

SOLAR SAILOR HOLDINGS LIMITED
A.C.N. 086 377 148

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2005

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your directors present their report of the company and its controlled entities for the financial year ended 30th June 2005.

Directors

The names of the directors in office at anytime during or since the end of the financial year are:

Dr Robert Dane
Hon Robert Hawke
Mr David Franks
Mr David Cassidy (resigned 30 June 2005)
Mrs Susan Dane (resigned 31 December 2004)
Mr David Kelly (resigned 31 December 2004)
Mr David Fox
Mr Ian Robertson (appointed 6 June 2005)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the economic entity during the financial year were:

- (i) researching and developing the Solar Sailor technology and concept;
- (ii) promoting the Solar Sailor technology and Solar Sailor ferry both domestically and internationally;
- (iii) continuing Charter operations of the Solar Sailor ferry; and
- (iv) developing the Unmanned Ocean Vehicle ("UOV") application, filing provisional patents and engaging the military and other United States of America authorities

There was no significant change in the nature of the economic entity's principal activities during the year.

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to \$817,028 (2004 loss of \$724,467).

Dividends Paid or Recommended

There were no dividends paid or declared since the start of the financial year.

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DIRECTORS' REPORT

Review of Operations

The economic entity continues to operate the Sydney Solar Sailor vessel on Sydney Harbour under commercial conditions and market, upgrade and promote the technology both nationally and internationally. This marketing has been through various means, including the appointment of agents, attendance at roadshows and meeting potential strategic partners, both nationally and internationally. The economic entity has formed both informal and formal alliances both domestically and internationally in tendering for opportunities.

The economic entity entered into a revised lease arrangement with Captain Cook Cruises (NSW) Pty Ltd from 1 July 2003 for the management and operation of the vessel. This arrangement involves the economic entity being paid a license fee based on the turnover of the vessel, with Captain Cook Cruises (NSW) Pty Ltd being responsible for all costs of the vessel with the exception of repairs and maintenance of the Hybrid Power System. This arrangement continues.

Significant Changes in State of Affairs

The corporate structure of the economic entity from 2004 has remained, with the same subsidiary companies existing in 2004 continuing unchanged. In late 2004, the economic entity incorporated Solar Sailor USA Inc, a United States of America subsidiary. Due to a potential dispute with a third party in the United States of America relating to claims of compensation, the economic entity will not trade until the matter is resolved. No change in relation to this matter has occurred.

The economic entity also purchased for \$15,000 a 33.33% shareholding in Solar Coast Cats Pty Ltd during the year, an entity tendering for ferry services in Queensland.

As a means of furthering the economic entity's intellectual property, being the development of the Unmanned Ocean Vehicle ("UOV") application, the company filed provisional patents and, subsequent to year, engaged the United States of America Office of Naval Research in relation to this technology.

Finally, the economic entity raised approximately \$1.9m at \$4.00 per share, from 6 sophisticated investor shareholders during the year.

After Balance Date Events

As disclosed in the 2004 Financial Statements, a potential dispute with a third party located in the United States of America relating to claims of compensation came to the attention of the economic entity. US counsel has been retained and at this stage it is not possible to predict an outcome. Our legal advice and board believe that the claims are without merit. However we intend initially to mediate and then if necessary litigate. Therefore the economic entity will continue to monitor this matter during the year.

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As at 30 June 2005, the economic entity has the following financial capital structure in place:

- (i) convertible note in the amount of \$200,000
- (ii) non-current borrowings totalling \$250,000.

In late August 2005, the economic entity repaid the \$250,000 non-current borrowings and allotted 235,400 ordinary shares under the convertible note agreement, subject to shareholder approval, as full satisfaction for the convertible note. Therefore at the date of this Report, the economic entity has no borrowings.

No further matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

Future Developments

The likely developments in the operations of the economic entity and the expected results of those operations in future financial years are as follows:

- i) the continued use for Solar Sailor as a charter vessel operating through Captain Cook Cruises (NSW) Pty Ltd for marketing, research and development and testing of components of the integrated HMP systems;
- ii) the commercialisation of the economic entity's technology through the conversion of the strong expressions of interest received to date into sales for vessel designs and hybrid power systems;
- iii) the development of the patent technology through other forms of applications, such as small unmanned ocean vehicles with the engagement of the US military and other authorities in the United States; and applications in large vessels such as water tanker ships; and
- iv) the continuation of seeking strategic investors and partners.

The Board expects that should the above developments be successful, it will provide a wide market to the economic entity from which it would be able to construct a profitable business.

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Environmental Issues

The economic entity's operations are subject to standard environmental regulation under the law of the Commonwealth and State applicable to businesses located in Australia and New South Wales, including regulations relating to the maritime environment.

The directors are not aware of any breaches by the economic entity in relation to environmental regulations.

Earnings per Share

	2005 Cents	2004 Cents
Basic earnings per share	(11.6) cents	(10.7) cents
Diluted earnings per share	(7.7) cents	(7.1) cents

All options currently on issue are "in-the-money" and are considered dilutive, with the exception of options relating to Milestones and have not vested as yet.

Information on Directors

Robert Hawke
Qualifications

Director and Chairman
Bachelor of Laws and Bachelor of Arts (Economics),
University of Western Australia; Bachelor of Letters,
Oxford University
Prime Minister of Australia: March, 1983 until
December, 1991. Union Leader, Economist and
Business Adviser

Experience

Other public company directorships
Former directorships in last 3 years
Interest in Shares and Options *

None
None
6,732 ordinary shares and options to acquire a further
100,000 ordinary shares.

Dr Robert Dane
Qualifications

Managing Director
Bachelor of Medicine, Bachelor of Surgery, Diploma of
the Royal Australian College of Obstetricians and
Gynaecologists

Experience

Other public company directorships
Former directorships in last 3 years
Interest in Shares and Options *

Founder of technology, Medicine
None
None
1,770,589 ordinary shares, 200 convertible notes of
\$1,000 each and options to acquire a further 2,139,170
ordinary shares.
(Interest is combination of all interests held by Dr Robert
Dane and Mrs Susan Dane as were Directors during the
year).

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<u>David Franks</u> Qualifications	Director Bachelor of Economics, Chartered Accountant, Associate of Securities Institute of Australia, Certified Financial Planner, Justice of Peace in New South Wales
Other public company directorships	None
Former directorships in last 3 years	None
Experience	Director of Franks & Associates Pty Ltd – Chartered Accountants, previously 8 years experience with PricewaterhouseCoopers and Price Waterhouse in Corporate Finance and Corporate Advisory Services Divisions
Interest in Shares and Options *	22,000 ordinary shares and options to acquire a further 100,000 ordinary shares.
<u>David Fox</u> Experience	Director Founder of software distributor InfoMagic which was acquired by Unisys in 1993 Founder Astrology.com which was acquired by iVillage, Inc (Nasdaq IVIL) in 1999
Other public company directorships	None
Former directorships in last 3 years	None
Interest in Shares and Options	95,705 ordinary shares and options to acquire a further 100,000 ordinary shares.
<u>Ian Robertson</u> Qualifications	Director (appointed 6 June 2005) Bachelor of Laws - University of Melbourne Bachelor of Commerce - University of Melbourne
Other public company directorships	AusFILM International Inc. – Chair (2003 to date)
Former directorships in last 3 years	Australian Broadcasting Authority – Board Member (1997 – 2004)
Experience	Managing Partner of Sydney office of Holding Redlich and a member of the Corporate practice group. Ian practises media, entertainment, intellectual property, trade practices and corporate law with emphasis on the film, television, telecommunications, advertising, publishing and on-line industries. He has served on a number of private and public boards, including for seven years until August 2004 as a board member of the Australian broadcasting and on-line regulator, the Australian Broadcasting Authority.
Interest in Shares and Options *	0 ordinary shares and options to acquire a further 100,000 ordinary shares subject to shareholder approval.

