



## **AND CONTROLLED ENTITIES**

**ABN: 91 081 149 635**



## **General Purpose Financial Report For The Year Ended 31 July 2007**

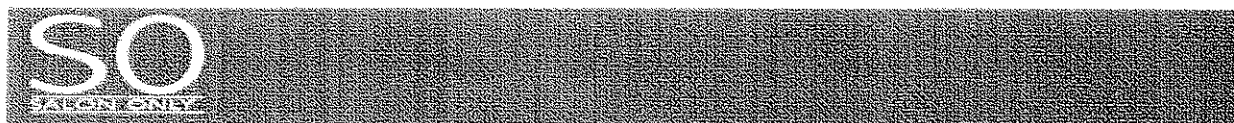
**SODA BRANDS LIMITED  
AND CONTROLLED ENTITIES**

**31 July 2007**

ABN: 91 081 149 635



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Your directors present their report on the company and its controlled entities for the financial year ended 31 July 2007.

The names of directors in office at any time during or since the end of the year are:

FAIRFULL Andrew (Non-exec Chairman)  
GHATTAS Nicholas (Managing Director)  
BRETT Hilton (Non-exec Director)  
KULMAR Stephen (Non-exec Director)

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

## Company Secretary

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

FORSYTH Gavin

## Principal Activities

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

- The manufacture and distribution of hair care products exclusively to salons and other select outlets; and
- The distribution of cosmetic products

There were no other significant changes in the nature of the economic entity's principal activities during the financial year, except as detailed below.

## Operating Results

The consolidated loss of the economic entity for the year, after providing for income tax amounted to \$794,873 (2006:\$243,893).

## Dividends Paid or Recommended

There were no dividends paid or proposed during the year.

## Review of Operations

Refer to Chairman's Report.

## Financial Performance and Position

The net assets of the economic entity have increased by \$4,768,315 from 31 July 2006 to \$5,092,580 in 2007. This increase has largely resulted from the following factors:

- net proceeds from share issues raising \$5,572,708 (net of expenses); and

The proceeds from the share issue was utilised to eliminate its borrowings from the holding company by \$620,000. The group's working capital, being current assets less current liabilities, has improved from \$655,833 in 2006 to \$1,804,833 in 2007.

## Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the parent entity during the financial year, except those disclosed above.

Changes in controlled entities:

1. The 100% acquisition of Salon Only Pty Limited;
2. The incorporation of the wholly owned United Kingdom subsidiary, SODA Brands (UK) Limited; and
3. The incorporation of the wholly owned New Zealand subsidiary, SODA Brands (NZ) Limited

## Australian Equivalents to IFRS

The company's financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (IFRS).

## After Balance Date Events

The directors of the economic entity have authorised full-year financial report on 15 August 2007.

There were at the date of this report no matters or circumstances which have arisen since 31 July 2007 that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

## Future Developments, Prospects and Business Strategies

The investment in the 2006/07 financial year is expected to result in both increased sales and gross margins throughout the 2007/08 financial year.

As a result of the release of the new packaging, gross margin is anticipated to increase due to manufacturing efficiencies arising from the purchase of Salon Only Pty Limited and the subsequent reduction in packaging costs.

Operating overheads are expected to increase in line with the expansion in the revenue generating activities. SODA Brands Limited is adequately funded with \$0.668 million in cash reserves and \$0.833 million in inventories held as of 31 July 2007. This will ensure that there will be sufficient working capital for operations in 2007/08. In 2006/07 foundations for growth has been established. The 2007/08 financial year will see benefits of these efforts.

