Annual Report 2013

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SOLCO LTD

ABN 27 084 656 691

Annual report for the financial year ended 30 June 2013

Annual financial report
for the financial year ended 30 June 2013

Corporate Directory

Directors:

David Richardson	Non-Executive Chairman
Ian Campbell	Non-Executive Director
Craig Vivian	Non-Executive Director

Company Secretary:

Darren Crawte

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Chairman's Report

FY12/13 was a watershed year for the solar industry, and the dynamically changing market proved to be a challenging period for our business.

The work put in over the year to prudently act on the balance sheet impacts of the market contraction have positioned us well to take advantage of the maturing solar energy market.

In the 1st quarter of FY12/13 we initiated some new activity in our wholesale business, (i.e. people, product, promotions), in an attempt to grow the business organically to meet the top-line revenue needs of a listed company. However our endeavours continued to be challenged by the structural over-supply of products and service providers across the value-chain. This business was forecast to contract as we saw average sale values decline with the marked reduction in component pricing. Margins were also being eroded due to over-supply and write-downs of aged stock. In response to this market reality we restructured that business to adjust for imbalances between revenues and expenses, with the benefits of those adjustments to be realised in the FY13/14 period. We see a potential return to margins in wholesaling when the market settles in FY14/15 as small-to-medium installers/ retailers look more favourably at the value-adding from wholesalers, and other wholesalers drop out of the market due to declining Gross Margins.

Our direct, system integration business continued to focus on large scale grid-connected and off-grid project opportunities that come to Solco because of our engineering heritage and those larger customers' confidence with dealing with a listed entity in a maturing solar market. However due to some staff turnover and our commitment to quality, operational resources were over-committed to installation and maintenance activities in the 1st half of FY12/13 leading to a decline in business development activities, and the resulting under-shooting on our forecast going into this period. Staff and processes have been addressed in 2nd half of FY12/13 and the direct business, re-branded SolcoEnergy, is well-positioned to build on past successes as the market shifts from residential to commercial-scale.

From Q2 FY12/13 the Executive Management and the Board began Merger & Acquisition discussions to identify suitable opportunities for top-line growth. Discussions with over a dozen operators in the wholesale, retail, engineering, finance and generation sectors of the market provided invaluable understanding of some of the structural economic challenges in the sector. Solco's Balance Sheet position, with strong current assets and no debt, held up well against the others and indicated to us, in the context of the structural challenges in the market, that shareholders would be better served by us preserving cash and waiting for the market to settle before acting on M&A opportunities.

Late in Q4 the Board reviewed an opportunity to acquire the IP and assets of a start-up Solar Finance business from established Mortgage finance company AFG. In the changing legislative landscape, (i.e. the ending of rebates), Finance will be a key driver of business and residential solar. Acquiring ZincFinance fast-tracked Solco's access to the systems, tools and processes to operate an Australian Credit Licence-compliant Finance company, sitting within the parent listed company, to enable us to offer innovative leasing products through a reseller network. Positioned to provide "finance for solar people, by solar people", Solco Finance will leverage the online application and approval tools with other tools to add-value to solar retailers.

Looking forward, Solco's strategy is to create scale through the Finance business by leveraging its relationships across its national reseller network to access some of the 10% of installations currently being supported by Finance. Additional benefits to Solco's shareholders can be leveraged by improving our wholesale offering (i.e. products and services) back through this reseller network as an integrated offering.

The Board and Executive management continue to a hold a strong view of the market opportunity for solar power and water solutions in Australia, and the Asia-Pacific region.

Despite the structural challenges of the past 18 months, we believe Solco is well positioned to leverage its listing to bring new products and services to the maturing solar energy market and be a leader in energy market reform.

We would like to thank our staff and shareholders for their ongoing support.

David Richardson
Chairman

Corporate Governance Statement
for the year ended 30 June 2013

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 Nomination 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 in conjunction with the Directors progressively and periodically. The CEO's evaluation was undertaken by the Board of Directors.

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

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

R**ecommendation 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.

The Board comprises of three Directors, being:

- David Richardson (Non-executive Chairman, non-independent)
- Ian Campbell (Non-executive, independent director)
- Craig Vivian (Non-executive, independent director)

Given the current composition of the Board the Company complies with this recommendation, with only Mr Richardson not considered to be an independent director based on his shareholding and previous executive role (for the period to April 2012) in the Company.

It should be noted that, against the Recommendations technical indicia of "independence", the Company did not strictly comply with this Recommendation throughout the period. Mr Mark Norman, who acted as a non-executive director for the period up to 2 January 2013, was also not considered independent on the basis that he held an executive position with the Company within the last three years, which is in contrast to the recommendation in box 2.1 (point 2) of the guidance.

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 last three years (for 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 complied with this recommendation throughout the year. The role of the Chairman is performed by Mr David Richardson with the role of Chief Executive Officer being performed by Mr Anthony Coles.

Recommendation 2.4: The board should establish a nomination committee.

The Board has a Nomination and Remuneration Committee comprising Messrs Ian Campbell, David Richardson and Craig Vivian, who joined the committee on his appointment in October 2012.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Nomination 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 committees. Procedures include an induction protocol and a performance management system for the Board and its Directors.

Performance reviews of the Board, its Committees and individual Directors are currently informal and done progressively over the year and are based on a review of goals for the Board and individual Directors. The goals are based on corporate requirements and any areas for improvement that may have been identified.

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 of each Director in office at the date of this Annual Report.

The status as executive/non-executive and independent/non-independent for each Director for the year ending 30 June 2013 were as follows (with all directors, other than Mr Norman, noted as continuing in office at the date of this annual report):

David Richardson	Non-executive, non-independent
Ian Campbell	Non-executive, independent
Craig Vivian	Non-executive, independent - appointed 22 October 2012
Mark Norman	Non-executive, non-independent - resigned 2 January 2013

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
Craig Vivian	1	1

In accordance with the process for Board, Board Committee and Director evaluation as described in the Charter such an evaluation has been performed during the year on a progressive basis and are based on a review of goals for the Board and individual Directors. The goals are based on corporate requirements and any areas for improvement that may have been identified.

The Company departed from the Recommendations in that:

(a) the Nomination and Remuneration Committee did not comprise of 3 members throughout the reporting period;

(b) a majority of the Nomination and Remuneration Committee were not independent throughout the reporting period;

(c) the Board of Directors only consisted of a majority of independent Directors from 3 January 2013.

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 (previous) executive directors;

- the size of the Company's business operations did not warrant an expanded Board merely to satisfy the independence Recommendations;

- the members of the Nominations and Remunerations Committee were 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 below.

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 a number of redundancies. Further 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 36% (30 June 2012: 24%) female employees. The percentage female employees increased compared to 30 June 2012 following the continued 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 or positions on the Board filled by females. 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 are 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 Messrs David Richardson, Ian Campbell and Craig Vivian, with Mr Campbell serving as the independent chairman of this Committee. Prior to Mr Vivian's appointment in October 2012 the Committee consisted only of Messrs Richardson and Campbell.

Messrs Campbell and Vivian are both non-executive, independent directors of the Company, with Mr Richardson being a non-executive, non-independent Director.

Although the Company is currently in compliance with this Recommendation, it did not comply with the Recommendation throughout 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 3 meetings were held):

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Ian Campbell (Chairman)	3	3
David Richardson	3	3
Craig Vivian	1	1

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

The Company departed from the Recommendations in that:

(a) the Audit and Risk Management Committee did not comprise of at least 3 members throughout the reporting period; and

(b) a majority of the Audit and Risk Management Committee were not independent throughout the reporting period.

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 (previous) executive directors;

- the size of the Company's business operations did not warrant an expanded Board merely to satisfy the independence Recommendations;

- the members of the Audit and Risk Management Committee were 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 compliance with those policies.