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<u>David Cassidy</u>	Director (resigned 30 June 2005)
Qualifications	BSc Hrs in Mathematics, Computer Science Hdip in Psychology International Banking & Finance Dip – London School of Economics
Experience	Managing Director, Board Member, ThoroughVisioN P/L Executive Management, Consolidated Press Holdings Managing Director, Europe of CPH Investment (Europe) Regional Sales, Marketing & Strategy Director, Siemens (Australia, New Zealand) Financial Services, Price Waterhouse Consultancy Product & Marketing Director, Infocast / Reuters Associate Vice President Citicorp (US, Europe, Asia)
Other public company directorships	None
Former directorships in last 3 years	Thoroughvision Holdings Limited
Interest in Shares and Options *	6,732 ordinary shares and options to acquire a further 100,000 ordinary shares.
<u>Susan Dane</u>	Director (resigned 31 December 2004)
Qualifications	BA Anthropology/Comparative Sociology
Experience	Company Manager 1986-1996 Company Director 1988 to present.
Other public company directorships	None
Former directorships in last 3 years	None
Interest in Shares and Options *	1,770,589 ordinary shares, 200 convertible notes of \$1,000 each and options to acquire a further 2,139,170 ordinary shares. (Interest is combination of all interests held by Dr Robert Dane and Mrs Susan Dane as both are Directors.)
<u>David Kelly</u>	Director (resigned 31 December 2004)
Qualifications	Bachelor of Town Planning (Hons)
Experience	Director of a number of private companies with activities in the fields of financial investment, property development and wine wholesaling. Previously worked as a consultant in the area of environmental resource management.
Other public company directorships	None
Former directorships in last 3 years	Simon Gilbert Wines Limited
Interest in Shares and Options *	123,801 ordinary shares and options to acquire a further 300,000 ordinary shares.

Note

* does not include fees payable in shares under the Employee Share Plan yet to be issued or any share allotments subject to shareholder approval at the 2005 Annual General Meeting.

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Company Secretary

The Company Secretary is David Franks BEc, CA, CFP, JP. Mr Franks is principal of Franks and Associates Pty Ltd (Chartered Accountants). He is currently company secretary of the following public companies:

- Microview Limited
- Real Brands Limited
- Amerod Resources Limited
- Etick Limited
- Solar Sailor Holdings Limited
- Redman Mining Limited
- Van Eyk.Com Limited
- Van Eyk Research Limited; and
- Stem Cells Technologies Limited.

Meetings of Directors

During the year, 5 meetings of directors (including committees) were held. Attendance at this meeting were as follows:

<i>Directors</i>	<i>No. Eligible to Attend</i>	<i>No. Actually Attended</i>
Dr Robert Dane	5	5
Mr David Franks	5	5
Hon Robert Hawke	5	5
Mr David Fox	5	5
Mr Ian Robertson	1	1
Mr David Cassidy	5	5
Mrs Susan Dane	2	2
Mr David Kelly	2	2

Directors and Executive Officer Emoluments

The remuneration structure for executive and non-executive directors seeks to emphasise payment for results through providing a base salary and options, with their exercising dependent on the achievement of set milestones.

Further to the shareholder approved resolution at the 2001 Annual General Meeting, the director fees from 1st September 2001 are to be paid in the form of an allotment of the equivalent number of ordinary shares at a value of the higher of \$1.75 per share or the weighted average share price from capital raisings during the period. For the 2005, a total of \$97,333 has been accrued for director's fees, with payment to be in the form of shares. However these shares are yet to be issued and are therefore still noted as an accrual in Note 14 to the Financial Statements.

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The emoluments of each Director for the financial year follows.

2005

<i>Director</i>	<i>Consultant Fees/Wage</i>	<i>Director's Fees *</i>	<i>Superannuation Contributions</i>	<i>Non-Cash Benefits</i>	<i>Total</i>
Dr Robert Dane **	\$226,712	\$16,000		-	\$242,712
Mr David Franks	\$42,000	\$16,000	-	-	\$ 58,000
Hon Robert Hawke	-	\$16,000	-	-	\$ 16,000
Mr David Cassidy	-	\$ 8,000	-	-	\$ 8,000
Mrs Susan Dane	-	\$16,000	-	-	\$ 16,000
Mr David Kelly	-	\$ 8,000	-	-	\$ 8,000
Mr David Fox	-	\$16,000	-	-	\$ 16,000
Mr Ian Robertson	-	\$ 1,333	-	-	\$ 1,333

* To be paid in due course through the issue of shares at a value of the higher of \$1.75 per share or the weighted average share price from capital raisings during the period, further to the Shareholder Resolution passed at the Annual General Meeting 2001. Shares will be allotted under Employee Share Plan but at present have only been accrued for in the Financial Statements in Note 14

** Consulting fee (\$216,509) comprises Managing Director fee (12 months), Personal Assistant fee (24 months), provision of Sydney home office (\$10,203)

2004

<i>Director</i>	<i>Consultant Fees/Wage</i>	<i>Director's Fees *</i>	<i>Superannuation Contributions</i>	<i>Non-Cash Benefits</i>	<i>Total</i>
Dr Robert Dane **	\$128,925	\$16,000	\$1,206	-	\$146,131
Mr David Franks	\$42,000	\$16,000	-	-	\$ 58,000
Hon Robert Hawke	-	\$16,000	-	-	\$ 16,000
Mr David Cassidy	-	\$16,000	-	-	\$ 16,000
Mrs Susan Dane	-	\$16,000	-	-	\$ 16,000
Mr David Kelly	-	\$16,000	-	-	\$ 16,000
Mr David Fox	-	\$16,000	-	-	\$ 16,000

* To be paid in due course through the issue of shares at a value of the higher of \$1.75 per share or the weighted average share price from capital raisings during the period, further to the Shareholder Resolution passed at the Annual General Meeting 2001. Shares will be allotted under Employee Share Plan but at present have only been accrued for in the Financial Statements in Note 14

** Consulting fee (\$119,600) comprises Managing Director fee (12 months), provision of Sydney home office (\$3,600), and other costs including provision of motor vehicle (\$5,725)

<i>2005 Executive Officers</i>	<i>Consultant Fees</i>	<i>Director's Fees</i>	<i>Superannuation Contributions</i>	<i>Non-Cash Benefits</i>	<i>Total</i>
N/A	-	-	-	-	-

<i>2004 Executive Officers</i>	<i>Consultant Fees</i>	<i>Director's Fees</i>	<i>Superannuation Contributions</i>	<i>Non-Cash Benefits</i>	<i>Total</i>
N/A	-	-	-	-	-

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Indemnifying Officers and Auditors

Under the Constitution of the Company, Clauses 129 to 131 (inclusive) outlines the Officers' indemnities and insurance provisions. The Constitution provides for:

- (i) indemnification out of the property of the Company against any liability for costs and expenses incurred in defending any proceedings for which judgement is given in favour of the officer, or where liability is incurred provided that the liability did not arise out of a lack of good faith
- (ii) payment of a premium in respect of a contract of insurance against a liability incurred as an officer provided that it did not result out of a wilful breach of duty and cover also for costs and expenses in defending proceedings.

The company has not had to enter into any other written indemnities. The economic entity has insurance for each Director and Officer against liabilities and for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the economic entity. The amount of the premium for such a policy was \$9,331 (excluding GST) for the period 19th December 2004 to 19th December 2005.

There has been no insurance premium paid by the economic entity in respect of the company auditor.

