SODA INCORPORATION LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

Annual Financial Report For The Year Ended 31 July 2006

SODA INCORPORATION LIMITED AND CONTROLLED ENTITY

31-Jul-06

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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entitity for the financial year ended 31 July 2006.

The names of directors in office at any time during or since the end of the year are:
Nicholas Ghattas
Andrew Fairfull
Thomas Millner
Nicholas Ghattas
Hilton Brett

Company Secretary

The following person held the position of company secretary at the end of the financial year:
Nicholas Ghattas

Principal Activities

Wholesale operations within the hair and beauty care industry;

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to $243,893.

Dividends Paid or Recommended

No dividends were paid or declared for payment during the year.

Review of Operations

SODA Incorporation Limited continues to consolidate its position in the market. The results for the year were adversly affected due to some defective products purchased from a major supplier. This problem has since been rectified and the directors expect to achieve a surplus operating result for the year ending 31 July 2007.

Financial Position

The net assets of the economic entity have increased by $326,106 from a defecit of $1,841 as at 31July 2005 to $324,265 as at 31 July 2006. This increase is a result of the increase in equity of $570,000 less the net loss for the year.

The directors believe that with the proposed capital raising by way of public listing, the group is in a strong position to expand and grow its current operations.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the parent entity that occurred during the financial year:

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included in Note 2 to this report.

After Balance Date Events

The company has agreed to purchase the manufacturing licence for its SO branded products from the current owners out of the proceeds of the proposed public listing. The company has also entered into agreements with underwriter, Pitt Capital Partners and other professional services organisations in relation to the proposed public listing. Full details of these agreements are to be disclosed in the share prospectus.

Future Developments, Prospects and Business Strategies including Proposed Share Listing

To further improve the economic entity's profit and maximise shareholder wealth, the following developments are intended to be implemented in the near future:

It is expected that the entity will undertake capital a raising of $5 to $7 million dollars via a public listing on the Newcastle Stock Exchange in the coming months.

Environmental Issues

The economic entity's operations are not subject to any significant environmental regulation under the law of the Commonwealth and State.

Information on Directors

Nick Ghattas

Qualifications	— **Bachelor OF Commerce**
Experience	— **Nine years haircare business experience and four years chartered accounting experience**
Interest in Shares and Options	— **2,300,000 Fully Paid Ordinary Shares - 12.1% of Issued Capital**
Special Responsibilities	— **Managing Director**
Directorships held in other listed entities	— **NIL**

Andrew Fairfull

Qualifications	— **Bachelor of Commerce, MAICD, SA Fin**
Experience	— **Nine years financial services industry experience with Souls Private Equity Limited and six years chartered accounting experience**
Interest in Shares and Options	— **NIL**
Special Responsibilities	— **Souls Private Equity Limited Representative**
Directorships held in other listed entities	— **Souls Private Equity Limited**

Hilton Brett

Qualifications	— **Bachelor of Commerce, PGDA CA(SA)**
Experience	— **Former CEO of Viviens Jewellers and SE Timber Floors. Buyer and marketing director with Liberty Liquors.**
Special Responsibilities	— **Independent Director**
Directorships held in other listed entities	— **NIL**

Remuneration Report

This report details the nature and amount of remuneration for each director of SODA Incorporation Limited, and for the executives receiving the highest remuneration.

Remuneration Policy & Performance Based Remuneration

The board is expected to develop a comprehensive remuneration policy for its execitive directors and other key executives to achieve shareholder and business objectives. The remuneration policy will include a performance based rewards system incorporating key performance indicators (KPI's). The remuneration policies will be comparable to those implemented by other similar listed companies.

Directors and Executives Remuneration

The remuneration policy to be developed upon public listing is to be tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth.

Details of remuneration for year ended 30 June 2006

The remuneration for each director and each of the five executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and	Superannuation	Cash Bonus	Non-cash	Options	Total
	$	$	$	$	$	$
Directors						
Nicholas Ghattas	107,925	9,713				117,638
Mary Ghattas	30,375	2,734				33,109
						-
Director Related						-
Rebecca Ghattas	99,150	8,924				108,074
	237,450	21,371	-	-	-	258,821

There are no other executive officers.

Options issued as part of remuneration for the year ended 31 July 2006

No options have been granted to any executives or directors as at 31 July 2006.