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 progressive 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 did not comprise of a majority of independent Directors throughout the reporting period;

(b) the Chair of the Nomination and Remuneration Committee is not an independent Director;

(c) the Nomination and Remuneration Committee did not comprise 3 members throughout the reporting period.

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 (previous) executive directors;
- the size of the Company's business operations did not warrant an expanded Board merely to satisfy the independence Recommendations;
- the members of the Nominations and Remunerations Committee were 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 based incentive 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 Group'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, some longer term share based incentives might be awarded to non-executive directors in lieu of no increases in cash remuneration and or for extra demand for non-executive director time input for the Company's benefit. All share based incentives are subject to approval by Shareholders. Where relevant, details of such awards are set out in the Remuneration Report within the Directors' Report;
- Greater detail on 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 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 stage of the Company's development and re-positioning;

- 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 2013. 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	*Non-Executive Chairman* 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 April 2011. Mr Richardson has extensive operational, commercial and engineering experience in Australia and internationally.
Ian Campbell	*Non-Executive Director* Mr Campbell is tertiary-educated, including studies in accounting, business law, valuation and management. Prior to his distinguished Parliamentary career he was a commercial and industrial property executive with national and international realty firms. In 1990 Mr Campbell entered Federal politics as a WA Senator, holding high level Cabinet and other offices including: • Parliamentary Secretary to the Treasurer • Parliamentary Secretary to the Minister for Communications and Information Technology • Minister for Environment and Heritage • Minister for Human Services • Minister for Local Government, Territories and Roads. His international experience includes: • World Bank of Governors and IMF Annual Meetings in 2002/2003; • Leading international delegations on climate change including at UN Conventions, G8 plus 5 summits, and Asia Pacific conferences. Mr Campbell has worked at the highest levels with international and national political and business leaders, and holds a number of non-executive directorships with other ASX listed entities.
Craig Vivian	*Non-Executive Director (appointed 22 October 2012)* Mr Vivian is a Chartered Accountant and has a Bachelor of Business Degree with a Double Major in Accounting & Finance. Mr Vivian has been a Director of Solco since October 2012 and is also Non-Executive Director of Nimble Asset Management, a Canadian based company. Previously Mr Vivian has been Managing Director of Boutique Chartered Accounting PBC Group and a Director/Partner of Ord Nexia, based in Perth.
Christopher (Mark) Norman B. Eng. (Electronics)	*Non-Executive Director (resigned 2 January 2013)* Mr Norman is a qualified electronics engineer who has maintained his technical relevance through continuing professional development with extensions into management, business systems and IT training. Mr Norman's vocational experience commenced as an electrical engineer with Alcoa Australia (1981-84). Mr Norman then joined the Orbital Group from 1985 to 2004 with appointments progressing from Senior Project Engineer to Country Manager (Indonesia) to CEO and President of several related Orbital Group companies in USA and France, as the organisation's operations globalised. The quality of Mr Norman's hands on operational experience has 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.

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
David Richardson	Emerson Stewart Group Ltd	April 2008 to April 2011
Ian Campbell	Austal Ltd	August 2007 to June 2012
	ASG Group Ltd	June 2007 to current
	Proto Resources & Investments Ltd	March 2008 to June 2013
	Enerji Ltd	November 2009 to current
Craig Vivian	-	-
Mark Norman	-	-

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
David Richardson	93,769,391	1,000,000
Ian Campbell	-	1,000,000
Craig Vivian	169,000	-

Outstanding options
The Group had 2,000,000 outstanding options at year end, equally held by Messrs Richardson and Campbell. This remained unchanged at the date of this report.

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

Share options granted to Directors and executives
There have been no share options granted to directors and executives or shares issued as a result of the exercise of any option during or since the end of the financial year.

Company secretary

Darren Crawte LL.B (Hons), ACA
Darren is a qualified Chartered Accountant with 13 years experience working within public practice, specifically within the area of audit and corporate services 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, along with the continued development of its solar energy system integration business. During the year, the Group also acquired the intellectual property around the delivery of solar leasing products and Financial Services compliance to be offered to residential and commercial customers through a National reseller network.

Operating and financial review

Overview of the Group
Solco Ltd is the corporate entity supporting the operating businesses trading in three separate, but interrelated, market sectors servicing the solar energy market.

Solco Finance is a new, specialist, financial services company offering solar customers, (commercial & residential), solar leasing products through a national reseller network. Developed following the acquisition of the IP developed by a leading Financial Services company, Solco Finance brings mature Financial Services industry compliance and products to the maturing solar energy industry. Positioned to provide finance "for solar people, by solar people", Solco Finance provides a strategic platform for Solco' other businesses to grow in a post-rebate solar energy market through the introduction of innovative finance products servicing niche markets.

Solco Power & Water, formerly Solco Solar Products, is the wholesale business supporting a National dealer network with the supply of products and services to the solar power and water sectors. Solco Power supplies grid-connected, and off-grid, products to solar retailers and installers. Solco Water is the exclusive Australian distributor of Lorentz Pumps, a specialist provider of solar pumping products, and supports a growing dealer network in the submersible (i.e. bore), irrigation and leisure (i.e. pool) pump markets. Solco Power & Water supports customers in all mainland States & Territories, and has distribution centres in Brisbane, Adelaide and Perth.

Solco Energy is the direct-to-customer system integration, or Engineering, Procurement, Construction & Maintenance (EPCM) business, delivering professional services to national customers in the commercial-scale grid-connected and off-grid power and water markets. With a strong heritage in off-grid project deliver in Australia and overseas, Solco Energy is uniquely positioned to leverage the desire of Councils and Corporate entities seeking confidence in the delivery of their power & water infrastructure projects through the operational business supported by the balance sheet of a listed company.

Investments for future performance

Solco entered into discussions with a number of businesses operating in the wholesale, retail, engineering and generation channels of the solar energy market. Market conditions, and consideration of the potential adverse impact on Solco's current asset position, led the Board and senior management to end these discussions during the due-diligence phase. The 6-month process provided Solco with an invaluable understanding of the economics of the solar energy market and guided strategy development.

Two acquisitions were made in June 2013 totalling less than $150k, for the IP, business processes and other assets relating to the establishment of a Finance business specialising in residential and commercial solar leases.

These assets will require some nominal working capital requirements to internalise into the new Solco operational structure, allowing for the raising of additional equity and debt funding, to support access to a market share of the $1.44B solar energy market.

Review of financial conditions

The focus for the Board and senior management during the 2012/2013 reporting period was the retention of cash, and the conversion of inventory to cash.

No new capital was required, but a considered focus on reducing cash burn extended the company's ability to trade through adverse market conditions.

The current asset ratio remained one of the strongest in the sector with good current assets and no debt. Reduced turnover levels, due to the plummeting cost price on core components, led to an imbalance between corporate costs and operating margin.

Adjustments to Federal Government legislation around the deemed Small-Scale Technology Certificates eliminated the forecast market peak in the second half.

Ongoing adjustment to State-based feed-in-tariffs has now taken us to a period where the sector is almost operating in a rebate-free environment, further pushing the market into a more mature business structure. Margins are still tight in wholesale, and top-line volumes are reducing for all operators indicating a period of consolidation as access to capital becomes paramount.

Solco is positioned strongly to take advantage of this through its corporate structure.

Review of principal business

Solco remained focussed on delivering products and services to the renewable power & water markets though its wholesale and direct channels.

The solar industry globally continued to experience structural adjustments brought on by over-supply. Many businesses upstream in the raw materials and manufacturing sectors went out of business. Those that survived have been operating on minimal gross margins and incurring significant trading losses. An increase in the share price of most of the listed entities (overseas) was seen in the last quarter of our reporting period as average selling prices stabilised.

Most significant market value growth was seen by those 'integrated' entities (i.e. First solar), who balanced manufacturing margins with growing project development pipelines within their EPC business.