Options

Options (Type 2) previously granted under the Solar Sailor Holdings Limited director's option plan include:

- (i) 100,000 options granted to Hon Robert Hawke under the terms stipulated below
- (ii) 100,000 options granted to Mr David Cassidy under the terms stipulated below
- (iii) 100,000 options granted to Mrs Susan Dane under the terms stipulated below.
- (iv) 100,000 options granted to Mr David Kelly under the terms stipulated below.
- (v) 100,000 options granted to Mr David Fox under the terms stipulated below.

Options (Type 1) previously granted under the Solar Sailor Holdings Limited directors' option plan include:

- (i) 2,039,170 options granted to Dr Robert Dane under the terms stipulated below
- (ii) 200,000 options granted to Dr Graham Kelly under the terms stipulated below
- (iii) 100,000 options granted to Mr John Paterson under the terms stipulated below
- (iii) 100,000 options granted to Dr Paul Scully-Power under the terms stipulated below.
- (v) 100,000 options granted to Mr David Franks under the terms stipulated below
- (vi) 100,000 options granted to Mr John O'Connor under the terms stipulated below

In addition, as part of the Agreement dated 16th February 2002 between the Company and a previous director Mr Rik Deaton, the following options (Type 1) were previously granted:

- (i) 250,000 options granted to Mr Rik Deaton under the terms stipulated below

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Options (Type 1)

All options will be convertible into an equivalent number of ordinary shares at an exercise price of \$0.85 each, and shall be issued on the same terms and conditions as, and will rank equally with, the ordinary shares of the Company. The exercise date is dependent upon the economic entity achieving its first license of SolarWing technology or the first sale of a commercial-size vessel based on SolarWing technology, with the options exercisable at any point in time within two years of this event. Options will not entitle the holders to participate in any new issues, such as bonus issues or rights issues, that are extended to shareholders without exercise of the options.

Options (Type 2)

All options will be convertible into an equivalent number of ordinary shares at an exercise price of \$1.00 each, and shall be issued on the same terms and conditions as, and will rank equally with, the ordinary shares of the Company. The exercise date is dependent upon the economic entity achieving its first license of SolarWing technology or the first sale of a commercial-size vessel based on SolarWing technology, with the options exercisable at any point in time within two years of this event.

Options will not entitle the holders to participate in any new issues, such as bonus issues or rights issues, that are extended to shareholders without exercise of the options.

There are no further options outstanding against the Company.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report and there are 2,889,170 unissued ordinary shares for which options (Type 1) are outstanding at the date of this report, and a further 500,000 unissued ordinary shares for which options (Type 2) are outstanding at the date of this report.

Refer Addendum on Page 55

Convertible Notes

There were no convertible notes granted over unissued shares or interest during or since the financial year by the company or controlled entities to directors.

Convertible notes previously granted by Solar Sailor Holdings Limited include 200 convertible notes of \$1,000 granted to Susan Kelly, a related party to Dr Graham Kelly, under the terms stipulated below. On 23 December 2004, an entity related to Dr Robert Dane and Mrs Susan Dane purchased the convertible notes from Susan Kelly.

Each note may be converted into 1,177 ordinary fully paid shares up to, and including, 31st December 2002. During 2002/2003, an amendment was made to the terms, extending the conversion or redemption from 31st December 2002 to 31st December 2003 and for a further year if agreed in writing by both parties. Simple interest at a rate of 10% per annum is

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payable upon conversion and, if not converted, at redemption. The company has obtained permission from the entity related to Dr Robert Dane and Mrs Susan Dane to extend the conversion or redemption to 31st December 2005. Convertible notes will entitle the holders to participate in any new issues, such as bonus issues or rights issues, that are extended to shareholders without conversion of the notes. At the date of this Report, the holders have elected to convert, and therefore the economic entity has no borrowings.

No shares have been issued by virtue of the exercise of a convertible note during the year or to the date of this report and there are 235,400 unissued ordinary shares for which convertible notes are outstanding at the date of this report.

Proceedings on Behalf of Company

At the start of the financial year June 2005, a potential dispute with a third party located in the United States of America relating to claims of compensation came to the attention of the economic entity. We retained US counsel and at this stage it is not possible to predict an outcome. Our legal advice and board believe that the claims are without merit. However we intend initially to mediate and then if necessary litigate. To date, no proceedings have been brought by either party.

With the exception of the item disclosed in Note 17, no person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Audit and non-audit services

Details of amounts paid or payable to the auditor for additional non-audit services provided during the year are set out in Note 5 to the Financial Statements.

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

Auditor

The auditor continues in office in accordance with Section 327 of the Corporations Act 2001.

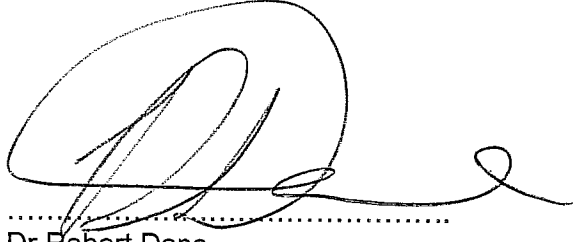
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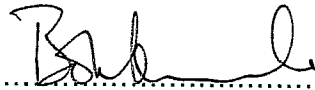
Rounding of Accounts

Amounts stated in the accounts are not rounded.

Signed in accordance with a resolution of the Board of Directors.



.....
Dr Robert Dane
Managing Director



.....
Hon Robert Hawke
Chairman

Dated this 23rd day of September 2005.

**AUDITORS' INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF SOLAR SAILOR HOLDINGS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
and
- no contraventions of any applicable code of professional conduct in relation to the audit.

WHK Greenwoods
WHK Greenwoods

D Sinclair
D Sinclair

Dated this *23rd* day of September 2005.

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
Revenue from ordinary activities	2	67,090	158,534	18,259	2,295
Changes in inventory of finished goods and work in progress		(1,155)	(25,729)	-	-
Employee benefits expense		(374,188)	(287,099)	(139,333)	(154,000)
Depreciation, amortisation expense and asset write off	3	(233,933)	(224,446)	-	-
Borrowing costs expense	3	(37,810)	(37,239)	(37,810)	(37,237)
Loan forgiveness – wholly owned entities		-	-	-	(360,000)
Other expenses from ordinary activities		(237,032)	(325,339)	(51,839)	(26,246)
Operating loss from ordinary activities before income tax expense	3	(817,028)	(741,318)	(210,723)	(575,188)
Income tax credit / (expense) relating to ordinary activities	4	-	16,851	-	-
Operating loss from ordinary activities after related income tax expense		(817,028)	(724,467)	(210,723)	(575,188)
Net operating loss attributable to members of the parent entity		(817,028)	(724,467)	(210,723)	(575,188)
Total changes in equity other than those resulting from transactions with owners as owners		(817,028)	(724,467)	(210,723)	(575,188)

The accompanying notes form part of this financial report.