## 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

*FAIRFULL Andrew (Non-exec Chairman)*

Experience — **Ten years financial services industry experience with Souls Private Equity Limited and six years chartered accounting experience**

Interest in Shares and Options — **75,000 Fully Paid Ordinary Shares - 0.22% of Issued Capital and 250,000 Options**

Directorships held in other listed entities — **Souls Private Equity Limited**

*GHATTAS Nicholas (Managing Director)*

Experience — **Ten years hair care business experience and four years chartered accounting experience**

Interest in Shares and Options — **1,275,000 Fully Paid Ordinary Shares (through family investment vehicle) - 3.75% of Issued Capital and 1,000,000 Options**

Directorships held in other listed entities — **None**

*BRETT Hilton (Non-exec Director)*

Experience — **Chief Executive Officer and other key executive positions with several entities and overseeing trade sale of those entities.**

Interest in Shares and Options — **150,000 Fully Paid Ordinary Shares - 0.44% of Issued Capital and 250,000 Options**

Directorships held in other listed entities — **None**

*KULMAR Stephen (Non-exec Director)*

Experience — **33 years in advertising industry; Currently Chief Executive Officer of Ideaworks. Extensive experience in retail, brand, distribution and marketing with blue chip organisations.**

Interest in Shares and Options — **40,000 Fully Paid Ordinary Shares (through family investment vehicle) - 0.12% of Issued Capital and 250,000 Options**

Directorships held in other listed entities — **None**

## Remuneration Report

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

## Remuneration policy

The remuneration policy of SODA Brands Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of SODA Brands Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

## Company performance, shareholder wealth and directors and executives remuneration

The remuneration policy has been 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 to have been effective in increasing shareholders wealth over the past four years.

The following table shows the gross revenue, profits and dividends for the last two years for the listed entity, as well as the share price at the end of the respective financial years.

	2006	2007
	\$	\$
Revenue	1,827,341	2,461,604
Net Profit/(loss)	(243,893)	(794,873)
Share Price at Year-end	N/A	17 Cents
Dividends	-	-

The directors are of the opinion that the decline in the share price was due to negative earnings of the Company. The Board is confident that once the consolidated entity achieves its revenue and profitability targets, the market sentiment regarding the share price is likely to improve significantly.

### Details of remuneration for year ended 31 July 2007

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	Options	Total
	\$	\$	\$	\$
<b>Directors</b>				
FAIRFULL Andrew (Non-exec Chairman)	24,000	2,160	-	26,160
GHATTAS Nicholas (Managing Director)	188,447	16,960	-	205,407
BRETT Hilton (Non-exec Director)	21,800	-	-	21,800
KULMAR Stephen (Non-exec Director)	12,717	-	-	12,717
	<u>246,964</u>	<u>19,120</u>	<u>-</u>	<u>266,084</u>

### Performance income as a proportion of total remuneration

Executive directors and executives are not paid performance based bonuses based on set monetary figures, or proportions of their salary. The remuneration committee plans to develop appropriate performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years incentives as they see fit, to ensure use of the most cost effective and efficient methods.

### Options issued as part of remuneration for the year ended 31 July 2007

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of SODA Brands Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

	Granted No.	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
		\$	\$	\$	(\$)	
<b>Directors</b>						
FAIRFULL Andrew (Non-exec Chairman)	250,000	-	-	-	-	-
GHATTAS Nicholas (Managing Director)	1,000,000	-	-	-	-	-
BRETT Hilton (Non-exec Director)	250,000	-	-	-	-	-
KULMAR Stephen (Non-exec Director)	250,000	-	-	-	-	-
	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### Employment contracts of directors and senior executives

The employment conditions of the managing director, Nick Ghattas, the executive director are formalised in contract of employment with six month notice period. Other than the managing director, all employees are permanent employees of SODA Brands Limited and are employed under continuing contracts.

## Meetings of Directors

During the financial year, 22 meetings of directors (including committees of directors) were held.

	Directors'		Committee Meetings	
	Number eligible to attend	Number attended	Audit Number eligible to attend	Number attended
FAIRFULL Andrew (Non-exec Chairman)	9	9	1	1
GHATTAS Nicholas (Managing Director)	9	9	1	1
BRETT Hilton (Non-exec Director)	9	9	-	-
KULMAR Stephen (Non-exec Director)	7	7	-	-

## Indemnifying Officers or Auditor

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$8,075 for each director named below:

FAIRFULL Andrew (Non-exec Chairman)

GHATTAS Nicholas (Managing Director)

BRETT Hilton (Non-exec Director)

KULMAR Stephen (Non-exec Director)

## Options

The Options grant a right, on exercise, to be issued one Ordinary Share at an exercise price of 25 cents per share.