Other significant developments internationally included the growth of the solar leasing market, and the move to 'energy-as-a-service'.
Solco's strategic review in 2012/2013 included consideration of these factors and guided the allocation of resources to reposition the business from being a wholesale business, to being an integrated business servicing the growing solar energy market through Finance, Wholesale and Direct channels.

Strategic recruitment of key management in 2013/2014 will further position the company to leverage its listing to position itself as a driver of change in the energy sector in Australia.

Operating review of the Group

Ongoing adjustments to the outgoings of the operating entities led to a positive cash position reporting in Q4 of the reporting period.
A focussed attention on aged receivables saw positive adjustments to provisions and receivables exceeding sales in some months.

Inventory levels were reduced nationally and aged stock converted to cash. Office and warehouse relocations in Perth, Melbourne and Brisbane further released working capital for the purchase of higher-margin stocks.

Gross margins of pv/ power product sales were adversely impacted on by reducing Net Realisable Values of stock due to legacy inventory management problems.

The delivery of a number of engineering projects were impacted on by operational issues and became the focus of resources within the Energy business. This lead to a reduced new business pipeline and adjustments to the top-line revenue of this division compared to forecasts from earlier in the year.

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 2013.

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.

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, 9 board meetings, 1 nomination and remuneration committee meeting and 3 audit committee meetings were held.

	Board of directors		Remuneration & Nomination committee		Audit committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David Richardson	9	9	1	1	3	3
Ian Campbell	9	9	1	1	3	3
Craig Vivian	7	7	1	1	1	1
Mark Norman	4	4	-	-	-	2

Proceedings on behalf of the Company

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

Non-audit services

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

Auditor's independence declaration

The auditor's independence declaration is included on page 19 in the annual report and forms part of this directors' report for the year ended 30 June 2013.

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 2013.

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:

Directors

- David Richardson — Non-Executive Chairman
- Ian Campbell — Non-Executive Director
- Craig Vivian — Non-Executive Director (appointed 22 October 2012)
- Mark Norman — Non-Executive Director (resigned 2 January 2013)

Executives

- Anthony Coles — Chief Executive Officer
- Robert Matthews — General Manager Projects/ Chief Operations Officer (resigned 31 October 2012)
- Gary Deam — General Manager Products (resigned 28 February 2013)

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 inter-relationship 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 discusses these issues internally and with candidates prior to engaging additional Directors or senior executives.

<u>Key management personnel (excluding non-executive directors)</u>
The Nomination and Remuneration Committee is responsible for determining the remuneration policies for the Group, including those affecting executive directors and other key management personnel.

The Committee may seek appropriate external advice to assist in its decision making.

Remuneration policies and practices are directed primarily at attracting, motivating and retaining key management personnel.

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

- <u>Fixed remuneration</u>
  Executive directors and other key management personnel receive fixed remuneration in the form of a base salary (inclusive of statutory superannuation).

- <u>Short term incentive</u>
  The Remuneration Committee meets annually to assess whether a cash bonus should be paid to key management personnel on the basis of the performance of the Group. The assessment is made with reference to the Company's performance during the year against budget and the market as a whole.

- <u>Long term incentive</u>
  To align the interests of key management personnel with the long term objectives of the Company and its shareholders, the Company's policy, is to issue equity-based incentives on the recommendation of the Remuneration Committee and at the complete discretion of the Board.

  During the year, the Company adopted a limited recourse, loan funded share scheme to achieve this aim.

<u>Non- executive directors</u>
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 those 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.

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, excluding any superannuation entitlements.

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

Remuneration of key management personnel

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment		
2013	Salary & fees $	Bonus $	Non-monetary $	Other $	Super-annuation $	$	Shares & Options $	Total $	% of compensation linked to performance $
Directors									
David Richardson	60,008	-	-	-	5,401	-	4,550	69,959	6.5%
Ian Campbell	45,000	-	-	-	4,050	-	4,550	53,600	8.5%
Craig Vivian (i)	31,154	-	-	-	2,804	-	-	33,958	-
Mark Norman (ii)	26,135	-	-	-	2,337	-	4,550	33,022	13.8%
Executives									
Anthony Coles	150,836	-	16,141 (v)	-	13,535	-	31,332	211,844	14.8%
Robert Matthews (iii)	61,438	-	-	-	5,529	-	-	66,967	-
Gary Deam (iv)	76,317	-	-	-	6,868	-	1,000	84,185	1.2%
	450,888	-	16,141	-	40,524	-	45,982	553,535	

(i) Appointed - 22 October 2012
(ii) Resigned - 2 January 2013
(iii) Resigned – 31 October 2012
(iv) Resigned – 28 February 2013 (Mr Deam now provides periodic consulting services to the Group on normal market related consulting terms).
(v) The non-monetary amount reflects the reportable fringe benefit amount for Mr Coles' motor vehicle.

No member of key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

	Short-term employee benefits				Post-employment benefits	Other long-term employee benefits	Share-based payment		% of compensation linked to performance
2012	**Salary & fees $**	**Bonus $**	**Non-monetary $**	**Other $**	**Super-annuation $**	**$**	**Shares & Options $**	**Total $**	**$**
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

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% vested on 30 November 2012.

Shares series	Grant date	Expiry date	Fair value per option at grant date $	Vesting date
Series I	1 March 2013	1 March 2018	0.0188 cents	1 March 2014

Value of shares and options issued to Directors and executives

Options

The options issued to Mr Norman on 30 November 2011 lapsed unexercised on 2 February 2013, one month post his retirement. The fair value of these options was $21,840.

There were no other options granted, or exercised by, any Director or executive during the annual reporting period.

Shares

On 1 March 2013 the Group issued 5,000,000 shares at $0.024 each under the Company's Long Term Incentive Scheme to the Group's Chief Executive Officer, Mr Anthony Coles. The acquisition of the shares was financed by a limited recourse loan from the Company to Mr. Coles. This arrangement is in substance an option, whereby repayment of the loan represents the exercise of the option. Further, a condition of the issue is the completion of a 12 month service period from the date of issue which effectively results in the employee not being able to sell the shares or repay the loan during that period. The terms further provide that if the loan is not repaid within 5 years of the date of issue that the shares will automatically be bought back by Solco.

The fair value of the shares was assessed using a Binomial Model which estimated the fair value of each share at $0.0188 (or a combined fair value of $94,000). Note 23 contains details of the assumptions used in that valuation.

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 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 Craig Vivian (appointed 22 October 2012)
- No fixed term agreement
- Pro rated director's fees of $45,000 (exclusive of statutory superannuation) per annum
- No termination benefits are payable

Mr Mark Norman (resigned 2 January 2013)
- 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 $165,138 (exclusive of statutory superannuation)
- Provided with an motor vehicle up to a value not exceeding $45,000
- No termination benefits are payable

Mr Robert Matthews (resigned 31 October 2012)
- No fixed term agreement
- Pro rated annual base salary of $164,000 (exclusive of statutory superannuation) for the period to 31 October 2012 (date of resignation)
- No termination benefits are payable

Mr Gary Deam (resigned 28 February 2013)
- No fixed term agreement
- Pro rated annual base salary of $112,000 (exclusive of statutory superannuation) for the period to 28 February 2013 (date of resignation)
- 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, 29 August 2013

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Solco Ltd for the year ended 30 June 2013, 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.

This declaration is in respect of Solco Ltd and the entities it controlled during the year.

Perth, Western Australia
29 August 2013

M R W Ohm
Partner

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

Accountants | Business and Financial Advisers

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 2013, 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 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 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*.

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 2013 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.

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

HLB Mann Judd

Accountants | Business and Financial Advisers

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R W Ohm
Partner

Perth, Western Australia
29 August 2013

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 2013 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 2013.