Employment contracts of directors and senior executives

The employment conditions of the managing director, Nick Ghattas, the executive director are formalised in contracts of employment. Other than the managing director, all executives are permanent employees of SODA Incorporation Limited and are employed under continuing contracts.

Meetings of Directors

During the financial year, six meetings of directors (including committees of directors) were held.

	Directors' Meetings	
	Number eligible to attend	Number attended
Nicholas Ghattas	6	6
Mary Ghattas	6	6
Andrew Fairfull	6	6
Thomas Milner	6	6
Hilton Brett	1	1

Indemnifying Officers or Auditor

During or since the end of the financial year the company has not given any indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums to any officer of the company or the auditor.

Options

At the date of this report, there were no unissued shares under options.

Proceedings on Behalf of Company

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

Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 July 2006:

	$
Taxation services	1,000
Due diligence investigations	15,000
	16,000

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 July 2006 has been received and can be found on page 4 of the directors' report.

Director

Dated this 30 day of August 2006

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SODA INCORPORATION LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 July 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act *2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name Of Firm	Rothsay Chartered Accountants
Name of Partner	Frank Vrachas
Date	30/08/2006
Address	Level 18
	6 - 10 O'Connell Street
	SYDNEY 2000

SODA INCORPORATION LIMITED ABN: 91 081 149 635
INCOME STATEMENT
FOR THE YEAR ENDED 31 JULY 2006

	Note	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
		$	$	$	$
Revenue	3	1,827,341	1,998,328	22,488	746,680
Changes in inventories of finished goods and work in progress		(934,761)	(1,128,113)	(14,819)	(25,383)
Employee benefits expense		(509,903)	(479,701)	(509,903)	(479,701)
Depreciation and amortisation expense		(75,188)	(35,172)	(31,035)	(17,925)
Other expenses		(482,687)	(450,025)	(414,327)	(331,941)
Finance costs		(68,695)	(41,184)	(68,695)	(40,730)
Profit/(Loss) before income tax	4	(243,893)	(135,867)	(1,016,291)	(149,000)
Profit/(Loss) from continuing operations		(243,893)	(135,867)	(1,016,291)	(149,000)
Profit for the year		(243,893)	(135,867)	(1,016,291)	(149,000)
Profit attributable to members of the parent entity	2	(243,893)	(135,867)	(1,016,291)	(149,000)

The accompanying notes form part of these financial statements.

SODA INCORPORATION LIMITED ABN: 91 081 149 635
BALANCE SHEET
AS AT 31 JULY 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	15,337	17,463	670	8,253
Trade and other receivables	11	265,052	303,987	3,505	5,276
Inventories	12	660,695	492,708	23,945	26,501
Other current assets	16	48,662	15,333	48,662	15,333
TOTAL CURRENT ASSETS		989,746	829,491	76,782	55,363
NON-CURRENT ASSETS					
Trade and other receivables	11	-	-	127,934	751,705
Financial assets	13	-	-	1	1
Property, plant and equipment	15	297,522	206,342	103,013	76,801
Deferred tax assets	19	-	-	-	-
TOTAL NON-CURRENT ASSETS		297,522	206,342	230,948	828,507
TOTAL ASSETS		1,287,268	1,035,833	307,730	883,870
CURRENT LIABILITIES					
Trade and other payables	17	321,244	232,762	93,959	94,621
Short-term borrowings	18	12,669	-	12,669	-
Current tax liabilities	19	-	99,412	-	65,447
TOTAL CURRENT LIABILITIES		333,913	332,174	106,628	160,068
NON-CURRENT LIABILITIES					
Long-term borrowings	18	620,000	700,000	620,000	700,000
Other long-term provisions	20	9,090	5,500	9,090	5,500
TOTAL NON-CURRENT LIABILITIES		629,090	705,500	629,090	705,500
TOTAL LIABILITIES		963,003	1,037,674	735,718	865,568
NET ASSETS		324,265	(1,841)	(427,988)	18,302
EQUITY					
Issued capital	21	1,340,100	770,100	1,340,100	770,100
Retained earnings		(1,015,835)	(771,941)	(1,768,088)	(751,798)
Parent interest		324,265	(1,841)	(427,988)	18,302
TOTAL EQUITY		324,265	(1,841)	(427,988)	18,302

The accompanying notes form part of these financial statements.