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STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
CURRENT ASSETS					
Cash assets	6	1,298,586	206,579	1,197,693	96,734
Receivables	7	27,339	43,226	10,203	3,509
Other	8	30	5,159	-	5,129
TOTAL CURRENT ASSETS		1,325,955	254,964	1,207,896	105,372
NON-CURRENT ASSETS					
Receivables	7	214,984	-	1,833,615	1,251,702
Other financial assets	9	15,000	-	256,713	241,713
Intangible assets	11	292,069	300,331	33,685	26,369
Property, plant and equipment	12	1,001,265	1,187,504	-	-
TOTAL NON-CURRENT ASSETS		1,523,318	1,487,835	2,124,013	1,519,784
TOTAL ASSETS		2,849,273	1,742,799	3,331,909	1,625,156
CURRENT LIABILITIES					
Payables	13	396,043	291,512	283,261	184,756
TOTAL CURRENT LIABILITIES		396,043	291,512	283,261	184,756
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	14	250,000	314,044	250,000	314,044
TOTAL NON-CURRENT LIABILITIES		250,000	314,044	250,000	314,044
TOTAL LIABILITIES		646,043	605,556	533,261	498,800
NET ASSETS		2,203,230	1,137,243	2,798,648	1,126,356
EQUITY					
Contributed equity	15	5,912,530	4,029,515	5,912,530	4,029,515
Retained profits (losses)	16	(3,709,300)	(2,892,272)	(3,113,882)	(2,903,159)
TOTAL EQUITY		2,203,230	1,137,243	2,798,648	1,126,356

The accompanying notes form part of this financial report.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		55,340	115,586	-	-
Payments to suppliers		(504,461)	(405,451)	(53,876)	(76,646)
Interest received		8,956	4,120	4,696	1,636
Interest Paid		(140,109)	(27,100)	(140,109)	(27,100)
Income Tax Refund		11,233	104,606	-	-
Net cash provided by (used in) operating activities	20(a)	(569,041)	(208,239)	(189,289)	(102,110)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase intangible assets		(25,838)	(6,646)	(7,319)	-
Investment in entity		(15,000)	-	(15,000)	-
Net refund of deposits		-	1,520	-	-
Purchase of property, plant and equipment		-	(7,776)	-	-
Process from sale of PPE		385	13,636	-	-
Net cash provided by (used in) investing activities		(40,453)	734	(22,319)	-
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,916,485	271,000	1,916,485	271,000
Payments in raising capital		-	-	-	-
Advance of loans		(214,984)	-	(603,918)	(220,417)
Repayment of loans		-	-	-	125,736
Proceeds from borrowings		250,000	-	250,000	-
Repayment of borrowings		(250,000)	-	(250,000)	-
Net cash provided by (used in) financing activities		1,701,501	271,000	1,312,567	176,319
Net increase/(decrease)		1,092,007	63,495	1,100,959	74,209
Cash at 1 July 2004		206,579	143,084	96,734	22,525
Cash at 30 June 2005	6	1,298,586	206,579	1,197,693	96,734

The accompanying notes form part of this financial report.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers the economic entity of Solar Sailor Holdings Limited and controlled entities, and Solar Sailor Holdings Limited as an individual parent entity. Solar Sailor Holdings Limited is an unlisted public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Solar Sailor Holdings Limited. Control exists where Solar Sailor Holdings Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Solar Sailor Holdings Limited to achieve the objectives Solar Sailor Holdings Limited. A list of controlled entities is contained in Note 11 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit for ordinary activities adjusted for any permanent differences.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Income Tax (continued)

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value.

(d) Property, Plant and Equipment

Each class of property, plant and equipment are carried at cost, less where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, Plant and Equipment (continued)

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Leasehold Improvements	2.5%
Plant and Equipment	9.0%
Leased Plant and Equipment	9.0%
Solar Sailor vessel	10.0%

(e) Leases

Leases of fixed assets, where substantially all the risk and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Research and Development Expenditure

Research and Development costs are charged to operating profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangibles

Patents and Trademarks

Patents and Trademarks are valued in the accounts at cost of acquisition and will be amortised over 20 years, being the period in which their benefits are expected to be realised.

(h) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(i) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

(j) Comparative figures and Period of accounting

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(k) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from the rendering of a service, such as charter ticket sales, is recognised upon the delivery of the service to the customers.

Revenue from grants and sponsorship is recognised on an accruals basis over the period relating to the grant or sponsorship.

All revenue is stated net of the amount of goods and services tax (GST).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Ongoing Operations and Future Developments

The Directors believe, at this present point in time, that the economic entity should pursue the following developments and programs:

- i) the continued use for Solar Sailor as a charter vessel operating through Captain Cook Cruises (NSW) Pty Ltd for marketing, research and development and testing of components of the integrated HMP systems;
- ii) the commercialisation of the economic entity's technology through the conversion of the strong expressions of interest received to date into sales for vessel designs and hybrid power systems;
- iii) the development of the patent technology through other forms of applications, such as small unmanned ocean vehicles with the engagement of the US military and other authorities in the United States; and applications in large vessels such as water tanker ships; and
- iv) the continuation of seeking strategic investors and partners.

(m) Earnings per share

(i) - Basic earnings per share

Basic earnings per share is determined by dividing the (loss) after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) - Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(n) Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing for and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) which are effective for financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

30 June 2005 are required to be restated. Certain of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The figures disclosed are management's best estimates of the quantitative impact of changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work undertaken by the AIFRS committee, (b) potential amendments to AIFRSs and interpretations thereof being issued by the standard setters and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(i) Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The economic entity has tested all assets for impairment as at 1 July 2004 and 30 June 2005. The impact of the change is estimated to be nil.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

(ii) Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

At the date of this report the impacts on the financial report are unknown as management is in the preliminary stages of quantifying the effect.

(iii) Share-Based Payment

Share-based compensation forms part of the remuneration of employees of the economic entity (including executives) as disclosed in the notes to the financial statements. The economic entity does not recognise an expense for any share-based compensation granted. Under AASB 2: Share-Based Payment the economic entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the equity instrument determined at grant date and recognised over the expected vesting period.

AASB 1 states that on initial adoption of AIFRS an entity is encouraged, but not required, to apply AASB 2 Share-Based Payment to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply AASB 2 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to Australian equivalents to IFRSs and (b) 1 January 2005. This guidance has been used in determining the share based payments recognised.

For the financial year ended 30 June 2005, retained earnings and contributed equity are expected to increase by \$575,500.

(iv) Research and development Expenditure

Under AASB 138 : Intangible Assets, costs associated with the research phase of the development of an asset must be expensed. This will result in a change in the current accounting policy, which capitalises research costs to the statement of financial position where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover these deferred costs.

On transition, the financial effect of this impact is assessed as nil, as no research costs were capitalised at 1 July 2004 or 30 June 2005.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 2: REVENUE					
Operating activities					
Sales of solar panels		(1,604)	22,541	-	-
Grants received		-	28,271	-	-
Cruise revenue		48,472	49,639	-	-
Sponsorship		8,239	24,089	-	-
Fees for tenders and studies		-	25,000	-	-
Interest received	2(a)	15,145	5,613	11,422	2,295
Other		(3,162)	3,381	6,837	-
		<u>67,090</u>	<u>158,534</u>	<u>18,259</u>	<u>2,295</u>
(a) Interest revenue from					
- other persons		<u>15,145</u>	<u>5,613</u>	<u>11,422</u>	<u>2,295</u>

SOLAR SAILOR HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 3: OPERATING PROFIT (LOSS) FROM ORDINARY ACTIVITIES					
Operating loss from ordinary activities before income tax has been determined after:					
(a) Expenses:					
Amortisation of non current assets					
- patents		34,101	19,496	-	-
<hr/>					
Depreciation of non current assets					
- plant and equipment		9,738	11,050	-	-
- Solar Sailor vessel		190,094	189,876	-	-
<hr/>					
		199,832	200,926	-	-
<hr/>					
Write down of non current assets					
- plant and equipment		-	4,024	-	-
<hr/>					
Remuneration of the Auditors of Company for:					
- auditing of the financial reports		9,812	9,405	9,812	9,405
<hr/>					
Borrowing costs					
- Director related entities					
Convertible note		16,789	14,038	16,789	14,038
Loan		20,986	23,199	20,986	23,199
- Non related parties		35	2	35	-
<hr/>					
		37,810	37,239	37,810	37,237
<hr/>					