1,750,000 Directors' Options have been issued. The options expire on 31 July 2011, if not exercised by that date. As the fair value of the options issued at the time of the issue or since has not exceeded the exercise price of 25 cents, no amount has been expensed as directors remuneration per Accounting Standard AASB 1046.

1,700,000 Employees' Options are to be issued on expiry of four years from the date of public listing of shares (i.e. 2 Jan 2011).

3,400,000 Loyalty Plan Options are to be issued on or after the expiry of 13 months from the date of public listing (i.e. 2 Feb 2008). The company's potential exposure based on current sales achieved by customers in the loyalty program amounts to \$84,000.

At the date of this report, issued and unissued ordinary shares of SODA Brands Limited under option are as follows

Type Of Option Plan	Grant Date	Date of expiry	Exercise price	Number of options	Number of shares issued
Directors' Options	1/12/2006	31/07/2011	25c	1,750,000	-
Employee Share Option Plan	Not Yet Granted	To be determined	To be determined	1,700,000	-
Customer Loyalty Option Plan	Not Yet Granted	To be determined	To be determined	3,400,000	-
				<u>6,850,000</u>	<u>-</u>

### 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, in accordance with advice from the audit committee, 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:

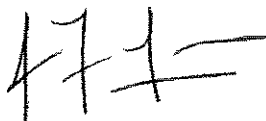
- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set 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 2007:

	\$
Taxation services	1,240
Due diligence investigations	15,000
	<u>16,240</u>

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 July 2007 has been received and can be found on page 6 of the directors' report.



Director

FAIRFULL Andrew (Non-exec Chairman)

Dated this

15th day of October 2007

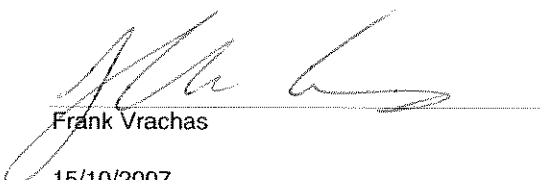
**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF SODA BRANDS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31 July 2007 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**

**Audit Partner**

  
Frank Vrachas

**Date**

15/10/2007

**Address**

Level 18, 6-10 O'Connell Street  
SYDNEY NSW 2000



**SODA BRANDS LIMITED**  
**ABN: 91 081 149 635**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 JULY 2007**

	<b>Note</b>	<b>Consolidated Group</b>		<b>Parent Entity</b>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	2	2,461,604	1,827,341	250,894	22,488
Changes in inventories of finished goods and work in progress		(1,366,407)	(934,761)	(128,677)	(14,819)
Sales and market branding		(476,486)	(67,811)	(365,216)	(67,811)
Distribution costs		(155,745)	(107,982)	(145,280)	(107,982)
Non-executive directors' remunerations		(60,677)	(18,045)	(60,677)	(18,045)
Employee benefits expense		(785,535)	(607,507)	(742,324)	(607,507)
Depreciation and amortisation expense		(109,273)	(72,000)	(43,262)	(72,000)
Other expenses		(229,438)	(186,362)	(184,203)	(73,849)
Finance costs		(71,916)	(76,766)	(71,916)	(76,766)
Profit before income tax	3	(794,873)	(243,893)	(1,490,661)	(1,016,291)
Income tax expense	4	-	-	-	-
Profit for the year		<u>(794,873)</u>	<u>(243,893)</u>	<u>(1,490,661)</u>	<u>(1,016,291)</u>
<b>Overall Operations</b>					
Basic earnings per share (cents per share)	7	(3.12)	(2.37)	(5.85)	(9.89)
Diluted earnings per share (cents per share)	7	(3.00)	(2.37)	(5.62)	(9.89)
<b>Continuing Operations</b>					
Basic earnings per share (cents per share)	7	(3.12)	(2.37)	(5.85)	(9.89)
Diluted earnings per share (cents per share)	7	(3.00)	(2.37)	(5.62)	(9.89)