SODA INCORPORATION LIMITED ABN: 91 081 149 635
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2006

	Note	Share Capital Ordinary	Retained Earnings	Total
Parent Entity		$	$	$
Balance as at 1 July 2004	2	607,600	(602,797)	4,803
Profit attributable to members of parent entity			(149,000)	(149,000)
Shares issued during the year		162,500		162,500
Balance at 31 July 2005		770,100	(751,797)	18,303
Shares issued during the year		570,000		570,000
Profit attributable to members of parent entity			(1,016,291)	(1,016,291)
Balance at 31 July 2006		1,340,100	(1,768,088)	(427,988)

	Note	Share Capital Ordinary	Retained Earnings	Total
Economic Entity		$	$	$
Balance at 1 July 2004	2	607,600	(636,075)	(28,475)
Profit attributable to members of parent entity			(135,867)	(135,867)
Shares issued during the year		162,500		162,500
Balance at 31 July 2005		770,100	(771,942)	(1,842)
Shares issued during the year		570,000		570,000
Profit attributable to members of parent entity			(243,893)	(243,893)
Balance at 31 July 2006		1,340,100	(1,015,835)	324,265

The accompanying notes form part of these financial statements.

SODA INCORPORATION LIMITED ABN: 91 081 149 635
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,832,947	1,942,818	27,302	46,966
Interest received		-	154	-	154
Payments to suppliers and employees		(2,102,679)	(2,360,447)	(1,035,383)	(69,017)
Finance costs		(68,695)	(41,184)	(68,695)	(40,730)
Net cash provided by (used in) operating activities	25a	(338,427)	(458,659)	(1,076,776)	(62,627)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(166,368)	(178,065)	(57,247)	(59,963)
Loan from/to Subsidiary		-	-	623,771	(515,326)
Net cash provided by (used in) investing activities		(166,368)	(178,065)	566,524	(575,289)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		570,000	162,500	570,000	162,500
Proceeds from borrowings		-	700,000	-	700,000
Repayment of borrowings		(80,000)	(217,516)	(80,000)	(217,516)
Net cash provided by financing activities		490,000	644,984	490,000	644,984
Net increase/(decrease) in cash held		(14,795)	8,260	(20,252)	7,068
Cash at beginning of financial year	2k	17,463	9,203	8,253	1,185
Cash at end of financial year	10	2,668	17,463	(11,999)	8,253

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of SODA Incorporation Limited and controlled entitity, and SODA Incorporation Limited as an individual parent entity. SODA Incorporation Limited is a public company, incorporated and domiciled in Australia.

The financial report of SODA Incorporation Limited and controlled entitity, and SODA Incorporation Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation

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

SODA Incorporation Limited and controlled entitiy, and SODA Incorporation Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (IFRS) from 1 July 2003.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2004 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of SODA Incorporation Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entitity have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 28 for further details.

Reconciliations of the transition from previous Australian GAAP to IFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity SODA Incorporation Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. Controlled entitity has a July financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any nonassessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment

Plant and equipment

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

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	15%-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives. 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. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Foreign Currency Transactions and Balances

Transaction and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the yearend exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(i) Employee Benefits
Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related oncosts.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(j) Provisions
Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(k) Provision for Warranties
Provision is made in respect of the economic entity's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the economic entity's history of warranty claims.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(m) Revenue
Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

(n) Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(o) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year and are in respect of the year ended 30 June 2004.

Critical accounting estimates and judgments
The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates — Impairment
The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(q) Going Concern
The financial statements have been prepared on the going concern basis which assumes that the major shareholder, Souls Private Equity Limited, will continue to fully support the operations of the company to enable it to meet its financial obligations as they fall due.

