

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

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2006

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 2006.

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 Fox (resigned 20 June 2006)
Mr Ian Robertson

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 \$1,817,886 (2005 loss of \$824,344).

Dividends Paid or Recommended

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

Review of Operations

The economic entity continues to 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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Sydney Solar Sailor vessel continued to operate on Sydney Harbour under commercial conditions, with an upgrade of the Solar Panel and Hybrid Power System commencing in the last quarter of the financial year. With the upgraded systems, the Sydney Solar Sailor vessel is expected to be used in a greater capacity in the 2006/07 financial year. The arrangement with Captain Cook Cruises (NSW) Pty Ltd for the management and operation of the vessel continued in the financial year. 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.

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 engaged the United States of America Office of Naval Research in relation to this technology. UOV received a Phase I grant for this application but was unsuccessful in obtaining the Phase II grant. Notwithstanding this, UOV continues to engage the US military in relation to this technology.

In accordance with Australian Equivalents to International Financial Reporting Standards, the company has commenced reporting under these parameters, including expensing of Share Based Payments to management and directors and providing for assets under the new impairment provisions. The later requirement has necessitated the recognition of a provision for diminution for the loans made to UOV over the year and the accounting for formation costs (intangibles) under this provision.

Significant Changes in State of Affairs

The corporate structure of the economic entity from 2005 has remained, with the same subsidiary companies existing in 2006 continuing unchanged. Solar Sailor USA Inc, a United States of America subsidiary continues to be a non-trading entity. Due to a potential dispute with a third party in the United States of America relating to claims of compensation, the economic entity will continue not to trade unless the matter is resolved. No change in relation to this matter has occurred.

As at 30 June 2005, the economic entity had the following financial capital structure:

- (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, as full satisfaction for the convertible note. Therefore at the date of this Report, the economic entity has no borrowings.

Finally, in addition to the convertible note holder converting their notes in ordinary shares, the economic entity raised approximately \$1.736m at an average price of \$3.89 per share during the year.

After Balance Date Events

No 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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

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. From September 2006, it is likely that the Solar Sailor will commence a regular ferry run through Captain Cook Cruises (NSW) Pty Ltd on Sydney Harbour;
- 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, with the signing of the first stage of development of a ferry for San Francisco;
- iii) the development of the patent technology through other forms of applications, such as small unmanned ocean vehicles, the extension of the current patent to incorporate new developments achieved over the last 12 – 18 months 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.

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.

Information on Directors

<u>Robert Hawke</u>	Director and Chairman
Qualifications	Bachelor of Laws and Bachelor of Arts (Economics), University of Western Australia; Bachelor of Letters, Oxford University
Experience	Prime Minister of Australia: March, 1983 until December, 1991. Union Leader, Economist and Business Adviser
Other public company directorships	None
Former directorships in last 3 years	None
Interest in Shares and Options	14,112 ordinary shares and options to acquire a further 100,000 ordinary shares and options to acquire further shares under Consultancy Agreement as outlined on Page 7 and 8.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

<u>Dr Robert Dane</u>	
Qualifications	Managing Director Bachelor of Medicine, Bachelor of Surgery, Diploma of the Royal Australian College of Obstetricians and Gynaecologists
Experience	Founder of technology
Other public company directorships	None
Former directorships in last 3 years	None
Interest in Shares and Options	2,005,989 ordinary shares and options to acquire a further 2,139,170 ordinary shares.
<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	32,933 ordinary shares and options to acquire a further 454,924 ordinary shares.
<u>David Fox (resigned 20 June 2006)</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	103,085 ordinary shares and options to acquire a further 100,000 ordinary shares.
<u>Ian Robertson</u>	
Qualifications	Director Bachelor of Laws - University of Melbourne Bachelor of Commerce - University of Melbourne
Other public company directorships	AusFILM International Inc. – Chair (2003 to date) Beyond International Limited (2006 to date)
Former directorships in last 3 years	Australian Broadcasting Authority – Board Member (1997 – 2005)
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 2005 as a board member of the Australian broadcasting and on-line regulator, the Australian Broadcasting Authority.
Interest in Shares and Options	945 ordinary shares and options to acquire a further 100,000 ordinary shares.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

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
- White Energy Company Limited
- Solar Sailor Holdings Limited
- Van Eyk.Com Limited; and
- Van Eyk Research Limited

Meetings of Directors

During the year, 8 meetings of directors (including committees) were held. Attendance at these meetings were as follows:

<i>Directors</i>	<i>No. Eligible to Attend</i>	<i>No. Actually Attended</i>
Dr Robert Dane	8	8
Mr David Franks	8	8
Hon Robert Hawke	8	8
Mr David Fox	7	7
Mr Ian Robertson	8	8

Remuneration Report (audited)

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 and 2005 Annual General Meeting, the director fees from 1st September 2001 to 30 November 2005 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 applicable to the director fees. In 2006, a total of \$78,725 of director fees were paid through the issue of shares relating to the period July 2003 to November 2005. During this period the share price ranged from \$1.75 to \$4.00 based on transactions during the period.

The emoluments of each Director for the financial year follows.

2006

<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 **	\$183,179	\$14,679	\$1,321	-	\$199,179
Mr David Franks	\$ 42,000	\$16,000	-	\$132,841	\$190,841
Hon Robert Hawke	-	\$25,333	-	\$ 93,723	\$119,056
Mr David Fox-	-	\$14,679	\$1,321	-	\$16,000
Mr Ian Robertson	-	\$14,679	\$1,321	\$ 61,300	\$77,300
	\$225,179	\$85,370	\$3,963	\$287,864	\$602,376

** Consulting fee (\$172,776) comprises Managing Director fee (12 months), Personal Assistant fee (12 months), provision of Sydney home office (\$10,404)

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

DIRECTORS' REPORT

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	\$14,679	\$1,321	-	\$242,712
Mr David Franks	\$42,000	\$14,679	\$1,321	-	\$ 58,000
Hon Robert Hawke	-	\$16,000	-	-	\$ 16,000
Mr David Cassidy	-	\$ 7,340	\$ 660	-	\$ 8,000
Mrs Susan Dane	-	\$14,679	\$1,321	-	\$ 16,000
Mr David Kelly	-	\$ 7,340	\$ 660	-	\$ 8,000
Mr David Fox	-	\$14,679	\$1,321	-	\$ 16,000
Mr Ian Robertson	-	\$ 1,223	\$ 110	-	\$ 1,333
	\$268,712	\$90,619	\$6,714	-	\$366,045

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

<i>2006 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>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	-	-	-	-	-

Shares (audited)

Shares of directors are outlined in the Section on Information of Directors on Page 4 and 5.