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED**  
**ABN: 91 081 149 635**  
**BALANCE SHEET**  
**AS AT 31 JULY 2007**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	667,865	15,337	658,990	670
Trade and other receivables	9	434,499	265,052	46,722	3,505
Inventories	10	832,681	660,695	13,873	23,945
Other current assets	15	55,552	48,662	54,838	48,662
<b>TOTAL CURRENT ASSETS</b>		<b>1,990,597</b>	<b>989,746</b>	<b>774,423</b>	<b>76,782</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	9	-	-	-	127,934
Financial assets	11	-	-	3,022,460	1
Property, plant and equipment	13	275,081	297,522	123,033	103,013
Intangible assets	14	3,021,756	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,296,837</b>	<b>297,522</b>	<b>3,145,493</b>	<b>230,948</b>
<b>TOTAL ASSETS</b>		<b>5,287,434</b>	<b>1,287,268</b>	<b>3,919,916</b>	<b>307,730</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	16	185,765	321,244	256,768	93,959
Short-term borrowings	17	-	12,669	-	12,669
Short-term provisions	19	9,090	9,090	9,090	9,090
<b>TOTAL CURRENT LIABILITIES</b>		<b>194,855</b>	<b>343,003</b>	<b>265,858</b>	<b>115,718</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	17	-	620,000	-	620,000
Deferred tax liabilities	18	-	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>620,000</b>	<b>-</b>	<b>620,000</b>
<b>TOTAL LIABILITIES</b>		<b>194,855</b>	<b>963,003</b>	<b>265,858</b>	<b>735,718</b>
<b>NET ASSETS</b>		<b>5,092,580</b>	<b>324,265</b>	<b>3,654,058</b>	<b>(427,988)</b>
<b>EQUITY</b>					
Issued capital	20	6,912,808	1,340,100	6,912,808	1,340,100
Reserves		(9,520)	-	-	-
Retained earnings		(1,810,708)	(1,015,835)	(3,258,750)	(1,768,088)
<b>TOTAL EQUITY</b>		<b>5,092,580</b>	<b>324,265</b>	<b>3,654,058</b>	<b>(427,988)</b>

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED**  
**ABN: 91 081 149 635**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 JULY 2007**

	Share Capital			Foreign Currency Translation Reserve	Total
	Note	Ordinary	Retained Earnings		
<b>Consolidated Group</b>		\$	\$	\$	\$
<b>Balance at 1 August 2005</b>		770,100	(771,941)		(1,841)
Profit attributable to members of parent entity			(243,894)		(243,894)
Shares issued during the year		570,000			570,000
<b>Balance at 1 August 2006</b>		1,340,100	(1,015,835)	-	324,265
Shares issued during the year		6,100,000	-	-	6,100,000
Transaction costs		(527,292)	-	-	(527,292)
Profit attributable to members of parent entity		-	(794,873)	-	(794,873)
Adjustments from translation of foreign controlled entities		-	-	(9,520)	(9,520)
<b>Sub-total</b>		6,912,808	(1,810,708)	(9,520)	5,092,580
Dividends paid or provided for			-		-
<b>Balance at 31 July 2007</b>		6,912,808	(1,810,708)	(9,520)	5,092,580

	Share Capital			Foreign Currency Translation	Total
	Note	Ordinary	Retained Earnings		
<b>Parent Entity</b>		\$	\$	\$	\$
<b>Balance at 1 August 2005</b>		770,100	(751,798)		18,302
Profit attributable to members of parent entity			(1,016,290)		(2,032,580)
Shares issued during the year		570,000			570,000
<b>Balance at 1 August 2006</b>		1,340,100	(1,768,088)	-	(427,988)
Shares issued during the year		6,100,000	-	-	6,100,000
Transaction costs		(527,292)	-	-	(527,292)
Profit attributable to members of parent entity		-	(1,490,661)	-	(1,490,661)
<b>Sub-total</b>		6,912,808	(3,258,749)	-	3,654,059
Dividends paid or provided for		-	-	-	-
<b>Balance at 31 July 2007</b>		6,912,808	(3,258,749)	-	3,654,059

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED**  
**ABN: 91 081 149 635**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 JULY 2007**