Note 2 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

	Note	Previous GAAP at 30 June 2004 $	Adjustment $	Australian Equivalents to IFRS at 1 July 2004 $
Economic Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		9,203		9,203
Trade and other receivables		171,517		171,517
Inventories		325,813		325,813
Other current assets		19,974		19,974
TOTAL CURRENT ASSETS		526,507		526,507
NON-CURRENT ASSETS				
Property, plant and equipment		63,449		63,449
TOTAL NON-CURRENT ASSETS		63,449	-	63,449
TOTAL ASSETS		589,956	-	589,956
CURRENT LIABILITIES				
Trade and other payables		374,688		374,688
Current tax liabilities		2,596		2,596
Short-term provisions		23,630		23,630
TOTAL CURRENT LIABILITIES		400,914	-	400,914
NON-CURRENT LIABILITIES				
Trade and other payables				-
Long-term borrowings		217,516		217,516
TOTAL NON-CURRENT LIABILITIES		217,516	-	217,516
TOTAL LIABILITIES		618,430	-	618,430
NET ASSETS		(28,474)	-	(28,474)
EQUITY				
Issued capital		607,600		607,600
Retained earnings	2(g)	(636,074)		(636,074)
Parent interest		(28,474)	-	(28,474)
Minority equity interest		-		-
TOTAL EQUITY		(28,474)	-	(28,474)

	Note	Previous GAAP at 31 July 2005 $	Adjustments on Introduction of Australian Equivalents to IFRS $	Australian Equivalents to IFRS at 31 July 2005 $
Economic Entity				
Reconciliation of Equity at 1 August 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		17,463		17,463
Trade and other receivables		226,873		226,873
Inventories		492,708		492,708
Other current assets		92,447		92,447
TOTAL CURRENT ASSETS		829,491	-	829,491
NON-CURRENT ASSETS				
Property, plant and equipment	2(f)	206,342		206,342
TOTAL NON-CURRENT ASSETS		206,342	-	206,342
TOTAL ASSETS		1,035,833	-	1,035,833
CURRENT LIABILITIES				
Trade and other payables		200,301		200,301
Current tax liabilities		99,412		99,412
Short-term provisions		37,961		37,961
TOTAL CURRENT LIABILITIES		337,674	-	337,674
NON-CURRENT LIABILITIES				
Trade and other payables				-
Long-term borrowings		700,000		700,000
TOTAL NON-CURRENT LIABILITIES		700,000	-	700,000
TOTAL LIABILITIES		1,037,674	-	1,037,674
NET ASSETS		(1,841)	-	(1,841)
EQUITY				
Issued capital		770,100		770,100
Retained earnings	2(g)	(771,941)		(771,941)
Parent interest		(1,841)	-	(1,841)
Minority equity interest		-		-
TOTAL EQUITY		(1,841)	-	(1,841)

	Note	Previous GAAP at 30 June 2004 $	Adjustment $	Australian Equivalents to IFRS at 30 June 2004 $
Parent Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,185		1,185
Trade and other receivables		6,315		6,315
Inventories		19,223		19,223
Other current assets		19,974		19,974
TOTAL CURRENT ASSETS		46,697	-	46,697
NON-CURRENT ASSETS				
Trade and other receivables		236,379		236,379
Investments accounted for using the equity method		1		1
Property, plant and equipment		34,763		34,763
TOTAL NON-CURRENT ASSETS		271,143	-	271,143
TOTAL ASSETS		317,840	-	317,840
CURRENT LIABILITIES				
Trade and other payables		71,892		71,892
Short-term provisions		23,630		23,630
TOTAL CURRENT LIABILITIES		95,522	-	95,522
NON-CURRENT LIABILITIES				
Long-term borrowings		217516		217,516
TOTAL NON-CURRENT LIABILITIES		217,516	-	217,516
TOTAL LIABILITIES		313,038	-	313,038
NET ASSETS		4,802	-	4,802
EQUITY				
Issued capital		607,600		607,600
Retained earnings		(602,798)		(602,798)
TOTAL EQUITY		4,802	-	4,802

	Note	Previous GAAP at 31 July 2005 $	Adjustments on Introduction of Australian Equivalents to IFRS $	Australian Equivalents to IFRS at 31 July 2005 $
Parent Entity				
Reconciliation of Equity at 1 August 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		8,253		8,253
Trade and other receivables		5,276		5,276
Inventories		26,501		26,501
Other current assets		15,333		15,333
TOTAL CURRENT ASSETS		55,363	-	55,363
NON-CURRENT ASSETS				
Trade and other receivables		751,705		751,705
Investments accounted for using the equity method		1		1
Property, plant and equipment		76,801		76,801
TOTAL NON-CURRENT ASSETS		828,507	-	828,507
TOTAL ASSETS		883,870	-	883,870
CURRENT LIABILITIES				
Trade and other payables		62,159		62,159
Current tax liabilities		65,447		65,447
Short-term provisions		37,961		37,961
TOTAL CURRENT LIABILITIES		165,567	-	165,567
NON-CURRENT LIABILITIES				
Long-term borrowings		700,000		700,000
TOTAL NON-CURRENT LIABILITIES		700,000	-	700,000
TOTAL LIABILITIES		865,567	-	865,567
NET ASSETS		18,303	-	18,303
EQUITY				
Issued capital		770,100		770,100
Retained earnings	2(g)	(751,797)		(751,797)
TOTAL EQUITY		18,303	-	18,303