Options (audited)

Total options on issue are:

<i>Description</i>	<i>Number</i>	<i>Exercise Price</i>	<i>Expiry</i>
Type 1	2,889,170	\$0.85	Refer Page 9
Type 2	500,000	\$1.00	Refer Page 9
Type 3	562,500	\$1.50	18 October 2006
Type 4	354,924	\$2.50	31 December 2007
Type 5	100,000	\$4.00	Refer Page 10

In addition to the options granted, the following incentive schemes were approved by shareholders at the 2005 Annual General Meeting.

- (i) Under the terms and conditions of the option incentive plan between Mr David Franks and the Economic Entity, which can be terminated by either party with one months notice, the maximum amount of unvested options, being Options (Type 4), over the period 1 July 2006 to 31 December 2007 are 354,924, granted on a straight line monthly basis over the noted period.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

- (ii) Under the terms and conditions of the Consultancy Agreement between Hon Robert Hawke and the Economic Entity, the following Call Option to acquire the Call Option Shares as set out below was granted.
- a. The Call Option entitles Hon Robert Hawke to purchase the Call Option Shares for \$nil consideration during the Exercise Period.
 - b. The Exercise Period means the period commencing on the Start Date and ending on the date which is 12 months after that date.
 - c. The Start Date is the earlier of:
 - i. 10 years from the date of the agreement; or
 - ii. the date on which either of the following events occur (Trigger Events):
 - iii. an initial public offering (IPO) of the Shares;
 - iv. the sale of 15% or more of the total Shares on issue on a particular date in one transaction or in a series of transactions settled at the same time (Sale);
 - v. termination of this agreement by the Company ; or
 - vi. the Mutual Agreement Date.
 - d. Hon Robert Hawke may exercise the Call Option in a single tranche by notice in writing to the Company at any time during the Exercise Period only in respect of all of the Call Option Shares.
 - e. If the Call Option is exercised, the Company must issue the Call Option Shares to Hon Robert Hawke for \$nil consideration and Hon Robert Hawke must acquire the Call Option Shares on and subject to the terms of this agreement.
 - f. If the Call Option is not exercised during the Exercise Period the Call Option lapses and Hon Robert Hawke has no further rights or claims against the Company.
 - g. The value of the Call Option Shares will be a percentage (Percentage) of the increase in capital value of the Company (Value Increase) depending on the size of the Value Increase as outlined below:

Value Increase	Percentage	Value of Call Option Shares
\$0 - \$100,000,000	1.0%	\$0 - \$1,000,000
\$100,000,001- \$200,000,000	0.75%	\$750,000 - \$1,500,000
\$200,000,001- \$300,000,000	0.625%	\$1,250,000 - \$1,875,000
\$300,000,001- \$400,000,000	0.5%	\$1,500,000 - \$2,000,000
\$400,000,001- \$500,000,000	0.5%	\$2,000,000 - \$2,500,000
\$500,000,001- \$600,000,000	0.5%	\$2,500,000 - \$3,000,000
\$600,000,001- \$700,000,000	0.5%	\$3,000,000 - \$3,500,000
\$700,000,001- \$800,000,000	0.5%	\$3,500,000 - \$4,000,000

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

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

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

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

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

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.

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
- (i) 100,000 options granted to Mr David Cassidy
- (ii) 100,000 options granted to Mrs Susan Dane
- (iii) 100,000 options granted to Mr David Kelly
- (iv) 100,000 options granted to Mr David Fox

Options (Type 3)

During 2005, the Company undertook a capital raising for ordinary shares. Options attaching to the issued shares were based on an Agreed Outcome formula and as a result of this methodology, 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.

Options (Type 4)

As approved at the 2005 Annual General Meeting, the Company entered into an option incentive plan with Mr David Franks and as a result of this plan, 354,924 options vested to 30 June 2006. There are a total of 354,924 unvested options, vesting on a straight line monthly basis over the period July 2006 to December 2007.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Exercise Price means:

- (i) \$4 per Call Option Share; or
- (ii) if the Agreed Outcome Right is exercised by Mithril or Solon, \$2.50 per Call Option Share. The Agreed Outcome Right means the right of both Solon and Mithril, under clause 4.2 of their Agreements, to purchase Shares at \$1.50 per Share where the "Agreed Outcomes" under clause 2 of those Agreements are not met.

Options (Type 5)

All options will be convertible into an equivalent number of ordinary shares at an exercise price of \$4.00 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.

Options (Type 5) previously granted under the Solar Sailor Holdings Limited director's option plan include:

- (i) 100,000 options granted to Mr Ian Robertson

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report.

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.

Convertible Notes (audited)

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. On 23 December 2005, an entity related to Dr Robert Dane purchased the convertible notes from Susan Kelly with each note able to be converted into 1,177 ordinary fully paid shares up to, and including, 31st December 2006.

In August 2005, the convertible notes were exercised into 235,400 ordinary shares. There are no convertible notes outstanding at the date of this report.

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:

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

- (v) 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 \$9,476 (excluding GST) for the period 13th December 2005 to 12th December 2006.

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

Proceedings on Behalf of Company

At the start of the June 2005 financial year, 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. The Company retained US counsel and at this stage it is not possible to predict an outcome. Our legal advice is that the claims are without merit.

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 and 23 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 13.

Auditor

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

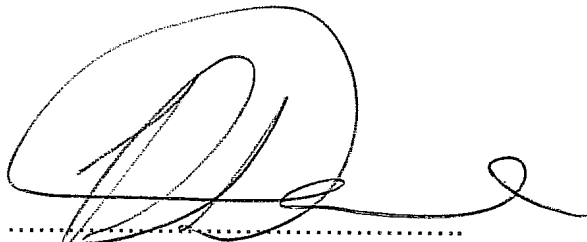
**SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT

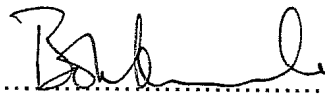
Rounding of Accounts

Amounts stated in the accounts are not rounded.