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

On behalf of the Directors

David Richardson
Chairman
Perth, 29 August 2013

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Contents	Page

Statement of comprehensive income
for the financial year ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Continuing operations			
Revenue	4	10,188,355	22,934,127
Cost of Sales		(8,333,666)	(22,035,869)
Gross profit		1,854,689	898,258
Other income	4	118,859	97,694
Employee benefit expenses		(2,112,198)	(3,470,098)
Research and development expenses		(378)	(13,844)
Advertising expenses		(231,428)	(67,367)
Company overhead expenses		(1,320,624)	(1,890,928)
Allowance for bad and doubtful debts		(91,652)	(318,962)
Depreciation and amortisation expenses		(216,908)	(119,633)
Finance costs		(51,051)	(83,326)
Write off of assets		-	(56,039)
Impairment of goodwill		(504,761)	(250,000)
Impairment of inventory		(192,894)	(837,664)
Loss before tax	5	(2,748,346)	(6,111,909)
Income tax (expense)/benefit	6	(2,856,864)	1,734,085
Loss for the year		(5,605,210)	(4,377,824)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges:			
Gain taken to equity		30,625	46,151
Income tax expense on items of other comprehensive income		(9,186)	(13,845)
Other comprehensive income for the year, net of tax		21,439	32,306
Total comprehensive loss for the year		(5,583,771)	(4,345,518)
Loss per share			
Basic (cents per share)	17	(2.78)	(2.19)
Diluted (cents per share)	17	(2.78)	(2.19)

Notes to the financial statements are included on pages 28 to 56.

Statement of financial position
As at 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Current assets			
Cash and cash equivalents	21(a)	2,328,351	3,486,985
Trade and other receivables	7	666,251	2,285,877
Inventories	8	1,576,642	3,532,907
Other assets	9	53,167	75,508
Total current assets		4,624,411	9,381,277
Non-current assets			
Property, plant and equipment	10	90,260	325,507
Intangible assets	11	108,000	504,761
Other assets	9	56,919	86,919
Deferred tax asset	6	-	2,866,050
Total non-current assets		255,179	3,783,237
Total assets		4,879,590	13,164,514
Current liabilities			
Trade and other payables	12	505,594	2,318,545
Provisions	13	192,603	179,551
Income tax payable	6	-	617,392
Derivative financial instruments	14	-	33,576
Total current liabilities		698,197	3,149,064
Non-current liabilities			
Provisions	13	169,780	483,012
Total non-current liabilities		169,780	483,012
Total liabilities		867,977	3,632,076
Net assets		4,011,613	9,532,438
Equity			
Issued capital	15	19,829,795	19,811,832
Reserves	16	96,859	30,437
Accumulated losses		(15,915,041)	(10,309,831)
Total equity		4,011,613	9,532,438

Notes to the financial statements are included on pages 28 to 56.

Statement of changes in equity
for the financial year ended 30 June 2013

Consolidated

	Fully paid ordinary shares $	Share-based payment reserve $	Cash flow hedge reserve $	Accumulated losses $	Total $
Balance at 1 July 2012	19,811,832	51,876	(21,439)	(10,309,831)	9,532,438
Loss for the year	-	-	-	(5,605,210)	(5,605,210)
Other comprehensive income	-	-	21,439	-	21,439
Total comprehensive loss for the year	-	-	21,439	(5,605,210)	(5,583,771)
Shares issued during the year	17,963	-	-	-	17,963
Recognition of share-based payments	-	44,983	-	-	44,983
Balance at 30 June 2013	19,829,795	96,859	-	(15,915,041)	4,011,613

	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
Profit for the year	-	-	-	(4,377,824)	(4,377,824)
Other comprehensive income	-	-	32,306	-	32,306
Total comprehensive income for the year	-	-	32,306	(4,377,824)	(4,345,518)
Tax adjustment – equity	(3,212)	-	-	-	(3,212)
Payment of dividends	-	51,876	-	-	51,876
Balance at 30 June 2012	19,811,832	51,876	(21,439)	(10,309,831)	9,532,438

Notes to the financial statements are included on pages 28 to 56.

Statement of cash flows
for the financial year ended 30 June 2013

		Consolidated	
		2013	2012
	Note	$	$
Cash flows from operating activities			
Receipts from customers		12,939,524	27,167,618
Payments to suppliers and employees		(13,422,940)	(30,161,502)
Interest and other costs of finance paid		(40,148)	(58,201)
Interest received		71,983	93,883
Income tax paid		(617,392)	(141,115)
Net cash used in operating activities	21(d)	(1,068,973)	(3,099,317)
Cash flows from investing activities			
Payments for intangible assets		(108,000)	-
Payments for property, plant and equipment		-	(194,649)
Proceeds from the sale of property, plant and equipment		18,339	5,624
Net cash used in investing activities		(89,661)	(189,025)
Net decrease in cash and cash equivalents		(1,158,634)	(3,288,342)
Cash and cash equivalents at the beginning of the financial year		3,486,985	6,775,327
Cash and cash equivalents at the end of the financial year	21(a)	2,328,351	3,486,985

Notes to the financial statements are included on pages 28 to 56.

Notes to the financial statements for the financial year ended 30 June 2013

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") operating in Australia.

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

Registered office	Principal place of business
c/- Nexia Perth, Level 3, 88 William Street	20 Wynyard Street
Perth WA 6000	Belmont WA 6104

The Group's principal activities during the course of the financial year were the wholesale distribution of solar panels and water pumping products, along with the continued development of its solar energy system integration business. During the year, the Group also acquired the intellectual property around the delivery of solar leasing products and Financial Services compliance to be offered to residential and commercial customers through a National reseller network.

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 29 August 2013.

Going Concern

The Group recorded a net loss after tax for the year ended 30 June 2013 of $5,605,210 (2012: net loss after tax of $4,377,824) and had a net cash operating cash out flow of $1,068,973 (2012: $3,099,317).

The solar industry globally continued to experience significant destabilisation during the reporting period and the strategic restructure of Solco's operations impacted the Group's revenues and earnings. The adjustments made to inventory values, intangibles and other current assets were prudent, and in line with the structural changes affecting the maturing solar energy sector.

Notwithstanding the loss incurred for the financial year, the Directors are of the view that the Group is a going concern, based on the following reasons:

- Current assets support at least 15 month operations with its current adjusted operating structure.
- A significant part of the loss reported was attributable to the de-recognition of deferred tax assets which contributed a non cash loss of $2,856,864 to the total loss. As highlighted in note 6, tax losses of $11,101,402 remain available to the Group to off-set against taxable future profits provided that conditions for deductibility are met.
- The Group had a net working capital position of $3,926,214 at 30 June 2013.
- The Group had a cash in bank balance of $2,328,351 at 30 June 2013.
- The Group is uniquely positioned with nominal current trade creditors and no long term debt.

2. Significant accounting policies (contd)

- The Board of Directors and senior management have implemented strategies to return the Group to profit as the market matures. These include:
  - The establishment of a Finance business offering niche products through a National reseller network.
  - A streamlined wholesale business, with improved inventory and vendor management, and stronger business development focus.
  - A focus on higher margin off-grid and pumping markets for its wholesale dealer network.
  - A focus on large commercial off-grid and water management sectors, such as mining, agricultural and irrigation for its direct/ EPC business.
  - An integrated approach to cross-selling solar pv and water pumping products with its new lease products through solar retailers and installers.

The Directors are confident that the Group will be successful in raising additional funds through the issue of new equity to support the delivery of its growth strategy.

Based on these facts, the Directors consider the going concern basis of preparation to be appropriate for this financial report. Accordingly the 30 June 2013 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.

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

Standards and Interpretations applicable to 30 June 2013
In the year ended 30 June 2013, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

The following is a summary of these Standards and Interpretations that have had a material impact on the Company.

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income.*

  This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. The adoption has had no effect on the financial position or performance of the Group.