Note 3 Revenue

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Operating activities					
— sale of goods		1,824,631	1,992,996	19,778	40,762
— interest received	3(a)	1	154	1	154
— Management Fees		-	-	-	700,586
— Foreign exchange -realized gains		2,709	5,178	2,709	5,178
Total Revenue		1,827,341	1,998,328	22,488	746,680

(a) Interest revenue from:				
— Other persons	1	154	1	154
Total interest revenue	1	154	1	154

No management fee has been charged by the parent entity in 2006 (2005 - $700,586), as the financial statements and income tax return are being prepared on a consolidated basis.

Note 4 Profit/(Loss) from Ordinary Activities

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
(a) Expenses				
Cost of sales	934,761	1,128,113	14,819	25,383
Finance costs:				
— Parent entity	68,695	40,730	68,695	40,730
— Other persons	-	454	-	-
Rental expense on operating leases				
— minimum lease payments	48,702	46,133	48,702	46,133

Note 5 Income Tax Expense

There is no income tax expense for 2006 (2005 - $NIL) due to tax losses incurred.

There are no material deferred tax assets or liabilities arising from timing differences. The group deferred tax assets comprising the book value of carried forwarrd tax losses ammounting to $280,000 have not been brought to account as the recoverability of tax losses cannot be ascertained with certainty.

Note 6 Directors' and Executives' Remuneration

(a) Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:

Parent Entity Directors

Nicholas Ghattas
Andrew Fairfull
Hilton Brett
Thomas Millner
Mary Ghattas

(b) **Parent Entity Directors Remuneration**

	Primary			
2006	Salary, Fees & Commissions $	Super-annuation Contribution $	Cash Bonus $	Non-Cash Benefits $
Nicholas Ghattas	107,925	9,713		
Mary Ghattas	30,375	2,734		
	138,300	12,447	-	-

2005	Salary, Fees & Commissions $	Super-annuation Contribution $	Cash Bonus $	Non-Cash Benefits $
Nicholas Ghattas	91,734	8,256		
Mary Ghattas	33,375	3,004		
	125,109	22,520	-	

The service and performance criteria set to determine remuneration are included per Note 7(h).

(c) **Shareholdings**

Number of Shares held by Parent Entity Directors and Specified Executives

2006	Balance 1 August 2005	Received as Remuneration	Options Exercised	Net Change Other*	Balance 31 July 2006
Parent Entity Directors					
Nicholas Ghattas	2,300,000				2,300,000
Andrew Fairfull	NIL				NIL
Hilton Brett	NIL				NIL
Thomas Milner	NIL				NIL
Mary Ghattas	7,666,667			1,666,666	9,333,333
	9,966,667	0	0	1,666,666	11,633,333

* Net change other refers to shares purchased or sold during the financial year.

(d) **Remuneration Practices**

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to the date of their retirement.

Note 7 Auditors' Remuneration

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	7,000	6,000	7,000	6,000
— taxation services	302	500	109	500
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	4,000	3,000	4,000	-

Note 8 Dividends

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Distributions Paid				
	-	-	-	-

Note 9 Earnings per Share

	Economic Entity 2006 $	Economic Entity 2005 $
(a) Reconciliation of Earnings to Profit or Loss		
Profit/(Loss)	(243,893)	(135,867)
Profit attributable to minority equity interest		
Loss used in the calculation of dilutive EPS	(243,893)	(135,867)
(b) Number of ordinary shares outstanding during the year	No.	No.
Average number of ordinary shares outstanding during the year used in calculating EPS	14,500,000	9,312,500

Note 10 Cash Assets

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash at bank and in hand		15,337	17,463	670	8,253
		15,337	17,463	670	8,253
Reconciliation of cash					
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		15,337	17,463	670	8,253
Bank overdrafts	18	(12,669)	-	(12,669)	-
		2,668	17,463	(11,999)	8,253