Signed in accordance with a resolution of the Board of Directors dated 29 September 2006.



.....
Dr Robert Dane
Managing Director



.....
Hon Robert Hawke
Chairman

Dated this 29th day of September 2006.

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

DIRECTORS' REPORT



**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 2006 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit

WHK Greenwoods

WHK Greenwoods

David Sinclair

Date 29 September 2006

Total Financial Solutions



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SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

INCOME STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
Revenue from continuing operations	4	129,336	67,090	162,484	18,259
Changes in inventory of finished goods and work in progress		(313)	(1,155)	-	-
Employee share based payments		(287,864)	-	(287,864)	-
Other employee benefits expenses		(308,880)	(374,188)	(99,333)	(139,333)
Depreciation, amortisation expense and asset write off	5	(224,661)	(241,249)	-	(7,316)
Borrowing costs expense	5	(7,655)	(37,810)	(7,500)	(37,810)
Impairment losses	5	(543,910)	-	(1,536,102)	-
Other expenses	5	(582,059)	(237,032)	(94,562)	(51,839)
Loss before income tax		(1,826,006)	(824,344)	(1,862,877)	(218,039)
Income tax credit / (expense)	6	8,120	-	-	-
Operating loss after tax expense		(1,817,886)	(824,344)	(1,862,877)	(218,039)
Loss for the year		(1,817,886)	(824,344)	(1,862,877)	(218,039)
Loss attributable to the members of Solar Sailor Holdings Limited		(1,817,886)	(824,344)	(1,862,877)	(218,039)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company					
Basic earnings per share	27	(23.8)	(11.7)		
Diluted earnings per share	27	(23.8)	(11.7)		

The accompanying notes form part of this financial report.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

BALANCE SHEETS
AS AT 30TH JUNE 2006

	Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
CURRENT ASSETS					
Cash assets	7	1,552,724	1,298,586	1,500,633	1,197,693
Receivables	8	14,264	27,339	6,270	10,203
Other	9	15,438	30	5,926	-
TOTAL CURRENT ASSETS		1,582,426	1,325,955	1,512,829	1,207,896
NON-CURRENT ASSETS					
Receivables	8	22,499	214,984	1,471,597	1,833,615
Other financial assets	10	31	15,000	241,714	256,713
Intangible assets	12	290,529	258,384	-	-
Property, plant and equipment	13	829,017	1,001,265	-	-
TOTAL NON-CURRENT ASSETS		1,142,076	1,489,633	1,713,311	2,090,328
TOTAL ASSETS		2,724,502	2,815,588	3,226,140	3,298,224
CURRENT LIABILITIES					
Payables	14	348,756	396,043	299,967	283,261
TOTAL CURRENT LIABILITIES		348,756	396,043	299,967	283,261
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	15	-	250,000	-	250,000
TOTAL NON-CURRENT LIABILITIES		-	250,000	-	250,000
TOTAL LIABILITIES		348,756	646,043	299,967	533,261
NET ASSETS		2,375,746	2,169,545	2,926,173	2,764,963
EQUITY					
Contributed equity	16	7,648,753	5,912,530	7,648,753	5,912,530
Reserves	17	863,364	575,500	863,364	575,500
Accumulated losses	17	(6,136,371)	(4,318,485)	(5,585,944)	(3,723,067)
TOTAL EQUITY		2,375,746	2,169,545	2,926,173	2,764,963

The accompanying notes form part of this financial report.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

STATEMENTS OF CHANGES IN EQUITY
AS AT 30TH JUNE 2006

Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
Total equity at the beginning of the financial year	2,169,545	1,137,243	2,764,963	1,126,356
Adjustments on transition from adoption of AASB 2 to:				
Retained profits	-	(575,000)	-	(575,000)
Reserves	-	575,000	-	575,000
Write-off intangible assets under AASB 138	-	(26,369)	-	(26,369)
Restated total equity at the beginning of the financial year	2,169,545	1,110,874	2,764,963	1,099,987
Net income recognised directly in equity	-	-	-	-
Loss for the year	(1,817,886)	(824,344)	(1,862,877)	(218,039)
Total recognised income and expense for the year	(1,817,886)	(824,344)	(1,862,877)	(218,039)
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs	1,736,223	1,883,015	1,736,223	1,883,015
Share based payments	287,864	-	287,864	-
Total equity at the end of the financial year	2,375,746	2,169,545	2,926,173	2,764,963

The accompanying notes form part of this financial report.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2006

	Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		124,763	55,340	-	-
Payments to suppliers		(1,004,951)	(504,461)	(207,049)	(53,876)
Interest received		33,798	8,956	32,063	4,696
Interest Paid		(7,655)	(140,109)	(7,500)	(140,109)
Income Tax Refund		8,120	11,233	-	-
Net cash provided by (used in) operating activities	21(a)	(845,925)	(569,041)	(182,486)	(189,289)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase intangible assets		(57,518)	(25,838)	-	(7,319)
Payments for other financial assets		(1,240)	(15,000)	-	(15,000)
Loans to related parties		(202,657)	(214,984)	(938,092)	(603,918)
Loans from related parties		-	-	35,000	-
Purchase of property, plant and equipment		(27,040)	-	-	-
Proceeds from sale of PPE		-	385	-	-
Net cash provided by (used in) investing activities		(288,455)	(255,437)	(903,092)	(626,237)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,622,028	1,916,485	1,622,028	1,916,485
Payments in raising capital		-	-	-	-
Proceeds from borrowings		-	250,000	-	250,000
Repayment of borrowings		(250,000)	(250,000)	(250,000)	(250,000)
Net cash provided by (used in) financing activities		1,372,028	1,916,485	1,372,028	1,916,485
Net increase/(decrease)		237,648	1,092,007	286,450	1,100,959
Effect of foreign exchange rate changes on cash		16,490	-	16,490	-
Cash at 1 July 2005		1,298,586	206,579	1,197,693	96,734
Cash at 30 June 2006	7	1,552,724	1,298,586	1,500,633	1,197,693

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 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Solar Sailor Holdings Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Solar Sailor Holdings Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Solar Sailor Holdings Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Solar Sailor Holdings Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in Note 28.