  In addition, the pre-existing terminology for the statement of comprehensive income has been retained.

Standards and Interpretations in issue not yet adopted
The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2013. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

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

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

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Solco Ltd ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group").

2. Significant accounting policies (contd)

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.

(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.

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.

2. Significant accounting policies (contd)

(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.

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.

2. Significant accounting policies (contd)

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 recognized directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

(i) Trade receivables

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.

2. Significant accounting policies (contd)

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

Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(m) Property, plant and equipment

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

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

- Plant and equipment 2-8 years
- Motor vehicles 6 years
- Intangibles 10 years
- Technology rights 10 years

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

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

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

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

(n) Leases

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.

2. Significant accounting policies (contd)

Warranties

Warranty periods on equipment supplied by the Company are variable. Rectification claims are settled either by repair or replacement of parts, at the discretion of the Company. Provisions for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date, based on historical claim rates, adjusted for specific information arising from internal quality assurance processes.

(p) Employee benefits

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

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

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date. 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 are shown as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(r) Dividends

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

(s) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are 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 using a Black-Scholes or Binomial option pricing 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.

2. Significant accounting policies (contd)

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).

(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)

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.

(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.

2. Significant accounting policies (contd)

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.

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.

2. Significant accounting policies (contd)

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/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) 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/(loss) per share is calculated as net profit/(loss) 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
The Group determines whether goodwill is impaired at least on an annual basis unless there are other impairment indicators. Given the net loss after tax incurred for the financial year ended 30 June 2013 of $5,605,210, coupled by the net loss after tax of $4,377,824 recorded for the financial year ended 30 June 2012, its assessment of forecast future performance and the industry outlook for the foreseeable future, the Group impaired its previously recognised goodwill. This impairment was previously noted in the December 2012 half-year report.

As a result of this assessment, Solco recorded an impairment charge of $504,761 in the statement of comprehensive income.

De-recognition of deferred income tax assets
The Board has determined that, based on the current industry outlook, the Group cannot presently assess the likelihood of the Group generating sufficient taxable profits to absorb accumulated tax losses as being probable under AASB 112 Income Taxes. As such, deferred tax assets recorded in previous years have been de-recognised, although the underlying losses remain available to the Group to the extent that taxable profits arise in the future and the Group continues to meet the relevant taxation requirements for use of such losses. An income tax expense of $2,856,864 has therefore been recorded in the statement of comprehensive income in relation to current and prior year deferred tax balances.

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 either a Binomial model or a Black-Scholes model, using the assumptions detailed in Note 23.

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

Warranty claims

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

4. Revenue

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

	Consolidated	
	2013	**2012**
	$	**$**
Continuing operations		
Revenue from the sale of goods	10,188,355	22,934,127
	10,188,355	22,934,127

Other income		
Interest revenue	71,983	93,883
Other income	46,876	3,811
Total revenue from continuing operations	118,859	97,694

5. Loss for the year

Other expenses

The result for the year includes the following expenses:

	Consolidated	
	2013	**2012**
	$	**$**
Depreciation		
Plant and equipment	31,149	41,922
Leased motor vehicles	9,765	4,171
Software	175,994	73,540
	216,908	119,633
Foreign exchange losses	63,352	191,420
Rental expenses relating to operating leases	469,399	720,334
Write off of assets:		
Plant and equipment	-	56,039
Write down of inventories to net realisable value	192,894	837,664
Share-based payments		
Equity settled share-based payments	62,946	51,876

6. Income taxes

a) Recognised in the statement of comprehensive income

	Consolidated	
	2013	**2012**
	$	**$**
The major components of the tax expense/(benefit) are:		
Current tax expense	-	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	2,856,864	(1,734,085)
Total tax expense/(benefit) attributable to continuing operations	2,856,864	(1,734,085)

6. Income taxes (contd)

	Consolidated 2013 $	Consolidated 2012 $
b) Amounts charged or credited directly to equity		
Deferred income tax related to items charged directly to equity		
Capital raising expenses	-	3,212
Revaluation of cash flow hedges	9,186	13,845
Income tax expense reported in equity	9,186	17,057

c) The prima facie income tax expense/(benefit) on loss before tax reconciles to the income tax expense in the financial statements as follows:

	2013 $	2012 $
Loss before income tax expense	(2,748,346)	(6,111,909)
Income tax expense calculated at 30%	(824,504)	(1,833,573)
Share-issue expenses	-	(3,212)
Sundry items	1,026	12,137
Impairment of intangible assets	151,428	75,000
Share based payments	18,884	15,563
Current year tax losses not recognised	873,055	-
De-recognition of deferred tax asset recognised in prior period as realisation is not regarded as probable	2,636,975	-
Income tax expense/(benefit)	2,856,864	(1,734,085)

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.

d) Deferred tax assets

	2013 $	2012 $
Temporary differences		
Receivables	49,756	145,645
Other assets	10,114	13,229
Payables	43,988	69,471
Provisions	77,348	173,083
Derivatives	-	10,073
Unused tax losses	3,330,420	2,457,364
Deferred tax assets not brought to account as realisation is not regarded as probable	(3,511,626)	-
	-	2,868,865

The Group has tax losses arising in Australia of $11,101,402 that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

e) Deferred tax liability

	2013 $	2012 $
Prepayments	1,596	2,815
Deferred tax liabilities not brought to account	(1,596)	-
Prepayments	-	2,815

f) Net deferred tax assets

	2013 $	2012 $
Reflected in the statement of financial position as follows:		
Deferred tax assets	-	2,868,865
Deferred tax liability	-	(2,815)
Deferred tax assets (net)	-	2,866,050

Reconciliation of net deferred tax assets

	2013 $	2012 $
Opening balance as of 1 July	2,866,050	1,149,023
Tax (expense)/benefit during the year recognised in profit or loss	(2,856,864)	1,734,085
Tax expense during the year recognised in other comprehensive income	(9,186)	(17,058)
Closing balance as at 30 June	-	2,866,050

6. Income taxes (contd)

	Consolidated	
	2013	**2012**
	$	**$**
g) Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	11,101,402	-
Potential tax benefit at 30%	3,330,420	-

The Board has determined that, based on the current industry outlook, the Group cannot presently assess the likelihood of the Group generating sufficient taxable profits to absorb accumulated losses as being probable under AASB 112 Income Taxes.

As such, deferred tax assets recorded in previous years have been de-recognised, although the underlying losses remain available to the Group to the extent that taxable profits arise in the future and the Group continues to meet the relevant taxation requirements for use of such losses.

i) Current tax liability provided for	-	617,392

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	
	2013	**2012**
	$	**$**
Current		
Trade receivables	832,103	2,771,359
Allowance for doubtful debts	(165,852)	(485,482)
	666,251	2,285,877
Ageing of past due but not impaired trade receivables		
30 – 60 days	234,952	632,812
60 – 90 days	10,466	147,291
90 + days	130,283	110,543
Total	375,701	890,646

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 decreased by $319,630 (2012: increased by $319,459). 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.

	Consolidated	
	2013	**2012**
	$	**$**
Ageing of impaired trade receivables		
30 – 60 days	11,513	-
60 – 90 days	7,178	-
90 – 120 days	-	14,031
120 + days	147,161	471,451
Total	165,852	485,482

8. Inventories

	Consolidated 2013 $	2012 $
Work in progress	-	832,179
Finished goods	1,576,642	2,700,728
	1,576,642	3,532,907

Inventory expense

Inventories recognised as an expense for the Group during the year ended 30 June 2013 amounted to $7,209,580 (2012: $17,668,309). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to $192,894 (2012:837,664). The expense has been included in the the statement of comprehensive income as part of the loss for the year.