Note 11 Receivables

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Trade receivables		261,992	221,873	459	276
		261,992	221,873	459	276
Other receivables		3,060	82,114	3,046	5,000
		265,052	303,987	3,505	5,276
Amounts receivable from:					
— wholly-owned entities		-	-	127,934	751,705
		-	-	127,934	751,705

Note 12 Inventories

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
At cost					
Finished goods		660,695	492,708	23,945	26,501
		660,695	492,708	23,945	26,501

Note 13 Other Financial Assets

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
NON CURRENT					
Investment in 100% owned subsidiary- SO Distribution Pty Ltd	13(a)	-	-	1	1
		-	-	1	1
Unlisted investments, at cost					
— shares in controlled entity -SO Distribution P/L		-	-	1	1
		-	-	1	1
Total non-current available-for-sale financial assets		-	-	1	1

The fair value of unlisted financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost.

Note 14 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2006	Percentage Owned (%)* 2005
Ultimate Parent Entity:			
Souls Private Equity Ltd	Australia		
Parent Entity:			
SODA Incorporation Limited	Australia	80	-
Subsidiary:			
SO Distribution Pty Ltd	Australia	100	100

* Percentage of voting power is in proportion to ownership

Note 15 Property, Plant and Equipment

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	484,115	273,049	224,107	122,163
Accumulated depreciation	(186,593)	(66,707)	(121,094)	(45,362)
	297,522	206,342	103,013	76,801
	-	-	-	-
Total plant and equipment	297,522	206,342	103,013	76,801
Total Property, Plant and Equipment	297,522	206,342	103,013	76,801

(a)

	Plant and Equipment $	Total $
Economic Entity:		
Balance at the beginning of year	206,342	206,342
Additions	166,368	166,368
Disposals		-
Depreciation expense	(75,188)	(75,188)
Carrying amount at the end of year	297,522	297,522
Parent Entity:		
Balance at the beginning of year	76,801	76,801
Additions	57,247	57,247
Disposals		-
Depreciation expense	(31,035)	(31,035)
Carrying amount at the end of year	103,013	103,013

Note 16 Other Assets

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT				
Prepayments	8,279	15,333	8,279	15,333
Listing Costs	29,933	-	29,933	-
Security Deposits	10,450	-	10,450	-
	48,662	15,333	48,662	15,333

Note 17 Payables

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Unsecured liabilities					
Trade payables		277,586	179,636	93,051	41,494
Sundry payables and accrued expenses		43,658	53,126	908	53,127
		321,244	232,762	93,959	94,621

Note 18 Borrowings

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Unsecured liabilities					
Bank overdrafts		12,669	-	12,669	-
		12,669	-	12,669	-
Secured liabilities					
Souls Private Equity Ltd		620,000	700,000	620,000	700,000
		620,000	700,000	620,000	700,000

(a) The loan from the ultimate parent entity is secured by a registered fixed and floating charge over the assets of the economic entity.

The loan is repayable within three years and attracts interest at the rate of 3% above the agreed base rate.

Note 19 Tax

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
(a) **Liabilities**					
CURRENT					
Income Tax		-	-	-	-
TOTAL		-	-	-	-
(b) **Assets**					
Deferred tax assets comprise:					
Provisions		-	-	-	-
Transaction costs on equity issue		-	-	-	-
Fair value gain adjustments					
		-	-	-	-
Impairment of property, plant and equipment		-	-	-	-
Other-value of tax losses carried forward		-	-	-	-
		-	-	-	-
(d) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur					
— temporary differences		2,727	11,388	2,727	11,388
— tax losses:					
— operating losses		280,450	198,621	506,126	192,578
		283,177	210,009	508,853	203,966

Note 20 Provisions

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
NON CURRENT				
Employee Entitlements				
Opening balance at beginning of year	5,500	10,000	5,500	10,000
Additional provisions raised during year	3,590	-	3,590	-
Amounts used	-	(4,500)	-	(4,500)
Balance at end of the year	9,090	5,500	9,090	5,500

Analysis of Total Provisions	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current	-	-	-	-
Non-current	9,090	5,500	9,090	5,500
	9,090	5,500	9,090	5,500