Note	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	2,473,245	1,832,947	152,424	27,302
Interest received	49,077	-	49,077	-
Payments to suppliers and employees	(3,629,329)	(2,102,679)	(1,500,067)	(1,035,383)
Finance costs	(71,916)	(68,695)	(71,916)	(68,695)
<b>Net cash provided by (used in) operating</b>	<b>25a</b>	<b>(1,178,923)</b>	<b>(1,370,482)</b>	<b>(1,076,776)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Loan from/to subsidiary	-	-	-	623,771
Purchase of property, plant and equipment	(86,832)	(166,368)	(63,282)	(57,247)
Purchase of intangible asset	(3,021,756)	-	-	-
Payment for subsidiary, net of cash acquired	<b>25b</b>	<b>-</b>	<b>(3,022,459)</b>	<b>-</b>
<b>Net cash provided by (used in) investing</b>	<b>(3,108,588)</b>	<b>(166,368)</b>	<b>(3,085,741)</b>	<b>566,524</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	5,572,708	570,000	5,572,707	570,000
Transfer of cash from discontinuing operation	-	-	174,505	-
Repayment of borrowings	(620,000)	(80,000)	(620,000)	(80,000)
<b>Net cash provided by (used in) financing</b>	<b>4,952,708</b>	<b>490,000</b>	<b>5,127,212</b>	<b>490,000</b>
Net increase in cash held	665,197	(14,795)	670,989	(20,252)
Cash net of overdraft at beginning of financial year	2,668	17,463	(11,999)	8,253
<b>Cash at end of financial year</b>	<b>8</b>	<b>667,865</b>	<b>658,990</b>	<b>(11,999)</b>

The accompanying notes form part of these financial statements.

SODA BRANDS LIMITED  
ABN: 91 081 149 635  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2007

**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, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the Consolidated Group of SODA Brands Limited and controlled entities, and SODA Brands Limited as an individual parent entity. SODA Brands Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the Consolidated Group in the preparation of the financial report. The accounting policies have been consistently applied to all years presented, unless otherwise stated

**Basis of Preparation**

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

**Reporting Basis and Conventions**

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, 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 Brands 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 12 to the financial statements. All controlled entities have a July financial year-end.

All inter-company balances and transactions between entities in the Consolidated Group, 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.

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

**(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 Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

SODA Brands Limited and its wholly-owned Australian subsidiaries have formed an income tax Consolidated Group under the tax consolidation regime. SODA Brands Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax Consolidated Group. The tax Consolidated Group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax Consolidated Group.

**(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) Plant and Equipment**

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

**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.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated group 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 consolidated group 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.

**Held-to-maturity investments**

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group 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.

**Derivative instruments**

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

**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.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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) Intangibles**

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**(i) Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**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.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**(j) 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 on costs.

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.

**Equity-settled compensation**

The group operates a number of share-based compensation plans. These include both a share option arrangement for customers loyalty programme and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

**(k) 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.

**(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. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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.

**(q) 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.

No impairment has been recognised in respect of goodwill for the year ended 31 July 2007. Should the projected turnover figures be outside 15% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 31 July 2007 amounting to \$3,021,756.

*Key judgments — Doubtful debts provision*

The directors believe that a provision for doubtful debts does not need to be made for the financial year, as all trade debtors are fully recoverable as at the end of the financial year.

**Note 2 Revenue**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Operating activities					
— sale of goods		2,405,601	1,824,631	194,891	19,778
— interest received	2(a)	49,077	1	49,077	1
— Foreign exchange - realised gains		-	2,709	-	2,709
Total Revenue		2,461,604	1,827,341	250,894	22,488
(a) Interest revenue from:					
— other persons		49,077	1	49,077	1
Total interest revenue		49,077	1	49,077	1

**Note 3 Profit from Ordinary Activities**

		Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
(a) Expenses					
Cost of sales		1,366,407	934,761	128,677	14,819
Finance costs:					
— Parent entity		71,916	68,695	71,916	68,695
Total finance costs		71,916	68,695	71,916	68,695
Rental expense on operating leases					
— minimum lease payments		49,695	48,702	49,695	48,702