SOLAR SAILOR HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 3: OPERATING PROFIT (LOSS) FROM ORDINARY ACTIVITIES (CONTINUED)					
(a) Expenses (continued):					
Rental expense on operating lease for premises					
- Director related entities Sydney Office		10,203	3,600	-	-
- Other persons Ulladulla Factory		-	2,000	-	-
		10,203	5,600	-	-
(b) Significant revenue and expense:					
The following significant revenue and expense items are relevant in explaining the financial performance:					
Forgiveness of intercompany loans					
- Expense		-	-	-	360,000
		-	-	-	360,000

SOLAR SAILOR HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 4: INCOME TAX EXPENSE				
The prima facie tax payable on operating profit (loss) from ordinary activities before tax is reconciled to the income tax as follows:				
Prima facie tax credit on operating profit (loss) from ordinary activities before income tax at 30% (2004: 30%)	245,108	222,395	63,216	172,557
Add:				
Tax effect of:				
- permanent differences	3,012	1,650	-	(108,550)
	<u>248,120</u>	<u>224,045</u>	<u>63,216</u>	<u>64,007</u>
Future income tax benefit not brought to account	(248,120)	(207,194)	(63,216)	(64,007)
	<u>-</u>	<u>16,851</u>	<u>-</u>	<u>-</u>
	<u><u>1,173,500</u></u>	<u><u>919,609</u></u>	<u><u>462,962</u></u>	<u><u>401,194</u></u>
The Directors estimate that the potential future income tax benefit at 30 th June 2005 in respect of tax losses not brought to account is				

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
the losses are transferred to an eligible entity in the consolidated entity, and
- (ii) the consolidated entity continued to comply with the conditions of deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic	Economic	Parent	Parent
	Entity	Entity	Entity	Entity
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 5: DIRECTOR REMUNERATION

(a) Directors' Remuneration

Income paid or payable to all directors of each entity in the economic entity by the entities of which they are directors and any related parties

	366,045	284,131	-	-
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Income paid or payable to all directors of the parent entity by the parent entity and any related parties

	-	-	366,045	284,131
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Number of parent entity directors whose income from the parent entity and any related parties was within the following bands

\$0	-	\$9,999		3	-
\$10,000	-	\$19,999		3	5
\$50,000	-	\$59,999		1	1
\$60,000	-	\$69,999		-	-
\$140,000	-	\$149,999		-	1
\$210,000	-	\$219,999		1	-

The names of parent entity directors who have held office during the financial year are:

Dr Robert Dane
Hon Robert Hawke
Mr David Franks
Mr David Fox
Mr Ian Robertson (appointed 6 June 2005)
Mr David Cassidy (resigned 30 June 2005)
Mrs Susan Dane (resigned 31 December 2004)
Mr David Kelly (resigned 31 December 2004)

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NOTES TO THE FINANCIAL STATEMENTS
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	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (CONTINUED)				
(b) Retirement and Superannuation Payments				
Amounts of a prescribed benefit given during the year by the parent entity or a related party to a director or a prescribed superannuation fund in a connection with the retirement from a prescribed office.	-	-	-	-
 NOTE 6: CASH ASSETS				
Petty cash	1,140	1,140	-	-
Cash at bank	1,297,446	205,439	1,197,693	96,734
	1,298,586	206,579	1,197,693	96,734
 Reconciliation of Cash				
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash	1,298,586	206,579	1,197,693	96,734
	1,298,586	206,579	1,197,693	96,734

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NOTES TO THE FINANCIAL STATEMENTS
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	Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 7: RECEIVABLES					
CURRENT					
Trade debtors		27,339	43,226	10,203	3,509
		<u>27,339</u>	<u>43,226</u>	<u>10,203</u>	<u>3,509</u>
NON-CURRENT					
Amounts receivable:					
Loans to other entities		214,984	-	214,984	-
Loans to wholly-owned entities	7(a)	-	-	1,618,631	1,251,702
		<u>214,984</u>	<u>-</u>	<u>1,833,615</u>	<u>1,251,702</u>
(a) Loans to wholly-owned entities					
Loan advanced during year					
To Advanced Technology Watercraft Pty Ltd					
		-	-	353,935	235,258
To Solar Sailor Pty Ltd					
		-	-	35,000	-
Loan repaid during year					
From Solar Sailor Pty Ltd					
		-	-	-	-
From Advanced Technology Watercraft Pty Ltd					
		-	-	22,011	125,736
Loan forgiven during year					
To Advanced Technology Watercraft Pty Ltd					
		-	-	-	360,000
NOTE 8: OTHER ASSETS					
CURRENT					
Prepayments		-	5,129	-	5,129
Deposits		30	30	-	-
		<u>30</u>	<u>5,159</u>	<u>-</u>	<u>5,129</u>

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NOTES TO THE FINANCIAL STATEMENTS
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Note	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 9: OTHER FINANCIAL ASSETS				
NON CURRENT				
Unlisted investments, at cost				
Shares in controlled entities	-	-	241,713	241,713
Shares in other entities	15,000	-	15,000	-
	<u>15,000</u>	<u>-</u>	<u>256,713</u>	<u>241,713</u>

NOTE 10: CONTROLLED ENTITIES

(a) Controlled entities and contribution to consolidated profit/(loss)	<u>Country of Incorporation</u>	<u>% Owned 2005</u>	<u>% Owned 2004</u>	<u>Class of Share</u>
<u>Parent entity</u>				
Solar Sailor Holdings Limited	Australia	N/A	N/A	Ordinary
<u>Subsidiaries of Solar Sailor Holdings Limited</u>				
Solar Sailor Pty Ltd	Australia	100%	100%	Ordinary
Advanced Technology Watercraft Pty Ltd	Australia	100%	100%	Ordinary
Olympia# Pty Ltd	Australia	100%	100%	Ordinary
Solar Sailor USA Inc	USA	96.67%	96.67%	Various
Solar Coast Cats Pty Ltd	Australia	33.33%	0.00%	Ordinary
UOV LLC	USA	49%	0%	Ordinary

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 11: INTANGIBLE ASSETS				
CURRENT				
Formation costs – at cost	33,684	26,369	33,685	26,369
Patents – at cost	414,239	395,715	-	-
Less accumulated amortisation	(163,116)	(129,015)	-	-
	<u>251,123</u>	<u>266,700</u>	<u>-</u>	<u>-</u>
Intellectual property – at cost	7,262	7,262	-	-
	<u>292,069</u>	<u>300,331</u>	<u>33,685</u>	<u>26,369</u>
	<u><u>292,069</u></u>	<u><u>300,331</u></u>	<u><u>33,685</u></u>	<u><u>26,369</u></u>
NOTE 12: PROPERTY, PLANT & EQUIPMENT				
Solar Sailor vessel				
- at cost	1,900,957	1,900,957	-	-
Less accumulated depreciation	(930,979)	(740,884)	-	-
	<u>969,978</u>	<u>1,160,073</u>	<u>-</u>	<u>-</u>
Plant and Equipment				
- at cost	64,496	50,902	-	-
Less accumulated depreciation	(33,209)	(23,471)	-	-
Less asset write off	-	-	-	-
	<u>31,287</u>	<u>27,431</u>	<u>-</u>	<u>-</u>
Total Property, Plant and Equipment	<u>1,001,265</u>	<u>1,187,504</u>	<u>-</u>	<u>-</u>
	<u><u>1,001,265</u></u>	<u><u>1,187,504</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
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	Solar Sailor Vessel \$	Plant and Equip- ment \$	Total \$
NOTE 12: PROPERTY, PLANT & EQUIPMENT (Cont)			
Economic Entity			
Balance at the beginning of the year	1,160,073	27,431	1,187,504
Additions	-	13,594	13,594
Disposals	-	-	-
Depreciation expense	(190,095)	(9,738)	(199,833)
Asset write off	-	-	-
Carrying amount at the end of the year	969,978	31,287	1,001,265