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 21 Issued Capital

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
19,000,000 (2005 : 10,000,000) Fully Paid Ordinary Shares	1,340,100	770,100	1,340,100	770,100
	1,340,100	770,100	1,340,100	770,100

(a) **Ordinary Shares**

	Economic Entity 2006 No	Economic Entity 2005 No	Parent Entity 2006 No	Parent Entity 2005 No
At the beginning of reporting period	10,000,000	8,625,000	10,000,000	8,625,000
Shares issued during year				
— 01/10/2005	333,333	825,000	333,333	825,000
— 31/07/2006	8,666,667	550,000	8,666,667	550,000
At reporting date	19,000,000	10,000,000	19,000,000	10,000,000

On 1 October 2005 the company issued 333,333 ordinary shares at $0.15 each.

On 31 July 2006 the company issued 8,666,667 ordinary shares at $0.06 each.

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

Note 22 Capital and Leasing Commitments

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
(a) **Operating Lease Commitments**					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		44,988		44,988	
— between 12 months and 5 years		72,504		72,504	
— greater than 5 years					
		117,492	-	117,492	-
(b) **Capital Expenditure Commitments**					
Capital expenditure commitments contracted for:					
Plant and equipment purchases					
Capital expenditure projects					
		-	-	-	-
Payable:					
— not later than 12 months					
— between 12 months and 5 years					
— greater than 5 years					
		-	-	-	-

Note 23 Contingent Liabilities and Contingent Assets

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Estimates of the potential financial effect of contingent liabilities that may become payable:				
Purchase of SO Brand	2,000,000		2,000,000	
Expenses Related to Prpoosed Capital Raising	500,000		500,000	
Contingent Liabilities	2,500,000	-	2,500,000	-

The above expenses are to be met out of the proceeds of the share issue as noted in the directors report.

Note 24 Segment Reporting

The economic entity is engaged in distribution of hair care and beauty products throughout Australia.

Note 25 Cash Flow Information

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	(243,893)	(135,867)	(1,016,291)	(149,000)
Cash flows excluded from profit from ordinary activities attributable to operating activities				
Finance costs on debentures				
Non-cash flows in profit from ordinary activities				
Amortisation				
Depreciation	75,188	35,172	31,035	17,925
Increase/(decrease) in trade and term receivables	(5,606)	(55,356)	4,817	1,040
Increase/(decrease) in prepayments and other assets	78,193	(72,473)	(36,375)	4,641
Increase/(decrease) in inventories	(167,987)	(166,895)	2,556	(7,278)
(Increase)/decrease in trade payables and accruals	(45,451)	(174,387)	(33,647)	(9,733)
Increase/(decrease) in income taxes payable		96,816		65,447
Increase/(decrease) in deferred taxes payable				
Increase/(decrease) in provisions	(28,871)	14,331	(28,871)	14,331
Cash flow from operations	(338,427)	(458,659)	(1,076,776)	(62,627)

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
(e) Loan Facilities				
Loan facilities	750,000	750,000	750,000	750,000
Amount utilised	(620,000)	(700,000)	(620,000)	(700,000)
	130,000	50,000	130,000	50,000

The major facilities are summarised as follows:

Loan from SPEL isrepayable within three years, carries an interest rate of 3% above the agreed base rate and is secured by a fixed and floating charge over economic entities assets.

Finance will be provided under all facilities provided the company and the economic entity have not breached any borrowing requirements and the specified financial requirements are met.

Note 26 Events After the Balance Sheet Date

(a) The financial report was authorised for issue on 29 August 2006 by the board of directors

Note 27 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) **Ultimate Parent Company**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Payment of interest to SPEL pursuant to loan agreement	68,695	41,184	68,695	41,184

(b) **Other Related Parties**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Management service fee received by the parent company from subsidiary, SO Distribution Pty Ltd	NIL	700,586	NIL	700,586

(c) **Identification of Related Parties Ultimate Parent Entity**
The parent entity is ultimately controlled by Souls Private Equity Limited (SPEL) which incorporated in Australia

(d) **Shares Issued to SPEL**

	Economic Entity		Parent Entity	
	2006	2006	2006	2006
	No.	$	No.	$
166,667 Fully Paid Ordinary Shares at $0.15 Each	1,666,667	25,000	1,666,667	25,000
8,666,667 Fully Paid Ordinary Shares at $0.06 Each	8,666,667	520,000	8,666,667	520,000
	10,333,334	545,000	10,333,334	545,000

(e) **Net Movement in SPEL Loan During Year**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Net Loan Repayment/(Drawdown)	80,000	(700,000)	80,000	(700,000)

Note 28 Financial Instruments

(a) **Financial Risk Management**

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to subsidiaries.