9. Other assets

	Consolidated 2013 $	2012 $
Current		
Prepayments	53,167	75,508
	53,167	75,508
Non Current		
Deposits	56,919	86,919
	56,919	86,919

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 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
Additions	1,603	-	-	1,603
Disposals	(22,774)	(26,272)	-	(49,046)
Assets written off	(61,134)	-	-	(61,134)
Balance at 30 June 2013	228,006	61,424	249,534	538,964
Accumulated depreciation/ amortisation and impairment				
Balance at 1 July 2011	(231,972)	(35,553)	-	(267,525)
Category re-allocation	60,445	(60,445)	-	-
Disposal	-	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)
Disposals	10,377	18,727	-	29,104
Assets written off	57,322	3,812	-	61,134
Depreciation expense	(31,149)	(9,765)	(175,994)	(216,908)
Balance at 30 June 2013	(170,811)	(28,359)	(249,534)	(448,704)
Net book value				
As at 30 June 2012	102,950	46,563	175,994	325,507
As at 30 June 2013	**57,195**	**33,065**	**-**	**90,260**

11. Intangible assets

		Consolidated	
	Goodwill	Intellectual Property	
	$	$	$
Gross carrying amount			
Balance at 1 July 2011	2,981,589	-	2,981,589
Additions/(disposals)	-	-	-
Balance at 30 June 2012	2,981,589	-	2,981,589
Additions/(disposals)	-	108,000	108,000
Balance at 30 June 2013	**2,981,589**	**108,000**	**3,089,589**
Accumulated amortisation and impairment			
Balance at 1 July 2011	(2,226,828)	-	(2,226,828)
Amortisation expense	-	-	-
Impairment expense	(250,000)	-	(250,000)
Balance at 30 June 2012	(2,476,828)	-	(2,476,828)
Amortisation expense	-	-	-
Impairment expense	(504,761)	-	(504,761)
Balance at 30 June 2013	(2,981,589)	-	(2,981,589)
Net book value			
As at 30 June 2012	504,761	-	504,761
As at 30 June 2013	**-**	**108,000**	**108,000**

Goodwill

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. The Group determines whether goodwill is impaired at least on an annual basis unless there are other impairment indicators. Given the losses incurred during the year to 30 June 2013 ($5,605,210 loss after tax), coupled with the net loss after tax of $4,377,824 recorded for the financial year ended 30 June 2012, the Group's assessment of forecast future performance and the industry outlook for the foreseeable future, the Group impaired its previously recognised goodwill.

As a result of this assessment, Solco recorded an impairment charge of $504,761 (2012: 250,000) in the statement of comprehensive income.

Intellectual Property

In June 2013 the Company completed the acquisition of intellectual property and other assets to establish a financing business. These assets will allow the Company to provide an online portal to new and existing customers, through the newly incorporated subsidiary company Solco Finance, which will operate under its own Australian credit licence. Given the proximity of the transaction completion date to the 2013 reporting date, and after considering any changes that could indicate a potential impairment of the carrying amount, the Directors concluded that the reported amount is not impaired. This assessment remains unchanged at the date of this report.

12. Trade and other payables

	Consolidated	
	2013	2012
	$	$
Trade payables(i)	236,666	1,775,787
Employee entitlements	147,143	321,018
Other payables	121,785	221,740
	505,594	2,318,545

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

13. Provisions

	Consolidated	
	2013	2012
	$	$
Current		
Warranty	168,404	158,360
Employee benefits	24,199	21,191
	192,603	179,551
Non-current		
Warranty	169,780	483,012
	169,780	483,012

13. Provisions (contd)

Movement in warranty provisions	Consolidated $
Balance at 1 July 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
Additional provisions recognised	22,681
Reductions arising from payments/other sacrifices of future economic benefits	(325,869)
Balance at 30 June 2013	338,184

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

	Consolidated	
	2013 $	2012 $
Current Liabilities		
Forward currency contracts – cash flow hedges	-	33,576
	-	33,576

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.

Cash flows are expected to occur between 1 and 4 months from contract dates with profit or loss within costs of sales being affected over the next few years as the inventory is either used in production or sold. The Group did not have any outstanding contracts at reporting date.

Movement in forward currency contract cash flow hedge reserve

	Consolidated	
	2013 $	2012 $
Opening Balance	21,439	53,745
Charged to other comprehensive income (net of tax)	(21,439)	(32,306)
Closing Balance	-	21,439

15. Issued capital

	Consolidated	
	2013 $	2012 $
205,100,124 fully paid ordinary shares (2012: 199,613,638)	19,829,795	19,811,832

	2013		2012	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	199,613,638	19,811,832	199,613,638	19,815,044
Issue – November 2012 (i)	486,486	17,963	-	-
Issue – March 2013 (ii)	5,000,000	-	-	-
Tax adjustment – equity	-	-	-	(3,212)
Balance at end of financial year	205,100,124	19,829,795	199,613,638	19,811,832

15. Issued capital (contd)

(i) Issued to employees under the Group's Tax Exempt Employee Share Scheme, as approved at the 2012 Annual General Meeting.

(ii) Issued to the Group's Chief Executive Officer as part of the Group's Long Term Incentive Scheme. The shares were issued under a limited recourse loan which is payable within 5 years from the date of issue. Under the terms of the share issue there is a 12 month escrow period attached to these shares. At both the reporting date and the date of this report the full settlement amount of the loan remains outstanding against these shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Share options

The Company has a share based payment option scheme 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	
	2013	**2012**
	$	**$**
Cash flow hedge reserve	-	(21,439)
Equity-settled employee benefits	96,859	51,876
	96,859	30,437

Share based payment reserve

The share-based payment 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 options are exercised or when shares issued under the Group's Long Term Incentive Scheme are paid or forfeited by an employee. 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 per share

	Consolidated	
	2013	**2012**
	Cents per share	**Cents per share**
Basic loss per share	(2.78)	(2.19)

Basic loss per share

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

	2013	**2012**
	$	**$**
Net loss	(5,605,210)	(4,377,824)

	2013	**2012**
	No.	**No.**
Weighted average number of ordinary shares for the purposes of basic loss per share	201,499,902	199,613,638

Diluted loss per share

Diluted loss per share is the same as basic loss 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.

18. Commitments for expenditure (contd)

Non-cancellable operating lease commitments

	Consolidated	
	2013 $	2012 $
Not longer than 1 year	107,009	257,614
Longer than 1 year and not longer than 5 years	113,120	61,366
	220,129	318,980

19. Contingent liabilities and contingent assets

In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2013 and no contingent assets or liabilities were incurred in the interval between the period end and the date of this financial report.

20. Subsidiaries

		Ownership interest	
Name of entity	Country of incorporation	2013 %	2012 %
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
Solco Finance Pty Ltd *	Australia	100	-

* - Incorporated on 23 June 2013.

21. Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

	Consolidated	
	2013 $	2012 $
Cash and cash equivalents	2,328,351	3,486,985
	2,328,351	3,486,985

(b) Non-cash financing and investing activities

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

(c) Financing facilities

	Consolidated	
	2013 $	2012 $
Invoice financing facility		
• amount used	-	-
• amount unused	-	500,000
	-	500,000

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

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

	Consolidated	
	2013	**2012**
	$	**$**
Loss for the year	(5,605,210)	(4,377,824)
Allowances for bad and doubtful debts	91,652	318,962
Depreciation and amortisation	216,908	119,633
Write-down of inventories	192,894	837,664
Equity-settled share based payment	62,946	51,876
Write-off of assets	-	56,039
Impairment of goodwill	504,761	250,000
Net foreign exchange loss	63,352	191,420
Profit on sale of assets	-	(5,624)
(Increase)/decrease in assets:		
Trade and other receivables	1,464,622	1,574,101
Inventories	1,763,371	2,697,717
Other assets	52,341	208,981
Deferred tax asset	2,868,865	(1,734,643)
Increase/(decrease) in liabilities:		
Trade and other payables	(1,812,951)	(3,165,719)
Deferred tax liability	(2,815)	558
Current tax liability	(617,392)	(141,115)
Derivative financial instrument	(12,137)	(65,483)
Provisions	(300,180)	84,140
Net cash from operating activities	(1,068,973)	(3,099,317)

22. Financial instruments

(a) Overview

The Group has exposure to the following risks from their use of financial instruments:

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

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

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

(b) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the receivables from customers and receivables due from subsidiaries. The Group has no significant concentrations of credit risk, excluding receivables arising from the sale of manufacturing licenses overseas. The Group has policies in place to ensure that sale of products and services are made to customers with an appropriate credit history. Cash deposits are limited to high credit quality financial institutions. In order to mitigate the risk of sales to overseas customers, the Group ensures sufficient deposits are received and where possible letters of credit set up for the balance of payments due. 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.