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.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

(b) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and due to unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Solar Sailor Holdings Limited and its wholly-owned Australian controlled entities have elected not to implement tax consolidation legislation to 30 June 2005. The Company is presently seeking advice with the likely implementation date from 1 July 2005. The Australian Taxation Office has not as yet been notified of this.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 is carried at cost, less where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis.

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.

Depreciation

The depreciable amounts 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

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Research Expenditure

Research costs are charged to operating profit from ordinary activities before income tax as incurred.

Adjustments on transition date: 1 July 2005

The accounting policy under AGAAP had been to capitalise research costs to the balance sheet where it was expected beyond any reasonable doubt that sufficient future benefits would be derived so as to recover these deferred costs. Under AIFRS any such costs are expensed as incurred.

There were, however, no adjustments on transition as no such costs had been previously capitalised in the balance sheet.

(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

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. 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.

(iii) Retirement benefit obligations

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

(iv) Share-based payments

Share based compensation benefits are provided to employees and executives. Information relating to such benefits is set out in Note 18.

Shares and options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of the options or shares issued to employees for nil consideration. Shares issued following the exercise of options are recognised at that time and the proceeds received allocated to share capital.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Employee Benefits (continued)

Shares and options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Value AIFRS Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Under the employee share scheme, shares issued to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

Adjustments on transition: 1 July 2005

At transition an increase in retained losses and reserves of \$575,000 was recognised. This has a nil net effect on equity.

(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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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).

(l) Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(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) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Segment reporting (continued)

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

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(o) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Solar Sailor Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Risk management is carried out by the Managing Director under policies approved by the Board of Directors. The Board identifies, evaluates and hedges financial risks. The Board provides principles for overall risk management.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk

Foreign exchange risk

Foreign exchange risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar. The company presently has US denominated cash holdings to cover present US denominated existing liabilities.

(b) Cash flow and fair value interest rate risk

The group's interest rate risk arises from fixed interest on long term borrowings. The group does not presently have any borrowings and therefore exposure to fair value interest rate risk.

(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\$397,000 or A\$543,910.

Under AIFRS, this balance has been fully provided for in the Financial Statements.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. The company maintains flexibility through capital raising programmes as required and manages liquidity through appropriate budgeting processes.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Assumptions in relation to Solar Sailor Vessel

1. Charter revenue at 2006 income levels, increasing at 5% p.a;
2. Ferry operating revenue commencing through Captain Cook Cruises on Sydney Harbour in 2006/07;
3. Sponsorship revenue at current income levels of \$20,000 p.a. increasing at 5% p.a;
4. Repairs and maintenance at current rates; and
5. Continuation of Captain Cook Cruises agreement at current rates.

Assumptions in relation to Patents

1. Delivery of first vessel for San Francisco in 2008 at proposed rates;
2. Delivery of vessel for Gold Coast in 2008 at proposed rates; and
3. Operating according to approved expenditure budget for the period to December 2008.

Due to commercial in confidence reasons, the Board is unable to stipulate the amount of proposed contract rates in relation to the patent assumptions.

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 4: REVENUE				
From continuing operations				
Sales of solar panels	(1,815)	(1,604)	-	-
Grants received	-	-	-	-
Cruise revenue	42,429	48,472	-	-
Sponsorship	24,119	8,239	-	-
Fees for tenders and studies	-	-	-	-
Interest received	31,967	15,145	30,233	11,422
Foreign exchange gain / (loss)	32,251	(3,162)	32,251	(3,162)
Management fee	-	-	100,000	-
Other	385	-	-	9,999
	129,336	67,090	162,484	18,259
(a) Interest revenue from				
- other persons	31,967	15,145	30,233	11,422

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 5: EXPENSES				
Loss before income tax includes the following specific expenses:				
Amortisation of non current assets				
- formation costs	-	7,316	-	7,316
- patents	25,374	34,101	-	-
Depreciation of non current assets				
- plant and equipment	7,960	9,738	-	-
- Solar Sailor vessel	191,327	190,094	-	-
	224,661	241,249	-	7,316
Research and development	143,972	21,653	-	-
Remuneration of the Auditors of Company for:				
- auditing of the financial reports	11,366	9,812	11,366	9,812
Finance costs				
- Director related entities				
Convertible note	3,333	16,789	3,333	16,789
Loan	4,167	20,986	4,167	20,986
- Non related parties	155	35	-	35
	7,655	37,810	7,500	37,810
Rental expense on operating lease for premises				
- Director related entities				
Sydney Office	10,404	10,203	-	-
Significant revenues and expenses				
- Impairment losses on loans to Advanced Technology Watercraft	-	-	992,192	-
- Impairment losses on loans to UOV	543,910	-	543,910	-
	543,910	-	1,536,102	-

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 6: INCOME TAX EXPENSE				
The prima facie tax payable on profit (loss) before tax is reconciled to the income tax as follows:				
Tax at Australian rate 30% (2005: 30%)	547,802	247,303	558,863	65,412
Add: Tax effect of:				
- Research and development	18,298	3,012	-	-
- Entertainment	(598)	-	-	-
	565,502	250,315	558,863	65,412
Tax refund from last year	8,120	-	-	-
Deferred tax asset benefit not brought to account	(565,502)	(250,315)	(558,863)	(65,412)
	8,120	-	-	-
The Directors estimate that the potential deferred tax asset at 30 th June 2006 in respect of tax losses not brought to account is	1,408,781	1,173,500	475,292	462,962

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
- (ii) the losses are able to be transferred to an eligible entity in the consolidated entity, and
- (iii) the consolidated entity continued to comply with the conditions of deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Solar Sailor Holdings Limited has not implemented the tax consolidation legislation of 1 July 2003.