**Note 4 Income Tax Expense**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax	18	-	-	-	-
(b) The prima facie tax on profit from ordinary activities before tax as follows					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)					
— Consolidated Group		(238,462)	(73,168)		
— parent entity				(447,198)	(304,887)
— other members of the income tax Consolidated Group net of intercompany transactions		(238,462)	(73,168)	(447,198)	(304,887)
Income tax expense to wholly-owned subsidiaries under the tax sharing agreement					
Income tax attributable to parent entity not brought to accounts as deferred tax asset		(238,462)	(73,168)	(447,198)	(304,887)

**Note 5 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**

FAIRFULL Andrew (Non-exec Chairman)  
GHATTAS Nicholas (Managing Director)  
BRETT Hilton (Non-exec Director)  
KULMAR Stephen (Non-exec Director)

**(b) Parent Entity Directors Remuneration**
**2007**

FAIRFULL Andrew (Non-exec Chairman)  
GHATTAS Nicholas (Managing Director)  
BRETT Hilton (Non-exec Director)  
KULMAR Stephen (Non-exec Director)

**2006**

FAIRFULL Andrew (Non-exec Chairman)  
GHATTAS Nicholas (Managing Director)  
BRETT Hilton (Non-exec Director)  
KULMAR Stephen (Non-exec Director)

	Primary			
	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits
	\$	\$	\$	\$
2007				
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	-
GHATTAS Nicholas (Managing Director)	-	-	-	-
BRETT Hilton (Non-exec Director)	-	-	-	-
KULMAR Stephen (Non-exec Director)	-	-	-	-
	-	-	-	-
2006				
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	-
GHATTAS Nicholas (Managing Director)	107,925	9,713	-	-
BRETT Hilton (Non-exec Director)	-	-	-	-
KULMAR Stephen (Non-exec Director)	-	-	-	-
	107,925	9,713	-	-

Payment to Nicholas Ghattas includes those made to family members in 2006.



(c) **Remuneration Options**

Options Granted as Remuneration

	Vested No.	Granted No.	Grant Date	Terms & Conditions for Each Grant			
				Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
Parent Entity Directors							
FAIRFULL Andrew (Non-exec	-	250,000	1/12/2006	25c	25c		31/07/2011
GHATTAS Nicholas (Managing	-	1,000,000	1/12/2006	25c	25c		31/07/2011
BRETT Hilton (Non-exec Director)	-	250,000	1/12/2006	25c	25c		31/07/2011
KULMAR Stephen (Non-exec	-	250,000	1/12/2006	25c	25c		31/07/2011
	-	1,750,000					

Exercise price equals the market price at date of the grant.

(d) **Options and Rights Holdings**

Number of Options Held by Specified Directors and Executives

	Balance 01/08/2006	Granted as Remuneration	Options Exercised*	Net Change Other*	Balance 31/07/2007	Total Vested 31/07/2007	Total Exercisable 31/07/2007	Total Unexercisable 31/07/2007
<b>2007</b>								
<b>Parent Entity Directors</b>								
FAIRFULL	-	250,000	-	-	250,000	-	-	250,000
GHATTAS	-	1,000,000	-	-	1,000,000	-	-	1,000,000
BRETT Hilton	-	250,000	-	-	250,000	-	-	250,000
KULMAR	-	250,000	-	-	250,000	-	-	250,000
	-	1,750,000	-	-	1,750,000	-	-	1,750,000

(e) **Shareholdings**

Number of Shares held by Parent Entity Directors and Specified Executives

	Balance 01/08/2006	Received as Remuneration	Options Exercised	Net Change Other*	Balance 31/07/2007
<b>2007</b>					
<b>Parent Entity Directors</b>					
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	75,000	75,000
GHATTAS Nicholas (Managing Director)	-	-	-	1,275,000	1,275,000
BRETT Hilton (Non-exec Director)	-	-	-	150,000	150,000
KULMAR Stephen (Non-exec Director)	-	-	-	40,000	40,000
	-	-	-	1,540,000	1,540,000

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

(f) **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 policy of SODA Brands Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of SODA Brands Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The remuneration policy has been 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 to have been effective in increasing shareholders wealth over the past four years.