22. Financial instruments (contd)

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						
2013	Less than 1 month $	1 - 3 months $	3 months to 1 year $	1 - 5 years $	5+ years $	No fixed term $	Total $
Financial assets							
Non-interest bearing	70,759	666,251	-	-	-	-	737,010
Variable interest rate	2,257,592	-	-	-	-	-	2,257,592
	2,328,351	666,251	-	-	-	-	2,994,602
Financial liabilities							
Non-interest bearing	-	433,167	72,427	-	-	-	505,594
Fixed interest rate	-	-	-	-	-	-	-
	-	433,167	72,427	-	-	-	505,594

	CONSOLIDATED						
2012	Less than 1 month $	1 - 3 months $	3 months to 1 year $	1 - 5 years $	5+ years $	No fixed term $	Total $
Financial assets							
Non-interest bearing	196,055	2,285,877	-	-	-	-	2,481,932
Variable interest rate	3,290,930	-	-	-	-	-	3,290,930
	3,486,985	2,285,877	-	-	-	-	5,772,862
Financial liabilities							
Non-interest bearing	-	2,218,733	99,812	-	-	-	2,318,545
Fixed interest rate	-	-	-	-	-	-	-
	-	2,218,733	99,812	-	-	-	2,318,545

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

	CONSOLIDATED				
2013	Less than 1 month $	1 - 3 months $	3 months to 1 year $	1 - 5 years $	Total $
Derivative liabilities – Gross settled:					
Inflows	-	-	-	-	-
Outflows	-	-	-	-	-
	-	-	-	-	-

	CONSOLIDATED				
2012	Less than 1 month $	1 - 3 months $	3 months to 1 year $	1 - 5 years $	Total $
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)

22. Financial instruments (contd)

(d) Market risk

Market risk is the risk that changes in market prices will affect the Group's income. The Group'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 contacts 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	
	2013 $	2012 $	2013 $	2012 $
EURO	1,160	10,200	-	-
USD	530	176,833	15,954	722,842

<u>Foreign currency sensitivity</u>

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 or loss and other equity and the balances below would be negative.

	Consolidated	
	2013 $	2012 $
Net profit/loss	1,426	53,581
Equity	1,426	53,581

The Group's sensitivity to foreign currency during the period has decreased due to the significant decrease in foreign currency inventory purchases and the resulting decrease in the need for forward foreign currency transactions.

<u>Foreign currency contracts</u>

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 Group did not have any open forward foreign exchange contracts at reporting date.

22. Financial instruments (contd)

(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.

<u>Interest rate sensitivity analysis</u>

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 $11,287 (2012: net profit increase of $16,455) 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 2013 and 2012, 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 2013 and 30 June 2012 respectively.

Consolidated 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	-	-	-
	-	-	-	-

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

22. Financial instruments (contd)

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 (2012: 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.

Employee long term incentive scheme

The purpose of the Long Term Incentive Scheme (‘LTIS’)is to provide a sense of ownership in the Group and to reward invited employees of Solco. The LTIS is designed to encourage broad equity ownership and to align the rewards of participants with the strategic long term goals and performance of Group.

The LTIS allows for employees to fund share acquisitions in the Company through a loan. The loans are interest free with recourse limited to the underlying shares. The loans are made based on the market price of the underlying shares on the grant date and are subject to certain vesting conditions, which includes a pre-determined employment period.

This plan is accounted for and valued as an option plan, with the contractual life of each option equivalent to the estimated loan life. There are no cash settlement alternatives with the repayment of the loan representing exercise of the options.

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

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

* - this includes 1,000,000 options attributable to Mr Norman, which lapsed unexercised on 2 February 2013, one month after his resignation.

LTIS Share series	Number	Grant date	Expiry date	Issue price $	Fair value at grant date $
Series I	5,000,000	01.03.2013	01.03.2018	2.4 cents	1.88 cents

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

23. Share-based payments (contd)

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

	2013		2012	
	Number of shares/ options	Weighted average exercise price $	Number of shares/ options	Weighted average exercise price $
Balance at beginning of the financial year	3,000,000	0.140	-	-
Granted during the financial year (i)	5,000,000	0.024	3,000,000	0.140
Exercised during the financial year	-	-	-	-
Expired/lapsed during the financial year	(1,000,000)	0.140	-	-
Balance at end of the financial year	7,000,000	0.057	3,000,000	0.140
Exercisable at end of the financial year	2,000,000	0.140	1,500,000	0.140

The outstanding balance as at 30 June 2013 is represented by:

- 2,000,000 options over ordinary shares with an exercise price of $0.14 each, exercisable on or before 30 November 2013. These options 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 Messrs Richardson and Campbell. Under the terms of the issue, 50% of the options vested on grant date (30 November 2011) with the remaining balance vesting on 30 November 2012. Mr Norman's options (which was included in the 3,000,000 opening balance and issued under the same terms) lapsed unexercised on 2 February 2013, one month after his resignation.

- 5,000,000 shares were issued on 7 March 2013 under the Group's Long Term Incentive Scheme to the Group's Chief Executive Officer through a limited recourse loan. This arrangement is in-substance an option grant whereby repayment of the loan represents the exercise of the option. A condition of the issue is the completion of a 12 month service period from the date of issue which effectively results in the options not being exercisable during that period.

There were no options exercised during the year.

The range of exercise prices for options outstanding at the end of the year was $0.024 - $0.14 (2012: $0.14).

The weighted average remaining contractual life for the share options outstanding at the end of the year was 223 days (2012: 519 days).

The weighted average fair value of options granted during the year was $ 0.0188 (2012: $0.14).

The fair value of the equity-settled share options under both the option and the loan plans, other than the Group's LTIS, 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.

The fair value of the LTIS equity-settled share options is estimated as at the date of grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used :

	Series VI Options (2012)	LTIS (2013)
Dividend yield (%)	-	-
Expected volatility (%)	89%	130%
Risk-free interest rate (%)	3.12%	2.91%
Expected life of option (years)	2 years	5 years
Exercise price (cents)	14 cents	2.4 cents
Grant date share price	7.2 cents	2.4 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.

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	
	2013 $	2012 $
Short term employee benefits	467,029	809,154
Post employment benefits	40,524	72,488
Share based payments	45,982	51,876
	553,535	933,518

ii. Loans to key management personnel

The Group's Chief Executive Officer, Mr Anthony Coles, was issued 5,000,000 shares in Solco Ltd which were funded through a limited recourse loan provided by the Group to Mr. Coles. The shares were issued at $0.024 per share, being the 5-day Volume Weighted Average Price (VWAP) of the Company's shares as determined immediately prior to the issue date The loan was provided in line with the terms and conditions of the Group's Long Term Incentive Scheme ('LTIS'). The LTIS is designed to encourage broad equity ownership and to align the rewards of participants with the strategic long term goals and performance of Group.

The loan is interest free with recourse limited to the underlying shares. The loan was made based on the market price of the underlying shares on the grant date and is subject to certain conditions, which includes a required 12 month employment period from the date of grant. The loan is repayable within a period not exceeding five years from the date of issue. In the event that repayment is not received at that point in time, the shares will automatically be bought back by Solco.