(i) **Treasury Risk Management**
The directors of the group meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) **Financial Risks**
The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 31 July 2006 all of group debt with the parent entity is at a variable base rate plus 3%of fixed.

Foreign currency risk
The group is exposed to fluctuations in foreign currencies arising mainly from the purchase of goods in currencies other than the group's measurement currency.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

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 amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity

(b) **Financial Instruments**

(ii) **Interest Rate Risk**

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

	Weighted Average Effective		Floating Interest Rate		Within Year		1 to 5 years		Over 5 Years		Non-interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Financial Assets:														
Cash and cash equivalents	0.02	0.02	0.02	0.02	15337	17,463	-	-					15,337	17,463
Receivables	-	-	-	-	265052	303,987					265,052	303,987	265,052	303,987
Other assets	-	-	-	-	48662	15,333	-	-			48,662	15,333	48,662	15,333
Total Financial Assets			0	0	329,051	336,783	-	-	-	-	313,714	319,320	329,051	336,783
Financial Liabilities:														
Shareholder's loans-SPEL			0.09	-			620,000						620,000	-
Trade and sundry creditors			-	-	321,244	232,762					321,244	232,762	321,244	465,524
Total Financial Liabilities			0	-	321,244	232,762	620,000	-	-	-	321,244	232,762	941,244	465,524

(iii) **Net Fair Values**

The net fair values of:

— For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment

— Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present

— Other assets and other liabilities approximate their carrying value.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

Fair values are materially in line with carrying values. A discount rate equvalent to market interest rate of 9% (20059%) has been applied to all non-current borrowings to determine fair value

Note 29 Change In Accounting Policy

(a) The group has adopted the following accounting standards for application on or after 1 January 2005:
— AASB 132: Financial Instruments: Disclosure and Presentation; and
— AASB 139: Financial Instruments: Recognition and Measurement.

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has not resulted in material differences in the recognition and measurement of the groups financial instruments. The group has elected not to adjust comparative information resulting from the introduction of AASB 139 as permitted under the transitional provisions of this standard. As such, previous Australian accounting standards have been applied to comparative information. A summary of the main adjustments that would have resulted if AASB 139 was applied retrospectively are included below.

The aggregate effect of the change in accounting policy on the annual financial statements for the year ended 30 June 2006 is Nil.

Note 30 Company Details

The registered office of the company is:
SODA Incorporation Limited
Suite 3A, Level 3
140 William Street
Woolloomooloo NSW 2011
The principal places of SODA Incorporation Limited are:
SODA Incorporation Limited
Suite 3A, Level 3
140 William Street
Woolloomooloo NSW 2011

SODA INCORPORATION LIMITED ABN: 91 081 149 635
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 9 to 89, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 31 July 2006 and of the performance for the year ended on that date of the company and economic entity;

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

3. 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.
   The company and a wholly-owned subsidiary,SO Distribution P/L, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.
   At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed

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

Director ....

Dated this 30 day of August 2006

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF SODA INCORPORATION LIMITED

Scope

We have audited the financial report of SODA Incorporation Limited and controlled entities for the financial year ended 30 June 2006 as set out on pages 9 to 90

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the years end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit we followed applicable independence requirements of Australian professional and ethical pronouncement 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 auditors independence declaration set out on page 5 of the financial report has not changed as at the date of providing our audit opinion.

Emphasis of Matter - Going Concern

Without any qualification to the opinion expressed below attention is drawn to Note 1(q) of the notes to the financial statements, regarding the basis of the preparation of the financial statements on the going concern basis.

Audit Opinion

In our opinion, the financial report of SODA Incorporation Limited is in accordance with:

a. the *Corporations Act 2001*, including:

(i) giving a true and fair view of the companys and consolidated entitys financial position as at 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 professional reporting requirements in Australia.

Name of Firm	Rothsay Chartered Accountants	Name of Partner Frank Vrachas
Date	30/08/2006	
Address	Level 18	
	6 - 10 O'Connell Street	
	SYDNEY NSW 2000	