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

		Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 13: PAYABLES					
CURRENT					
Trade creditors		12,506	62,132	4,228	60,756
Sundry creditors & accruals	14(b)	383,152	229,380	279,033	124,000
Deposits		385	-	-	-
		396,043	291,512	283,261	184,756
NON CURRENT					
Trade creditors		-	-	-	-
(a) Loans to wholly owned entities					
Loan advanced during year					
By Olympia# Pty Ltd		-	-	-	-
Loan repaid during year					
To Olympia# Pty Ltd		-	-	-	-
Loan forgiven during year					
By Solar Sailor Pty Ltd		-	-	-	-
(b) Amount under agreement to be paid by issue of Ordinary Shares					
		-	212,000	-	112,000

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

		Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 14: INTEREST BEARING LIABILITIES					
NON-CURRENT					
Amount payable:					
Director related entities	14(a)	250,000	314,044	250,000	314,044
(a) Loans from Director related entities					
Loan advanced during year					
By entity related: R Dane		250,000	314,044	250,000	314,044
Loan repaid during year					
By entity related :D Kelly		314,044	-	314,044	-
Total carrying amount of non-current assets pledged as security are:					
First charge – vessel		-	1,160,073	-	-
Floating charge – other assets		-	327,762	-	1,519,784
		-	1,487,835	-	1,519,784
NOTE 15: CONTRIBUTED EQUITY					
Ordinary shares – 7,354,410 (2004: 6,873,782)	15(a) 15(c)	5,716,347	3,833,332	5,716,347	3,833,332
Convertible notes–200 (2004: 200)	15(b) 15(d)	196,183	196,183	196,183	196,183
		5,912,530	4,029,515	5,912,530	4,029,515
(a) Ordinary shares					
At the beginning of the period		3,833,332	3,547,487	3,833,332	3,547,487
Shares issued during year					
8,483 on 25 September 2003		-	14,845	-	14,845
135,500 on 28 May 2004		-	271,000	-	271,000
104,628 on 15 October 2004		418,515	-	418,515	-
1,000 on 15 October 2004		2,000	-	2,000	-
250,000 on 20 April 2005		1,000,000	-	1,000,000	-
125,000 on 4 May 2005		500,000	-	500,000	-
Transaction costs		(37,500)	-	(37,500)	-
		5,716,347	3,833,332	5,716,347	3,833,332

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FOR THE YEAR ENDED 30TH JUNE 2005

		Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 15: CONTRIBUTED EQUITY (CONTINUED)					
(b) Convertible notes					
At the beginning of the reporting period		196,183	196,183	196,183	196,183
Notes issued during year		-	-	-	-
Transaction costs		-	-	-	-
		196,183	196,183	196,183	196,183
(c) Ordinary shares					
		Number 2005	Number 2004	Number 2005	Number 2004
At the beginning of the reporting period	Cents /share	6,873,782	6,729,799	6,873,782	6,729,799
Shares issued during year					
On 25 September 2003	\$1.75	-	8,483	-	8,483
On 28 May 2004	\$2.00	-	135,500	-	135,500
On 15 October 2004	\$4.00	104,628	-	104,628	-
On 15 October 2004	\$2.00	1,000	-	1,000	-
On 20 April 2005	\$4.00	250,000	-	250,000	-
On 4 May 2005	\$4.00	125,000	-	125,000	-
		7,354,410	6,873,782	7,354,410	6,873,782
(d) Convertible notes					
		Number 2005	Number 2004	Number 2005	Number 2004
At the beginning of the reporting period		200	200	200	200
Shares issued during year		-	-	-	-
		200	200	200	200

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Details of Shares Issued during the Year

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

200 convertible notes of \$1,000 were allotted during 1999/2000 to Susan Kelly, a related party to Mr David Kelly, under the terms stipulated below, for consideration of \$200,000. During 2000/2001, an amendment was made to the terms, extending the conversion or redemption from 31st December 2001 to 31st December 2002 and interest payable upon conversion or redemption. During 2002/2003, an amendment was made to the terms, extending the conversion or redemption from 31st December 2002 to 31st December 2003 and for a further year if agreed in writing by both parties.

On 23 December 2004, an entity related to Dr Robert Dane and Mrs Susan Dane purchased the convertible notes from Susan Kelly. The company has obtained permission from the entity related to Dr Robert Dane and Mrs Susan Dane to extend the conversion or redemption to 31st December 2005.

Each note may be converted into 1,177 ordinary fully paid shares up to, and including, 31st December 2003. Simple interest at a rate of 10% per annum is payable upon conversion, and if not converted, at redemption.

Convertible notes will entitle the holders to participate in any new issues, such as bonus issues or rights issues, that are extended to shareholders without conversion of the notes.

No shares have been issued by virtue of the exercise of a convertible note during the year or to the date of this report and there are 235,400 unissued ordinary shares for which convertible notes are outstanding at the date of this report.

The terms of these convertible notes, subject to shareholder approval, have been altered to:

- (i) unsecured
- (ii) simple interest at a rate of 10% per annum is payable upon conversion, and if not converted, at redemption

All other share issues during the year are noted above, including the date of allotment, the number of shares issued and the price per share.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 16: RETAINED PROFITS (ACCUMMULATED LOSSES)				
Retained profits (accumulated losses) at the beginning of the financial year	(2,892,272)	(2,167,805)	(2,903,159)	(2,327,971)
Net operating loss attributable to members of the parent entity	(817,028)	(724,467)	(210,723)	(575,188)
Total available for appropriation	(3,709,300)	(2,892,272)	(3,113,882)	(2,903,159)
Retained profits (losses) at the end of the financial year	(3,709,300)	(2,892,272)	(3,113,882)	(2,903,159)

NOTE 17: CONTINGENT LIABILITIES

A claim for damages in the amount of \$750,000 for an alleged accident onboard the Solar Sailor vessel has been brought against a wholly owned entity of Solar Sailor Holdings Limited during the 2000/2001 financial year as noted in the Financial Statements for the year ended 30 June 2001. The matter has been placed in the hands of the economic entity's insurers who are acting on behalf of the economic entity in relation to this matter. Since originally notifying the economic entity's insurers during 2000/2001 to the date of this report, no further correspondence has been received by the economic entity from the claimant or the insurers.

At the start of the financial year June 2005, a potential dispute with a third party located in the United States of America relating to claims of compensation came to the attention of the economic entity. We retained US counsel and at this stage it is not possible to predict an outcome. Our legal advice and board believe that the claims are without merit. However we intend initially to mediate and then if necessary litigate. To date, no proceedings have been brought by either party.

