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>
Financial liabilities							
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>

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.

22. Financial instruments (contd)

(c) Liquidity risk management (contd)

	CONSOLIDATED				
	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Total
2012	\$	\$	\$	\$	\$
Derivative liabilities – Gross settled:					
Inflows	205,341	558,588	120,395	-	884,324
Outflows	(210,500)	(584,400)	(123,000)	-	(917,900)
	(5,159)	(25,812)	(2,605)	-	(33,576)

	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)
	(20,950)	(124,261)	-	-	(145,211)

(d) Market risk

Market risk is the risk that changes in market prices will affect the Group's income. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk including foreign exchange forward contracts to hedge the exchange rate. In addition, 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.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(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	
	2012	2011	2012	2011
	\$	\$	\$	\$
EURO	10,200	412,122	-	289,622
USD	176,833	583,284	722,842	1,939,773

Foreign currency sensitivity

The Group is exposed to US Dollar (USD) and EURO currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

22. Financial instruments (contd)

(e) Foreign currency risk management (contd)

	Consolidated	
	2012 \$	2011 \$
Net profit	53,581	123,399
Equity	53,581	123,399

The Group's sensitivity to foreign currency during the period has decreased due to the decrease in foreign currency inventory purchases and entering into of forward foreign currency transactions.

Foreign currency contracts

It is the policy of the Group of entering into forward foreign exchange contracts to manage their foreign currency risk associated with purchase transactions.

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

	Average exchange rate	Foreign Currency	Contract value AUD\$
Buy US dollars	0.97544	877,400	898,481
Buy Euros	0.79500	40,500	50,943

(f) Interest rate risk management

The Group is exposed to interest rate risk and manages this risk by keeping 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. The Company and Group's exposures to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

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 loss would have decreased by \$16,455 (2011: net profit increase of \$31,737) 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 decreased during the current period mainly due to the decrease 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 2012 and 2011, 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 requires 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 2012 and 30 June 2011 respectively.

22. Financial instruments (contd)

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

Consolidated				
2012	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	33,576	-	33,576
	-	33,576	-	33,576

Consolidated				
2011	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	145,211	-	145,211
	-	145,211	-	145,211

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. 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 (2011: 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

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

The expense recognised in the statement of comprehensive income in relation to share-based payments is disclosed in Note 5.

23. Share-based payments (contd)

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
Series VI	3,000,000	30.11.11	30.11.13	14 cents	0.02 cents

The options issued under Series VI were approved by shareholders at the Company's November 2011 Annual General Meeting and relates to the issue of 1,000,000 options to each of the Directors, for a total of 3,000,000 options. Under the terms of the issue, 50% of the options vested on grant date (30 November 2011) with the remaining balance vesting 12 months post grant date.

There were no other share based payments granted during the current financial year.

All options in series II to V lapsed unexercised at 31 December 2010.

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

	2012		2011	
	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
Granted during the financial year	3,000,000	0.14	-	-
Expired/lapsed during the financial year	-	-	(3,000,000)	0.16
Balance at end of the financial year (i)	3,000,000	0.14	-	-
Exercisable at end of the financial year	1,500,000	0.14	-	-

There were no options exercised during the year.

The share options outstanding at the end of the year had an exercise price of \$0.14 (2011: Nil) and a weighted average remaining contractual life of 519 days (2011: Nil). The weighted average fair value of options granted during the year was \$0.14 (2011: Nil).

The fair value of the equity-settled share options granted under both the option and the loan plans is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

	Series VI
Dividend yield (%)	-
Expected volatility (%)	89%
Risk-free interest rate (%)	3.12%
Expected life of option (years)	2 years
Exercise price (cents)	14 cents
Grant date share price	7.2 cents

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

There were no liabilities in relation to any cash-settled share-based payments during the year.