There were no loans to other 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.
2013						
Directors						
David Richardson	89,712,715	-	4,056,676[a]	-	N/A	93,769,391
Ian Campbell	-	-	-	-	N/A	-
Craig Vivian [i]	-	169,000	-	-	N/A	169,000
Mark Norman [ii]	250,000	-	-	-	(250,000)	-
Executives						
Anthony Coles	-	-	5,000,000[b]	-	N/A	5,000,000
Robert Matthews [iii]	-	-	-	-	-	-
Gary Deam [iv]	-	-	1,000[c]	-	(1,000)	-
	89,962,715	169,000	9,057,676	-	(251,000)	98,938,391

(i) Appointed – 22 October 2012
(ii) Resigned – 2 January 2013
(iii) Resigned – 31 October 2012
(iv) Resigned – 28 February 2013

(a) On market purchases
(b) Issued in March 2013 under the Group's Long Term Incentive Scheme and funded through a limited recourse loan
(c) Issued in November 2012 under the Group's Tax Exempt Employee Share Scheme

24. Related party transactions (contd)

	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	-
John Hebenton (iv)	-	-	-	-	N/A	-
Stephen Missen (iii)	-	-	-	-	N/A	-
	89,420,775	-	541,940	-	-	89,962,715

(i) Appointed – 5 December 2011
(ii) Appointed – 14 May 2012
(iii) Appointed – 10 May 210 on a part time basis, full time effective 23 April 2012
(iv) Resigned – 13 April 2012
(v) Resigned – 7 October 2011

(*) On market purchases

Share options of Solco Ltd

	Balance at 1 July No.	Balance on appointment/ (resignation) No.	Granted as compen-sation 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.
2013									
Directors									
Mark Norman	1,000,000	(1,000,000)	-	-	-	-	-	500,000	-
David Richardson	1,000,000	-	-	-	-	1,000,000	-	500,000	1,000,000
Ian Campbell	1,000,000	-	-	-	-	1,000,000	-	500,000	1,000,000
	3,000,000	(1,000,000)	-	-	-	2,000,000	-	1,500,000	2,000,000
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

iv. Other transactions with key management personnel of the Group

During the year Mr Richardson acquired property, plant and equipment from the Group. The value of the assets acquired amounted to $4,084. Mr Coles acquired certain assets from the Group valued at $200 at the date of the transaction. These purchases were made on normal arm's length terms and conditions. There were no other transactions with key management personnel during the year (2012: Mr Steve Missen $9,873).

(c) Transactions with other related parties

Gypsy Hill Pty Ltd, a company associated with Mr David Richardson, provided financial consulting services to and under the direction of Solco Ltd to the Group. During the year the Group paid an amount of $67,548 (excluding GST) for these services, which included related expenditures, covering the period from 1 July 2011 to 30 June 2013.

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 (2012: $ Nil).

27. Remuneration of auditors

	Consolidated	
	2013	2012
	$	$
Auditor of the Group		
Audit or review of the financial report	68,985	63,470
	68,985	63,470

The auditor of Solco Ltd is HLB Mann Judd.

28. Parent entity disclosures

	Consolidated	
Financial position	2013	2012
	$	$
Assets		
Current assets	259,645	1,022,721
Non-current assets	2,306,976	2,372,798
Total assets	2,566,621	3,395,519
Liabilities		
Current liabilities	485,090	963,117
Non-current liabilities	1,127,912	119,863
Total liabilities	1,613,002	1,082,980
Equity		
Issued capital	19,829,796	19,811,833
Accumulated losses	(18,973,036)	(17,551,170)
Share-based payments reserve	96,859	51,876
	953,619	2,312,539

Financial Performance

(Loss)/profit for the year	(1,421,866)	922,732
Total comprehensive (loss)/income	(1,421,866)	922,732

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.

28. Parent entity disclosures (contd)

Contingencies of the parent entity
In the opinion of the directors, there were no contingent assets or liabilities as at 30 June 2013 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 2013 for the acquisition of property, plant and equipment.

29. Subsequent events

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

Additional ASX information as at 30 September 2013

1. Number of holders of equity securities

Ordinary share capital

205,100,124 fully paid ordinary shares are held by 1,404 individual shareholders.

2. Distribution of holders of equity securities

	Fully paid ordinary shares	Number of equity security holders
1 – 1,000	9,322	53
1,001 – 10,000	2,923,652	457
10,001 – 100,000	27,553,615	740
100,001 and over	174,613,535	154
	205,100,124	**1,404**

3. Less than marketable parcels of shares

The number of shareholdings held in less than marketable parcels is 881 given a share value of 1.8 cents per share.

4. Voting rights

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

Ordinary shares

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

Options

Options over ordinary shares do not carry voting rights.

5. Substantial shareholders

Ordinary shareholders	Fully paid ordinary shares Number
Mr David Richardson and related entities	93,769,391
	93,769,391

6. Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares	
	Number	Percentage
1. Gypsy Hill Pty Ltd <Richardson Super Fund A/C>	93,769,391	45.72
2. JP Morgan Nominees Australia Limited <Cash Income A/C>	22,512,618	10.98
3. Mr Anthony Craig Coles	5,000,000	2.44
4. Dr Paul Francis Morton	3,648,127	1.78
5. Mr David Leroy Boyles	2,195,870	1.07
6. National Nominees Limited	2,078,729	1.01
7. Running Water Limited	2,000,000	0.98
8. Gallery Gordon Pty Ltd	1,400,000	0.68
9. Mrs Anne Elizabeth Morton <The A P A/C>	1,045,636	0.51
10. Mr Guy Francois Le Clezio <R W Super Fund Account>	1,000,000	0.49
11. Lemon Shine Pty Ltd <Sterling Super Fund A/C>	1,000,000	0.49
12. Seaspin Pty Ltd <The Aphrodite A/C>	1,000,000	0.49
13. Taneda Pty Ltd <The Rl Robinson Family A/C>	950,000	0.46
14. Brooksfield Capital Pty Ltd <Brooksfield Super Fund A/C>	890,347	0.43
15. Squire Holdings Pty Ltd <Castle Keep A/C>	836,830	0.41
16. Imaj Pty Ltd <Super Fund A/C>	800,000	0.39
17. Mr Simon Gibbs + Mrs Helen Gibbs	750,000	0.37
18. Mrs Angela Maria Librio	730,000	0.36
19. Mr Gilbert Richard Cren Lumsdaine	720,619	0.35
20. Mrs Michelle Marian Middleton	615,420	0.30
	142,943,587	69.71

7. Unquoted equity securities

Class	Unlisted Options Number	Number of Holders
Unlisted options exercisable at 14 cents on or before 30 November 2013	2,000,000	2
	2,000,000	2

All options have no voting rights.

8. Unquoted equity security holdings greater than 20%

Class	Option Holder	Unlisted Options Number	Percentage
Unlisted options	David Richardson	1,000,000	50.00%
Unlisted options	Ian Campbell	1,000,000	50.00%
		2,000,000	100.00%

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

10. Restricted Securities
There are 5,459,459 restricted securities on issue, consisting of 5,000,000 ordinary shares held by Mr Anthony Coles (issued in March 2013 under the Company's Long Term Incentive Scheme and restricted to 1 March 2014) and 459,459 ordinary shares held by employees of the Company (issued in November 2012 under the Tax Exempt Employee Share Scheme and restricted to 15 November 2015).

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

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

12. Registered office and principle place of business
The address of the registered office is Nexia Perth, Level 3, 88 William Street, Perth, WA, 6000.
Telephone + 61 8 9463 2463
The principle place of business is Unit 16 / 63 Knutsford Avenue, Belmont, WA, 6104.
Telephone + 61 7 3868 1999