**SOLAR SAILOR HOLDINGS LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005**

NOTE 18: EVENTS SUBSEQUENT TO REPORTING DATE

The Directors are now undertaking the next phase in the economic entity's development, in the form of:

- i) the continued use for Solar Sailor as a charter vessel operating through Captain Cook Cruises (NSW) Pty Ltd for marketing, research and development and testing of components of the integrated HMP systems;
- ii) the commercialisation of the economic entity's technology through the conversion of the strong expressions of interest received to date into sales for vessel designs and hybrid power systems;
- iii) the development of the patent technology through other forms of applications, such as small unmanned ocean vehicles with the engagement of the US military and other authorities in the United States; and applications in large vessels such as water tanker ships; and
- iv) the continuation of seeking strategic investors and partners.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 19: RELATED PARTY TRANSACTIONS				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties				
(a)The economic entity incurred professional fees at arms length commercial terms to Franks & Associates Pty Ltd. David Franks, a Director and the Company Secretary, is a Director of Franks & Associates Pty Ltd.	42,000	42,000	42,000	42,000
(b)The economic entity incurred Directors & Officers and Keyperson Insurance premiums (excluding GST) at arms length commercial terms through a related party of David Franks, a Director and Company Secretary.	13,826	12,032	13,826	12,032
(c)The economic entity incurred interest expenses to the following:				
Related persons of Mr D Kelly, a director	15,275	37,237	15,275	37,237
Related entities of Mr R Dane, a director	22,500	-	22,500	-
(d)The economic entity paid Heuristico Trust, a director related entity of Mr R Dane, for services in relation to office administration, running costs including cars, airfares, wages subcontractors and marketing and other expenses of the economic entity.	378,086	197,209	-	-

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NOTES TO THE FINANCIAL STATEMENTS
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Economic Entity 2005	Economic Entity 2004	Parent Entity 2005	Parent Entity 2004
\$	\$	\$	\$

(e) The direct, indirect and beneficial holdings of directors who held office during the year and their director-related entities in the share and share options of the Company as at 30 June 2005 were:

Shares: 2,285,059 (2004:
2,288,559)
Options over ordinary shares:
2,839,170 (2004: 2,839,170)
Convertible notes: 200 (2004:
200)

(f) Directors and their related entities who held office during the year acquired 0 shares and 0 options to acquire shares of the Company under the issues described in Note 17.

(g) Directors and their related entities who held office during the year gifted or sold 3,500 shares and 0 options to acquire shares of the Company were cancelled under the issues described in Note 17.

(h) Shareholders, including Directors, within the economic entity are able to purchase charters on Solar Sailor owned by the economic entity at 15% discount from normal retail charter price.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005

	Economic Entity 2005 \$	Economic Entity 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
NOTE 20: CASH FLOW INFORMATION				
(a) Reconciliation of Cash Flow from Operations with Operating Loss from ordinary activities after Income Tax				
Operating loss after income tax	(817,027)	(724,467)	(210,722)	(575,188)
Non-cashflows in operating loss from ordinary activities				
Marketing charter expense	-	-	-	-
Net loan forgiveness expense	-	-	-	360,000
Amortisation of intangibles	34,101	19,496	-	-
Depreciation	199,832	200,926	-	-
Asset written off	-	4,024	-	-
Employee shares	2,000	-	2,000	-
Sponsorship income	(13,595)	(15,423)	-	-
Marketing Expenses	-	14,845	-	-
Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries				
(Increase) decrease in trade receivables	17,915	66,900	17,343	3,806
(Increase) decrease in prepayments	5,129	(881)	5,129	(881)
(Increase) decrease in inventories	-	12,562	-	-
Movement in inventories for work in progress of Solar Sailor	-	-	-	-
Increase (decrease) in trade creditors and accruals	66,648	203,640	61,005	100,016
Increase (decrease) in borrowings for interest expense	(64,044)	10,139	(64,044)	10,137
Increase (decrease) in employee provisions	-	-	-	-
Cash flows from operations	(569,041)	(208,239)	(189,289)	(102,110)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005**

NOTE 20: CASHFLOW INFORMATION (continued)

Non Cash Activities

On 15 October 2004, 1,000 ordinary shares were issued to employees in lieu of payment of services under the Income Tax Assessment Act at \$2.00 per share or a total of \$2,000 for no cash consideration.

On 1 November 2003, the economic entity acquired plant and equipment with an aggregate value of \$13,595 by means of sponsorship.

NOTE 21: FINANCIAL INSTRUMENTS

(a) Derivative Financial Instruments

The economic entity did not utilise derivative financial instruments during the year.

(b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities is as follows:

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	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing within						Non-Interest Bearing		Total		
	2005	2004	2005	2004	1 Year		1 to 5 Years		Over 5 Years		2005	2004	2005	2004	
Financial Assets:															
Petty cash	N/A	N/A	-	-	-	-	-	-	-	-	-	1,140	1,140	1,140	1,1
Cash at bank	6.11%	4.26%	1,231,737	155,700	-	-	-	-	-	-	-	-	40,069	1,231,737	195,7
Cash at bank	1.58%	2.35%	65,709	9,670	-	-	-	-	-	-	-	-	-	65,709	9,6
Receivables	N/A	N/A	-	-	-	-	-	-	-	-	-	27,339	43,226	27,339	43,2
Total Financial Assets			1,297,446	165,370	-	-	-	-	-	-	-	28,479	84,435	1,325,925	249,8
Financial Liabilities:															
Trade creditors	N/A	N/A	-	-	-	-	-	-	-	-	-	12,506	62,132	12,506	62,1
Sundry creditors and accruals	N/A	N/A	-	-	-	-	-	-	-	-	-	383,152	229,380	383,152	229,3
Convertible notes	8.50%	7.00%	-	-	-	-	200,000	200,000	-	-	-	-	-	200,000	200,0
Loan from Director related entity	8.50%	9.27%	-	-	-	-	250,000	314,044	-	-	-	-	-	250,000	314,0
Total Financial Liabilities			-	-	-	-	450,000	514,044	-	-	-	395,658	291,512	845,658	805,5

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(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying value, net of any provisions for doubtful debts of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Except for the following concentrations of credit risks, the economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity:

- (i) Current Receivable – UOV LLC : US\$165,000 or A\$214,984.

(d) Foreign Currency Risk

The maximum exposure to foreign currency risk, at balance date, is:

USD : Cash at bank	\$240,022 (A\$312,732)
USD : Receivables	\$165,000 (A\$214,984)

(d) Net Fair Values

The net fair values of assets and liabilities approximate their carrying value.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 22: STATEMENT OF OPERATIONS BY SEGMENTS

(a) Primary Reporting - Business Segments

Total Revenue								
	2005	2004						
	\$	\$						
Manufacturing	(1,454)	439,199						
Research & Development	3,049	2,614						
Charter Operations	59,419	209,426						
Corporate Office	18,259	2,295						
Inter-segment elimination	(12,183)	(495,000)						
	67,090	158,534						

	Segment Results		Income Tax Credit/(Expense) Attributable To Shareholder		Operating Profit After Income Tax Attributable To Shareholder	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
Manufacturing	(379,462)	1,647	-	-	(379,462)	1,647
Research & Development	(68,656)	(165,926)	-	-	(68,656)	(165,926)
Charter Operations	(158,187)	(1,851)	-	-	(158,187)	(1,851)
Corporate Office	(210,723)	(575,188)	-	-	(210,723)	(575,188)
Income tax credit/(exp)	-	-	-	16,851	-	16,851
	(817,028)	(741,318)	-	16,851	(817,028)	(724,467)

Total Assets		Total Liabilities	
	2005	2004	
	\$	\$	\$
Manufacturing	35,772	66,086	-
Research & Development	294,025	347,885	100,440
Charter Operations	1,047,525	1,197,091	935
Corporate Office	1,471,921	131,737	498,800
	2,849,243	1,742,799	605,555

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005**

NOTE 22: STATEMENT OF OPERATIONS BY SEGMENTS (CONTINUED)

(a) Primary Reporting - Business Segments (continued)

	Acquisitions of Property, Plant, Equipment and Intangibles		Depreciation, write off assets and Amortisation Expense	
	2005 \$	2004 \$	2005 \$	2004 \$
Manufacturing	-	363	1,685	5,676
Research & Development	18,524	6,646	34,101	19,496
Charter Operations	13,594	22,837	198,147	199,274
Corporate Office	7,315	-	-	-
	<u>39,433</u>	<u>29,846</u>	<u>233,933</u>	<u>224,446</u>

(i) Accounting Policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and accounting standard, AASB 1005 Segment Reporting. The business segments identified in the primary reporting disclosures and the geographical segments are not materially different to the industry and geographical segments identified in previous years.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, intangibles, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee entitlements and other provisions. Segment assets and liabilities do not include income taxes.