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 7: CASH ASSETS				
Petty cash	-	1,140	-	-
Cash at bank	1,552,724	1,297,446	1,500,633	1,197,693
	1,552,724	1,298,586	1,500,633	1,197,693

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 7: CASH ASSETS (CONTINUED)				
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 assets	1,552,724	1,298,586	1,500,633	1,197,693
Cash per cash flow statements	1,552,724	1,298,586	1,500,633	1,197,693
Cash deposits are at call bearing interest between 2.37% to 4.58%.				
NOTE 8: RECEIVABLES				
CURRENT				
Trade debtors	14,264	27,339	6,270	10,203
	14,264	27,339	6,270	10,203
NON-CURRENT				
Amounts receivable:				
Loans to other entities	566,409	214,984	566,409	214,984
Provision for diminution	(543,910)	-	(543,910)	-
	22,499	214,984	22,499	214,984
Loans to wholly-owned entities	-	-	1,449,098	1,618,631
	22,499	214,984	1,471,597	1,833,615
(a) Loans to wholly-owned entities				
Opening	-	-	1,618,631	1,251,702
Loan advanced during year				
To Advanced Technology Watercraft Pty Ltd	-	-	733,789	353,935
To Olympia# Pty Ltd	-	-	44,161	-
To Solar Sailor Pty Ltd	-	-	81,685	35,000
	-	-	859,635	388,935
Loan repaid during year				
From Advanced Technology Watercraft Pty Ltd	-	-	-	(22,011)
From Olympia# Pty Ltd	-	-	(1,976)	-
From Solar Sailor Pty Ltd	-	-	(35,000)	-
	-	-	(36,976)	(22,011)
Provision – Advanced Technology	-	-	(992,192)	-
Closing	-	-	1,449,098	1,618,626

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Note	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 9: OTHER ASSETS					
CURRENT					
Prepayments		14,229	-	5,926	-
Deposits		1,210	30	-	-
		15,438	30	5,926	-

NOTE 10: OTHER FINANCIAL ASSETS

NON CURRENT

Unlisted investments, at cost					
Shares in controlled entities		-	-	241,714	241,713
Shares in other entities		31	15,000	-	15,000
		31	15,000	241,714	256,713

NOTE 11: CONTROLLED ENTITIES

(a) Controlled entities and contribution to consolidated profit/(loss)	<u>Country of Incorporation</u>	<u>% Owned 2006</u>	<u>% Owned 2005</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
<u>Investments of Solar Sailor Holdings Limited</u>				
Solar Sailor USA Inc	USA	96.67%	96.67%	Various
Solar Coast Cats Pty Ltd	Australia	33.33%	33.33%	Ordinary
UOV LLC	USA	49%	49%	Ordinary

The proportion of ownership interest is equal to the proportion of voting power held.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Patents \$	Formation \$	IP \$	Total \$
NOTE 12: INTANGIBLE ASSETS ACQUIRED				
<u>Consolidated</u>				
At 1 July 2004				
Cost	395,715	26,369	7,262	429,346
Accumulated amortisation & impairment	(121,753)	(26,369)	(7,262)	(155,384)
Net book amount	273,962	-	-	273,962
Year ended 30 June 2005				
Opening net book amount	273,962	-	-	273,962
Additions	18,524	7,316	-	25,840
Amortisation charge	(34,101)	(7,316)	-	(41,417)
Closing net book amount	258,385	-	-	258,385
At 30 June 2005				
Cost	414,239	33,685	7,262	455,186
Accumulated amortisation & impairment	(155,854)	(33,685)	(7,262)	(196,801)
Net book amount	258,385	-	-	258,385
Year ended 30 June 2006				
Opening net book amount	258,385	33,685	-	292,070
Additions	57,518	-	-	57,518
Amortisation charge	(25,374)	(33,685)	-	(59,059)
Closing net book amount	290,529	-	-	290,529
At 30 June 2006				
Cost	471,757	33,685	7,262	512,704
Accumulated amortisation & impairment	(181,228)	(33,685)	(7,262)	(222,175)
Net book amount	290,529	-	-	290,529
<u>Parent</u>				
At 1 July 2004				
Cost	-	26,369	-	26,369
Accumulated amortisation & impairment	-	(26,369)	-	(26,369)
Net book amount	-	-	-	-
Year ended 30 June 2005				
Opening net book amount	-	-	-	-
Additions	-	7,316	-	7,316
Amortisation charge	-	(7,316)	-	(7,316)
Closing net book amount	-	-	-	-
At 30 June 2005				
Cost	-	33,685	-	33,685
Accumulated amortisation & impairment	-	(33,685)	-	(33,685)
Net book amount	-	-	-	-
Year ended 30 June 2006				
Opening net book amount	-	33,685	-	33,685
Additions	-	-	-	-
Amortisation charge	-	(33,685)	-	(33,685)
Closing net book amount	-	-	-	-
At 30 June 2006				
Cost	-	33,685	-	33,685
Accumulated amortisation & impairment	-	(33,685)	-	(33,685)
Net book amount	-	-	-	-

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Solar Sailor vessel	Plant and equipment	Total
	\$	\$	\$
NOTE 13: PROPERTY, PLANT & EQUIPMENT			
<u>Consolidated</u>			
At 1 July 2004			
Cost	1,900,957	50,902	1,951,859
Accumulated depreciation	(740,884)	(23,471)	(764,355)
Net book amount	1,160,073	27,431	1,187,504
Year ended 30 June 2005			
Opening net book amount	1,160,073	27,431	1,187,504
Additions	-	13,594	13,594
Depreciation charge	(190,095)	(9,738)	(199,833)
Closing net book amount	969,978	31,287	1,001,265
At 30 June 2005			
Cost	1,900,957	64,496	1,965,453
Accumulated depreciation	(930,979)	(33,209)	(964,188)
Net book amount	969,978	31,287	1,001,265
Year ended 30 June 2006			
Opening net book amount	969,978	31,287	1,001,265
Additions	20,125	6,914	27,039
Depreciation charge	(191,327)	(7,960)	(199,287)
Closing net book amount	798,776	30,241	829,017
At 30 June 2006			
Cost	1,921,082	71,410	1,992,492
Accumulated depreciation	(1,122,306)	(41,169)	(1,163,475)
Net book amount	798,776	30,241	829,017

The parent entity held no property, plant and equipment during the years ended 30 June 2005 and 30 June 2006.

