



NSX Code: SOD

2007 Half Year Review for the Six Months ended 31 January 2007

This review reports on the key corporate, operational and financial activities for the first half of the 2007 financial year. This report is also the first results release as a publicly listed company and is the first communication with shareholders since the company's listing.

Corporate Initiatives

Two major undertakings have been successfully completed over the last six months - the public listing of Soda Brands Limited (SODA) on the National Stock Exchange (NSX) and completion of the acquisition of Salon Only Pty Limited.

Stock Exchange Listing

The NSX listing was completed during January 2007, which resulted in \$5 million being raised. The listing is crucial for the planned rollout of SODA's Loyalty Program.

The Loyalty Program provides the opportunity for SODA's customers (hair and beauty salons) to "earn" shares in SODA and therefore "be part of" and "own" the brands they are recommending on a daily basis to their clientele. The number of shares earned is based on achieving agreed sales targets over the next 12 and 24-month periods.

Acquisition of Salon Only Pty Limited

The acquisition of Salon Only Pty Limited was completed during January 2007, and forms the cornerstone of SODA's future growth plans. SODA has historically been the exclusive distributor for the "Salon Only" range of hair care products for the Australian and New Zealand markets. During the business and strategy planning sessions held towards the end of last financial year it was concluded that major investment in sales representation, marketing and branding development would be required to significantly grow the SODA business. The investment was forecast to approach \$1.6 million over the next two financial year period (2007 and 2008 financial years).

Your Directors formed the view however, that they would not invest \$1.6 million in a brand that SODA did not own or control. Therefore, the acquisition of Salon Only Pty Limited (the owner and manufacturer of the range of Salon Only branded hair care products) was a key component required by your Directors prior to committing to SODA's two year \$1.6 million investment in sales representation, marketing and branding development.

Operational Initiatives

Enhanced Sales Representation In The Marketplace

SODA utilises two methods of sales representation in the marketplace – direct and indirect. When we refer to “direct” sales representation we mean full time employed sales reps and commission based agents. By “indirect” sales representation we mean multi-line sub-distributors appointed to represent SODA in certain markets or territories.

SODA’s direct sales representation “on the road” has been increased. Initial focus has been on the major markets of NSW and VIC. The current 7 member direct sales team has effectively been operating with its full complement from mid November 2006. The team have all participated in Salon Only’s training and education program during the months of December 2006 and January 2007, including attending the 2007 Salon Only sales conference.

SODA currently has 2 appointed sub-distributors operating throughout the QLD market. SODA’s sub-distributors have a total of 5 reps on the road. These sales reps also participated in Salon Only’s training and education program during January 2007 including the 2007 Salon Only sales conference.

Marketing and Branding Initiatives

The first six months of the financial year has involved the planning and development of several marketing and branding initiatives to be launched during the second half.

The most involved projects included the redesign of the Salon Only packaging as well as the recent product range review and associated product development activities. Post the completion of the acquisition of Salon Only Pty Limited the existing hair care range underwent a detailed range review. In addition to reformulating some of the existing products, management have also planned the new product additions and releases that will occur over the next 12 months.

In designing the “new look and feel” of the product range there has been three main goals. Firstly there was the objective of updating and modernising the packaging design for the range. The second was to update, improve and expand the products available within the range. The third goal was to ensure that the new “look and feel” will have universal international appeal and ease of regulatory approval, in readiness for the future launch of SODA’s products into overseas markets and territories.

Point of sale systems have also been redesigned to match the new “look and feel” of the range. The new point of sale material will be available for release to the market in conjunction with the launch of the new packaging design.

Management have also created the 2007 Salon Only Stylist Awards competition ready for launch during April 2007. Full details of the competition are available on SODA’s website (www.salononly.com.au).

Financial Performance

SODA has recorded a net loss of \$0.411 million for the six months ended 31 January 2007. This result has tracked in line with your Board's expectations. As part of this shareholder communication we attach the NSX stock exchange announcement covering these results.

SODA has commenced delivering on its growth plan during the first half of the 2007 financial year. This growth is represented by the 32% growth in sales, the 36% growth in gross margin and the increase in gross margin percentage to 45.2%.

The first half has also involved a considerable investment in "laying the foundation" for the growth of your company. Operating overheads (excluding depreciation and finance costs) increased by \$0.366 million when compared to the previous corresponding period. Approximately 73% or \$0.267 million of the overheads increase relates to the increase in sales, marketing and branding expenses. Approximately 18% or \$0.067 million of the overheads increase relates to the increase of employee benefit expenses in relation to direct sales representation.

The major income statement and balance sheet items are summarised below.

- **Sales revenue** has increased by 32% to \$1.167 million (2006: \$0.883 million);
- **Gross margin** has increased by 36% to \$0.528 million (2006: \$0.387 million);
- **Gross margin percentage** has increased to 45.2% (2006: 43.8%);
- **Operating overheads*** increased by 75% to \$0.854 million (2006: \$0.488 million);
- **Net loss after tax** increased by 158% to \$0.411 million (2006: \$0.159 million);
- **Cash on hand** has increased to \$1.336 million (2006: \$0.015 million); and
- **Interest bearing loans** have been reduced to nil (2006: \$0.633 million).

** Operating overheads excludes depreciation and finance costs.*

Outlook For The Remainder Of The 2007 Financial Year

The "laying the foundation" initiatives undertaken during the last six months are expected to drive sales growth at a faster rate during the second half of the 2007 financial year.

Gross margin percentage is also expected to improve further during the second half. This is mainly due to the flow through of the manufacturing efficiencies associated with the purchase of Salon Only Pty Limited.

Operating overheads are expected to increase by approximately 16% during the second six months of the 2007 financial year when compared to the first half. This is mainly due to the continued expansion of sales representation in the marketplace. Enhanced sales representation is planned for New Zealand, Western Australia and South Australia during the second half.

There are additional key "laying the foundation" milestones to be delivered by management over the second half of the 2007 financial year. Some of the major initiatives include:

- Rolling out the Loyalty Program to salon owners;
- Recruitment and training of additional sales representation for the New Zealand, Western Australian and South Australian markets;
- Launch of the 2007 Salon Only Stylist Awards competition;
- Launch of the new Salon Only packaging; and
- Launch of the new Salon Only point of sale systems.

SODA is financially strong and growth plans are well funded with \$1.336 million held in cash equivalents at the end of the first half. In addition, SODA's interest bearing loans were paid down via the proceeds raised in the NSX listing. SODA is therefore debt free at the end of the first half.

Although the listing on the NSX and the acquisition of Salon Only Pty Limited is crucial to the future growth of SODA, we are enthusiastic that these events are now completed and that management can focus on the successful implementation and execution of SODA's growth strategies.

In conclusion, key parts of the "foundation" have been laid during this first half. The remaining key elements of "laying the foundation" will be completed during the second half. By the end of the 2007 financial year we will be very well placed to realise the unique vision of this company and capitalise on the many opportunities that lie ahead.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A Fairfull', with a horizontal line extending to the right.

Andrew Fairfull
Chairman

13 April 2007