(ii) Inter-segment Transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's length basis and are eliminated on consolidation.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 22: STATEMENT OF OPERATIONS BY SEGMENTS (CONTINUED)

Primary Reporting - Business Segments (continued)

(iii) Business categories

Manufacturing refers to the manufacture of solar panels, design and engineering work.

Research & Development refers to the work undertaken in researching and developing solar panels, hybrid power systems and other uses of the Company's technology.

Charter operations refers to the charter of the Sydney Solar Sailor vessel through Captain Cook Cruises (NSW) Pty Ltd.

Corporate Office refers to administration and financing of the group structure at a corporate level.

(b) Secondary Reporting - Geographic Segments

The economic entity operates in one geographic area, being Australia.

NOTE 23: QUANTITATIVE IMPACT OF TRANSITIONING TO AIFRS

The figures disclosed are the directors' best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- (i) ongoing work being undertaken by the AIFRS project team
- (ii) potential amendments to AIFRSs and the interpretations thereof being issued by the standard-setters and IFRIS; and
- (iii) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 23: QUANTITATIVE IMPACT OF TRANSITIONING TO AIFRS (CONTINUED)

Statement of Financial Position
For the year ended 30 June 2005

	Note	Economic Entity			Parent Entity		
		Existing GAAP \$	Effect of change \$	AIFRS \$	Existing GAAP \$	Effect of change \$	AIFRS \$
CURRENT ASSETS							
Cash assets	6	1,298,586		1,298,586	1,197,693		1,197,693
Receivables	7	27,339		27,339	10,203		10,203
Other	8	30		30	-		-
TOTAL CURRENT ASSETS		1,325,955		1,325,955	1,207,896		1,207,896
NON-CURRENT ASSETS							
Receivables	7	214,984		214,984	1,833,615		1,833,615
Other financial assets	9	15,000		15,000	256,713		256,713
Intangible assets	11	292,069		292,069	33,685		33,685
Property, plant&equipment	12	1,001,265		1,001,265	-		-
TOTAL NON-CURRENT ASSETS		1,523,318		1,523,318	2,124,013		2,124,013
TOTAL ASSETS		2,849,273		2,849,273	3,331,909		3,331,909
CURRENT LIABILITIES							
Payables	13	396,043		396,043	283,261		283,261
TOTAL CURRENT LIABILITIES		396,043		396,043	283,261		283,261
NON-CURRENT LIABILITIES							
Interest-bearing liabilities	14	250,000		250,000	250,000		250,000
TOTAL NON-CURRENT LIABILITIES		250,000		250,000	250,000		250,000
TOTAL LIABILITIES		646,043		646,043	533,261		533,261
NET ASSETS		2,203,230		2,203,230	2,798,648		2,798,648
EQUITY							
Contributed equity	15	5,912,530	575,500	6,488,030	5,912,530	575,500	6,488,030
Retained profits (losses)	16	(3,709,300)	(575,500)	(4,284,800)	(3,113,882)	(575,500)	(4,284,800)
TOTAL EQUITY		2,203,230		2,203,230	2,798,648		2,798,648

Share-Based Payments

Under AASB2: Share-Based Payments, share-based payments issued to employees will be required to be recognised as an expense in respect of the services received, pro-rated over the period of service. This will result in a change to the current accounting policy, which does not recognize an expense in respect of these items. There will be an initial impact on retained earnings as at 1 July 2004 for long term incentive plans currently in place. However, the standard requires application to instruments granted post 7 November 2002, no adjustments are proposed for schemes granted prior to this date.

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**NOTES TO THE FINANCIAL STATEMENTS
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**NOTE 23: QUANTITATIVE IMPACT OF TRANSITIONING TO AIFRS
(CONTINUED)**

**Statement of Financial Performance
As at 30 June 2005**

	Note	Economic Entity			Parent Entity		
		Existing GAAP \$	Effect of change \$	AIFRS \$	Existing GAAP \$	Effect of change \$	AIFRS \$
Revenue from ordinary activities	2	67,090		67,090	18,259		18,259
Changes in inventory of finished goods and work in progress		(1,155)		(1,155)	-		-
Employee benefits expense		(374,188)		(374,188)	(139,333)		(139,333)
Depreciation, amortisation expense and asset write off	3	(233,933)		(233,933)	-		-
Borrowing costs expense	3	(37,810)		(37,810)	(37,810)		(37,810)
Loan forgiveness – wholly owned entities		-		-	-		-
Other expenses from ordinary activities		(237,032)		(237,031)	(51,839)		(51,839)
Operating loss from ordinary activities before income tax expense	3	(817,028)		(817,027)	(210,723)		(210,723)
Income tax credit / (expense) relating to ordinary activities	4	-		-	-		-
Operating loss from ordinary activities after related income tax expense		(817,028)		(817,027)	(210,723)		(210,723)
Net operating loss attributable to members of the parent entity		(817,028)		(817,027)	(210,723)		(210,723)
Total changes in equity other than those resulting from transactions with owners as owners		(817,028)		(817,027)	(210,723)		(210,723)

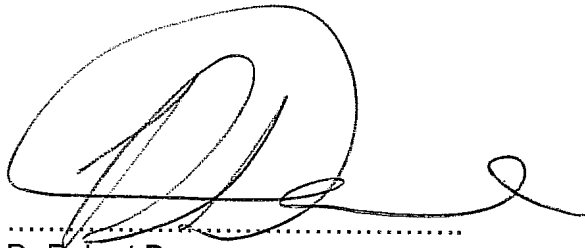
**SOLAR SAILOR HOLDINGS LIMITED
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DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 15 to 51:-
 - (a) Comply with accounting standards and the Corporations Act 2001; and
 - (b) Give a true and fair view of the financial position as at 30 June 2005 and performance for the year ended on that date of the company and economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



.....
Dr Robert Dane
Managing Director



.....
Hon Robert Hawke
Chairman

Dated this 23rd day of September 2005.

SOLAR SAILOR HOLDINGS LIMITED AND CONTROLLED ENTITIES

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOLAR SAILOR HOLDINGS LIMITED

Scope

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Solar Sailor Holdings Limited and controlled entities for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 13 of the financial report has not changed as at the date of providing our audit opinion.



WHK Greenwoods

Audit Opinion

In our opinion, the financial report of Solar Sailor Holdings Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entities financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia

WHK Greenwoods

WHK Greenwoods

David Sinclair

David Sinclair

Dated this *23rd* day of September 2005.



**SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT
ADDENDUM**

Options – Page 10 and 11

In addition to the options listed in the Directors Report (Pages 10 and 11 of the Financial Statement), the following options were also issued during the year ended 30 June 2005.

Options (Type 3)

During the year, the Company undertook a capital raising for ordinary shares with attaching options under the following terms and conditions:

- (a) Should the Company succeed in meeting set Agreed Outcomes, then 300,000 options will be exercisable at \$4.00 per share, within 18 months of the capital raising agreement date, at the option of the holders.
- (b) Should the Company not succeed in meeting set Agreed Outcomes, then 562,500 options will be exercisable at \$1.50 per share, within 18 months of the capital raising agreement date, at the option of the holders.

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report and there are 2,889,170 unissued ordinary shares for which options (Type 1) are outstanding at the date of this report, 500,000 unissued ordinary shares for which options (Type 2) are outstanding at the date of this report and a further 300,000 (or 562,500) unissued ordinary shares for which options (Type 3) are outstanding depending on the Company succeeding in meeting set Agreed Outcomes are outstanding at the date of this report.