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
	\$	\$	\$	\$
NOTE 14: PAYABLES				
CURRENT				
Trade creditors	67,425	12,506	52,299	4,228
Sundry creditors & accruals	143,208	383,152	143,208	279,033
Other	138,123	385	104,460	-
	348,756	396,043	299,967	283,261

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

		Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
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NOTE 15: INTEREST BEARING LIABILITIES

NON-CURRENT

Amount payable:

Director related entities	15(a)	-	250,000	-	250,000
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(a) Loans from Director related entities

Loan advanced during year					
By entity related:R Dane		-	250,000	-	250,000
Loan repaid during year					
By entity related :D Kelly		-	314,044	-	314,044
By entity related:R Dane		250,000	-	250,000	-

(b) Interest rate risk exposures

Loans from directors, repaid during the year, were unsecured and carried an interest rate of 10.0% (2005: 8.5%).

		Parent Entity 2006 Shares	Parent Entity 2005 Shares	Parent Entity 2006 \$	Parent Entity 2005 \$
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NOTE 16: CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares	15(c)	8,036,470	7,354,410	7,648,753	5,716,347
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(b) Other equity securities

Convertible notes	15(d)			-	196,183
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				7,648,753	5,912,530
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			Notes	Number	Issue price \$/share	\$
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(c) Ordinary shares

1 July 2004				6,873,782		3,833,332
104,628 on 15 October 2004				104,628	\$4.00	418,515
1,000 on 15 October 2004				1,000	\$2.00	2,000
250,000 on 20 April 2005				250,000	\$4.00	1,000,000
125,000 on 4 May 2005				125,000	\$4.00	500,000
Transaction costs				N/A	N/A	(37,500)
30 June 2005				7,354,410		5,716,347

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 16: CONTRIBUTED EQUITY (CONTINUED)

(c) Ordinary shares (continued)	Notes	Number	Issue price \$/share	\$
C/Fwd 30 June 2005		7,354,410		5,716,347
30 August 2005	Conversion of convertible note	235,400	\$0.85	200,000
20 October 2005		9,375	\$4.00	37,500
30 November 2005		5,000	\$4.00	20,000
17 March 2006		200,000	\$4.00	800,000
29 May 2006		32,285	\$2.44	78,725
30 June 2006		200,000	\$4.00	800,000
Transaction costs		-		(3,819)
30 June 2006		8,036,470		7,648,753

(d) Convertible note

Convertible note was converted to ordinary shares during the year ended 30 June 2006.

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.

On 30 August 2005, the 200 convertible notes were converted into 235,400 ordinary shares.

On 20 October 2005, 9,375 ordinary shares were issued at \$4.00 per share as payment for a supplier invoice.

On 30 November 2005, 5,000 ordinary shares were issued at \$4.00 per share under a capital raising program to sophisticated investors.

On 17 March 2006, 200,000 ordinary shares were issued at \$4.00 per share under a capital raising program to sophisticated investors.

On 29 May 2006, 32,285 ordinary shares were issued as payment to directors for fees for the period from 1 July 2003 to 30 November 2005 as approved by shareholders at the 2001 and 2005 Annual General Meetings.

On 30 June 2006, 200,000 ordinary shares were issued at \$4.00 per share under a capital raising program to sophisticated investors.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
NOTE 17: ACCUMULATED LOSSES AND RESERVES				
(a) Accumulated losses				
At the beginning of the financial year	(4,318,485)	(3,494,141)	(3,723,067)	(3,505,028)
Net operating loss attributable to members of the parent entity	(1,817,886)	(824,344)	(1,862,877)	(218,039)
At the end of the financial year	(6,136,371)	(4,318,485)	(5,585,944)	(3,723,067)
(b) Reserves – share based payments				
At the beginning of the financial year	575,500	575,500	575,500	575,500
Share based payments	287,864	-	287,864	-
At the end of the financial year	863,364	575,500	863,364	575,500

NOTE 18: SHARE BASED PAYMENTS

(a) Options issued to directors

Options were issued to directors in the year as part of remuneration as approved by shareholders at the 2005 Annual General Meeting. Details of options issued can be found in the directors' report on Page 7 to 9. Total expense recognised for options issued to directors during the year was \$287,864 (2005: \$nil).

Fair value of options granted

Fair value of options granted was determined using a Black-Scholes option pricing model. Inputs to the model for options granted during the year included:

Options allotted to	Mr D Franks	Mr I Robertson	Hon R Hawke
(i) Options granted for consideration	Nil	Nil	Nil
(ii) Options vested	Each Month	Grant Date	*
(iii) Exercise price	\$4.00 **	\$4.00	*
(iv) Share price at grant	\$4.00	\$4.00	*
(v) Various expiry dates	31 Dec 2007	Refer Page 10	*
(vi) Volatility	18%	18%	*
(vii) Risk free rate of	5.32%	5.32%	*
(vii) Dividend yield	Nil	Nil	*

* for terms and conditions of consultancy agreement with Hon R Hawke, refer to Page 7 and 8

** for terms and conditions of consultancy agreement with Mr D Franks refer to Page 9 and 10

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 19: KEY MANAGEMENT PERSONNEL COMPENSATION	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
Short-term employee benefits	307,632	358,010	124,453	131,298
Post-employment benefits	6,880	8,035	6,880	8,035
Share-based payments	287,865	-	287,865	-
	602,377	366,045	419,198	139,333

**NOTE 20: 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 (excluding GST).	42,000	42,000	42,000	42,000
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 (excluding GST).	14,593	13,826	14,593	13,826
(b) The economic entity incurred professional legal fees at arms length commercial terms to Holding Redlich. Ian Robertson, a Director, is Managing Partner of the Sydney Office of Holding Redlich (excl GST)	14,717	-	14,717	-
c)The economic entity incurred interest expenses to the following:				
Related persons of Mr D Kelly, a director	-	15,275	-	15,275
Related entities of Mr R Dane, a director	7,500	22,500	7,500	22,500

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
	\$	\$	\$	\$

**NOTE 20: RELATED PARTY
TRANSACTIONS (CONTINUED)**

<p>(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.</p>	416,887	378,086	-	-
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(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 2006 were:

Shares: 2,289,064 (2005: 2,285,059)
Options over ordinary shares: 2,894,094 (2005: 2,839,170)
Convertible notes: 0 (2005: 200)

Directors and their related entities who held office during the year converted convertible notes into 235,400 shares, were allotted 26,638 shares and a related party purchased 20,000 shares and 454,924 options to acquire shares of the Company vested.