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

i. Key management personnel compensation

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

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

	Consolidated	
	2012	2011
	\$	\$
Short term employee benefits	809,154	844,214
Post employment benefits	72,488	73,041
Share based payments	51,876	-
	933,518	917,255

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.
2012						
Directors						
Mark Norman	250,000	-	-	-	N/A	250,000
David Richardson	89,170,775	-	541,940*	-	N/A	89,712,715
Ian Campbell	-	-	-	-	N/A	-
Executives						
Anthony Coles ⁽ⁱ⁾	-	-	-	-	N/A	-
Robert Matthews ⁽ⁱⁱ⁾	-	-	-	-	N/A	-
Gary Deam ⁽ⁱⁱⁱ⁾	-	-	-	-	N/A	-
Steve Missen ^(iv)	-	-	-	-	-	-
John Hebenton ^(v)	-	-	-	-	-	-
	89,420,775	-	541,940	-	-	89,962,715
2011						
Directors						
Mark Norman	250,000	-	-	-	N/A	250,000
David Richardson	89,170,775	-	-	-	N/A	89,170,775
Ian Campbell	-	-	-	-	N/A	-
Executives						
John Hebenton ^(iv)	-	-	-	-	N/A	-
Stephen Missen ⁽ⁱⁱⁱ⁾	-	-	-	-	N/A	-
	89,420,775	-	-	-	-	89,420,775

(i) Appointed - 5 December 2011

(ii) Appointed - 14 May 2012

(iii) Appointed - 10 May 2010 on a part time basis, full time effective 23 April 2012

(iv) Resigned - 13 April 2012

(v) Resigned - 7 October 2011

(*) On market purchases

24. Related party transactions (contd)

iii. Key management personnel equity holdings (contd)

Share options of Solco Ltd

	Balance at 1 July No.	Balance on appointment/ (resignation) No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Vested but not exercisable No.	Vested during year No.	Vested and exercisable at 30 June No.
2012									
Directors									
Mark Norman	-	-	1,000,000	-	-	1,000,000	-	500,000	500,000
David Richardson	-	-	1,000,000	-	-	1,000,000	-	500,000	500,000
Ian Campbell	-	-	1,000,000	-	-	1,000,000	-	500,000	500,000
	-	-	3,000,000	-	-	3,000,000	-	1,500,000	1,500,000
2011									
Directors									
Mark Norman	1,000,000	-	-	-	(1,000,000)	-	-	-	-
David Richardson	1,000,000	-	-	-	(1,000,000)	-	-	-	-
Ian Campbell	1,000,000	-	-	-	(1,000,000)	-	-	-	-
	3,000,000	-	-	-	(3,000,000)	-	-	-	-

iv. Other transactions with key management personnel of the Group

During the year Mr Steve Missen acquired stock and assets from the Group to the value of \$9,783 (2011: \$nil). There were no other transactions with key management personnel during the year (2011: Mr Richardson \$5,901 and Mr Norman \$108). The purchases were made on normal arm's length terms and conditions.

(c) Transactions with other related parties

Other related parties include:

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

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

(d) Parent entity

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

The Company did not declare or pay a dividend during the financial year (2011: \$748,552).

27. Remuneration of auditors

Auditor of the Group

Audit or review of the financial report
Other services (assurance related)

Consolidated	
2012	2011
\$	\$
63,470	56,950
-	3,000
63,470	59,950

The auditor of Solco Ltd is HLB Mann Judd.

28. Parent Entity Disclosures

Financial position

Assets

Current assets
Non-current assets
Total assets

Consolidated	
2012	2011
\$	\$
1,022,721	862,357
2,372,798	2,320,932
3,395,519	3,183,289

Liabilities

Current liabilities
Non-current liabilities
Total liabilities

963,117	1,176,093
119,863	669,266
1,082,980	1,845,359

Equity

Issued capital
Retained earnings
Share-based payments reserve

19,811,833	19,811,833
(17,551,170)	(18,473,903)
51,876	-
2,312,539	1,337,930

Financial Performance

Profit for the year
Total comprehensive income

922,732	1,425,503
922,732	1,425,503

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 2012 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 2012 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.