Directors and their related entities who held office during the year sold 27,500 shares (with 250,533 shares included in the 2005 comparative now no longer directors due to their resignation in 2005) and 0 (with 400,000 shares included in the 2005 comparative now no longer directors due to their resignation in 2005) options to acquire shares of the Company were cancelled.

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.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 21: CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from Operations with Operating Loss from ordinary activities after Income Tax

Operating loss after income tax	(1,817,886)	(824,344)	(1,862,877)	(218,039)
Non-cash flows in operating loss from ordinary activities				
Amortisation of intangibles	25,374	41,417	-	7,316
Depreciation	199,287	199,832	-	-
Diminution	543,910	-	1,536,102	-
Employee shares	287,864	2,000	287,864	-
Sponsorship income	-	(13,595)	-	-
Foreign exchange movement	(32,251)	-	(32,251)	2,000
Management fee	-	-	(100,000)	-
Other	1,620	-	1,979	-
Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries				
(Increase) decrease in trade receivables	1,831	17,915	(5,926)	17,343
(Increase) decrease in prepayments	(14,228)	5,129	1,831	5,129
Increase (decrease) in trade creditors and accruals	(41,446)	66,648	(9,208)	61,005
Increase (decrease) in borrowings for interest expense	-	(64,044)	-	(64,044)
Cash flows from operations	(845,925)	(569,041)	(182,486)	(189,289)

Non Cash Activities

On 30 August 2005, the 200 convertible notes were converted into 235,400 ordinary shares.

On 20 October 2005, 9,375 ordinary shares were issued at \$4.00 per share as payment for a supplier invoice.

On 29 May 2006, 32,285 ordinary shares were issued as payment to directors for fees for the period from 1 July 2003 to 30 November 2005 as approved by shareholders at the 2001 and 2005 Annual General Meetings.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 22: STATEMENT OF OPERATIONS BY SEGMENTS

(a) Primary Reporting - Business

	Total Revenue					
	2006	2005				
	\$	\$				
Manufacturing	(1,755)	(1,454)				
R&D	458	3,049				
Charter Operations	76,446	59,419				
Corporate Office	162,484	18,259				
Inter-segment elimination	(108,297)	(12,183)				
	129,336	67,090				

	Segment Results		Income Tax Credit/(Expense) Attributable To Shareholder		Operating Profit After Income Tax Attributable To Shareholder	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Manufacturing	(506,836)	(379,462)	-	-	(506,836)	(379,462)
Research & Development	(189,902)	(68,656)	8,120	-	(181,782)	(68,656)
Charter Operations	(158,583)	(158,187)	-	-	(158,583)	(158,187)
Corporate Office	(970,685)	(218,039)	-	-	(970,685)	(218,039)
Income tax credit/(exp)		-		-		-
	(1,826,006)	(824,344)	8,120	-	(1,817,886)	(824,344)

	Total Assets		Total Liabilities	
	2006	2005	2006	2005
	\$	\$	\$	\$
Manufacturing	25,293	35,772	-	-
Research & Development	300,221	294,025	-	100,000
Charter Operations	863,659	1,047,525	76,720	12,397
Corporate Office	1,535,329	1,438,266	272,036	533,646
	2,724,502	2,815,588	348,756	646,043

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

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	
	2006	2005	2006	2005
	\$	\$	\$	\$
Manufacturing	5,490	-	1,885	1,685
R&D	57,518	18,524	25,374	34,101
Charter Operations	21,549	13,594	197,402	198,147
Corporate Office	-	7,316	-	7,316
	84,557	39,434	224,661	241,249

(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 114 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.

(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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006**

NOTE 22: STATEMENT OF OPERATIONS BY SEGMENTS (CONTINUED)

(b) Secondary Reporting - Geographic Segments

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

NOTE 23: REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
<i>Audit services</i>				
WHK Greenwoods				
Audit and review of financial reports and other audit work under <i>Corporations Act 2001</i>	11,366	9,812	11,366	9,812
Total remuneration for audit services	11,366	9,812	11,366	9,812

No payments for services other than audit were made to the auditors during the year (2005: nil).

NOTE 24: COMMITMENTS

There are no reportable commitments at the year ended 30 June 2006 (2005: nil).

NOTE 25: CONTINGENT LIABILITIES

At the start of the June 2005 financial year, 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. The Company retained US counsel and at this stage it is not possible to predict an outcome. Our legal advice is that the claims are without merit.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 26: 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. From September 2006, it is likely that the Solar Sailor will commence a regular ferry run through Captain Cook Cruises (NSW) Pty Ltd on Sydney Harbour;
- 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, with the signing of the first stage of development of a ferry for San Francisco;
- iii) the development of the patent technology through other forms of applications, such as small unmanned ocean vehicles, the extension of the current patent to incorporate new developments achieved over the last 12 – 18 months and applications in large vessels such as water tanker ships; and
- iv) the continuation of seeking strategic investors and partners.

NOTE 27: EARNINGS PER SHARE

	Economic Entity 2006	Economic Entity 2005
	\$	\$
Basic earnings per share	(23.8)	(11.7)
Undiluted earnings per share	(23.8)	(11.7)

(a) Reconciliation of earnings used in calculating earnings per share

Loss used in calculating both basic and diluted EPS was \$1,817,886 (2005: 824,344).

(b) Weighted average number of shares used as denominator

	Economic Entity 2006	Economic Entity 2005
	\$	\$
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	7,622,105	7,016,596
Adjustments for calculation:		
Options	4,406,594	3,389,170
<i>Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share</i>	12,028,699	10,405,766

In calculating diluted earnings per share, as the Entity is in Loss position for the year, there is no change between basic and diluted earnings per share.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 28: EXPLANATION OF TRANSITION TO AIFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At date of transition: 1 July 2004

	Note	Economic Entity			Parent Entity		
		Existing GAAP \$	Effect of change \$	AIFRS \$	Existing GAAP \$	Effect of change \$	AIFRS \$
CURRENT ASSETS							
Cash assets	6	206,579		206,579	96,734		96,734
Receivables	7	43,226		43,226	3,509		3,509
Other	8	5,159		5,159	5,129		5,129
TOTAL CURRENT ASSETS		254,964		254,964	105,372		105,372
NON-CURRENT ASSETS							
Receivables	7	-		-	1,251,702		1,251,702
Other financial assets	9				241,713		241,713
Intangible assets	11	300,331	(26,369)	273,962	26,369	(26,369)	-
Property, plant & equipment	12	1,187,504		1,187,504	-		-
TOTAL NON-CURRENT ASSETS		1,487,835		1,461,466	1,519,784		1,493,415
TOTAL ASSETS		1,742,799		1,716,430	1,625,156		1,598,787
CURRENT LIABILITIES							
Payables	13	291,512		291,512	184,756		184,756
TOTAL CURRENT LIABILITIES		291,512		291,512	184,756		184,756
NON-CURRENT LIABILITIES							
Interest-bearing liabilities	14	314,044		314,044	314,044		314,044
TOTAL NON-CURRENT LIABILITIES		314,044		314,044	498,800		498,800
TOTAL LIABILITIES		605,556		605,556	498,800		498,800
NET ASSETS		1,137,243		1,110,874	1,126,356		1,099,987
EQUITY							
Contributed equity	15	4,029,515	-	4,029,515	4,029,515	-	4,029,515
Retained profits (losses)	16	(2,892,272)	575,500 (601,869)	4,029,515 (3,494,141)	(2,903,159)	575,500 (601,869)	4,029,515 (3,505,028)
TOTAL EQUITY		1,137,243	(26,939)	1,110,874	1,126,356	(26,939)	1,099,987

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 recognise an expense in respect of these items. There will be an initial impact on retained earnings as at 1 July 2005 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 shares granted prior to this date.

Impairment

The recoverable amount of formation costs under previous GAAP was assessed on an undiscounted cost basis. Under AIFRS, the cost has been expensed. The effect is \$26,369 decrease in intangibles and increase in retained losses in 2004 and \$7,316 in 2005.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 28: QUANTITATIVE IMPACT OF TRANSITIONING TO AIFRS (CONTINUED)

(b) At: 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		<u>1,325,955</u>		<u>1,325,955</u>	<u>1,207,896</u>		<u>1,207,896</u>
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	265,700	(7,316)	258,384	7,316	(7,316)	-
Property, plant & equipment	12	1,001,265		1,001,265	-		-
TOTAL NON-CURRENT ASSETS		<u>1,496,949</u>		<u>1,489,633</u>	<u>2,097,644</u>		<u>2,090,328</u>
TOTAL ASSETS		<u>2,822,904</u>		<u>2,815,588</u>	<u>3,305,540</u>		<u>3,298,224</u>
CURRENT LIABILITIES							
Payables	13	396,043		396,043	283,261		283,261
TOTAL CURRENT LIABILITIES		<u>396,043</u>		<u>396,043</u>	<u>283,261</u>		<u>283,261</u>
NON-CURRENT LIABILITIES							
Interest-bearing liabilities	14	250,000		250,000	250,000		250,000
TOTAL NON-CURRENT LIABILITIES		<u>250,000</u>		<u>250,000</u>	<u>250,000</u>		<u>250,000</u>
TOTAL LIABILITIES		<u>646,043</u>		<u>646,043</u>	<u>533,261</u>		<u>533,261</u>
NET ASSETS		<u>2,176,861</u>		<u>2,169,545</u>	<u>2,772,279</u>		<u>2,764,963</u>
EQUITY							
Contributed equity	15	5,912,530		5,912,530	5,912,530		5,912,530
Reserves	16	575,500		575,500	575,500		575,500
Retained profits (losses)	16	(4,311,169)	(7,316)	(4,318,485)	(3,715,751)	(7,316)	(3,723,067)
TOTAL EQUITY		<u>2,176,861</u>		<u>2,169,545</u>	<u>2,772,279</u>		<u>2,764,963</u>

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 recognise an expense in respect of these items. There will be an initial impact on retained earnings as at 1 July 2005 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 shares granted prior to this date.

Impairment

The recoverable amount of formation costs under previous GAAP was assessed on an undiscounted cost basis. Under AIFRS, the cost has been expensed. The effect is \$26,369 decrease in intangibles and increase in retained losses in 2004 and \$7,316 in 2005.

SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

NOTE 28: 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)	(7,316)	(241,249)	-	(7,316)	(7,316)
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)		(824,343)	(210,723)		(218,039)
Income tax credit / (expense) relating to ordinary activities	4	-		-	-		-
Operating loss from ordinary activities after related income tax expense		(817,028)		(824,343)	(210,723)		(218,039)
Net operating loss attributable to members of the parent entity		(817,028)		(824,343)	(210,723)		(218,039)
Total changes in equity other than those resulting from transactions with owners as owners		(817,028)		(824,343)	(210,723)		(218,039)

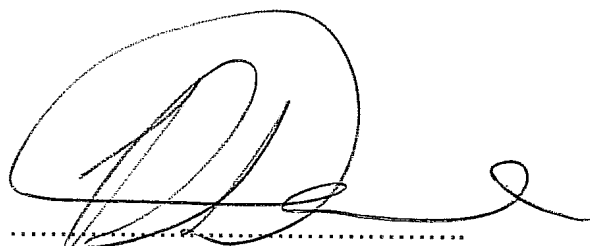
SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION


The directors of the Company declare that:

1. the financial statements and notes set out on Pages 14 to 45 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
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.
3. the audited remuneration disclosures set out on pages 6 to 10 of the director's report and Notes 18 to 20 of the Financial Statements comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

This declaration is made in accordance with a resolution of the Board of Directors dated 29 September 2006.



.....
Dr Robert Dane
Managing Director



.....
Hon Robert Hawke
Chairman

Dated this 29th day of September 2006.

**SOLAR SAILOR HOLDINGS LIMITED
ACN 086 377 148
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 2006. 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.



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



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.

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 2006 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

Date 29 September 2006

Total Financial Solutions



Liability limited by a Scheme approved under Professional Standards Regulation

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