**Note 6 Auditors' Remuneration**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	7,000	7,000	7,000	7,000
— taxation services	1,240	302	1,240	109
— due diligence services	15,000	-	15,000	-
— taxation services provided by related practice of auditor	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	-	4,000	-	4,000

**Note 7 Earnings per Share**

	Consolidated Group	
	2007	2006
	\$	\$
(a) Reconciliation of Earnings to Profit or Loss		
Profit (Loss)	(794,873)	(243,893)
Earnings used to calculate basic EPS	(794,873)	(243,893)
Dividends on converting preference shares		
Earnings used in the calculation of dilutive EPS	(794,873)	(243,893)

(b) Reconciliation of Earnings to Profit or Loss from Continuing Operations		
Profit from continuing operations	(794,873)	(243,893)
Earnings used in the calculation of dilutive EPS from continuing operations	(794,873)	(243,893)
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No.	No.
Weighted average number of options outstanding	25,500,000	10,274,744
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	1,020,833	-
	26,520,833	10,274,744

#### Note 8 Cash Assets

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash at bank and in hand		667,865	15,337	658,990	670
		667,865	15,337	658,990	670

The effective interest rate on bank account was 5.25% (2006: 3.2%).

#### 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		667,865	15,337	658,990	670
Bank overdrafts	17	-	(12,669)	-	(12,669)
		667,865	2,668	658,990	(11,999)

#### Note 9 Receivables

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
Trade receivables		344,687	261,992	1,268	459
		344,687	261,992	1,268	459
Other receivables		89,812	3,060	8,096	3,046
Amounts receivable from:					
— wholly-owned subsidiaries		-	-	37,358	-
		434,499	265,052	46,722	3,505
NON-CURRENT					
Amounts receivable from:					
— wholly-owned entities		-	-	-	127,934
		-	-	-	127,934

#### Note 10 Inventories

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
At cost					
Finished goods		832,681	660,695	13,873	23,945
		832,681	660,695	13,873	23,945

#### Note 11 Other Financial Assets

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
NON CURRENT					
Available for sale financial assets	11(a)	-	-	3,022,460	1
		-	-	3,022,460	1
(a) Available-for-sale financial assets Comprise:					
NON CURRENT					
Unlisted investments, at cost					
— shares in controlled entities		-	-	3,022,460	1
Total non-current available-for-sale financial assets		-	-	3,022,460	1

Available-for-sale financial assets comprise investments in the ordinary share capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale 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. Management has determined that the estimate of total consolidated fair values for unlisted investments would be within the range of \$3 million to \$3.5 million at 31 July 2007. Unlisted available-for-sale financial assets exist within active markets and could be disposed of if required.

## Note 12 Controlled Entities

### (a) Controlled Entities Consolidated

Parent Entity:	Country of Incorporation	Percentage Owned (%)*	
		2007	2006
SODA Brands Limited	Australia		
<b>Ultimate Parent Entity:</b>			
Souls Private Equity Limited	Australia		
<b>Subsidiaries of Soda Brands Limited:</b>			
SO Distributions Pty Limited	Australia	100	100
Salon Only Pty Limited	Australia	100	-
Soda Brands (NZ) Limited	New Zealand	100	-
Soda Brands (UK) Limited	United Kingdom	100	-

\* Percentage of voting power is in proportion to ownership

### (b) Acquisition of Controlled Entities

On 2 January 2007 the parent entity acquired 100% of Salon Only Pty Limited, with Soda Brands Limited entitled to all profits earned from that date for a purchase consideration of \$3,021,756.

Soda Brands Limited, incorporated wholly owned subsidiaries, Soda Brands (UK) Limited and Soda Brands (NZ) Limited during the financial year.

## Note 13 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	570,947	484,115	287,389	224,107
Accumulated depreciation	(295,866)	(186,593)	(164,356)	(121,094)
Total Plant and Equipment	275,081	297,522	123,033	103,013

### (a)

	Plant and Equipment	Total
	\$	\$
consolidated group:		
Balance at the beginning of year	297,522	297,522
Additions	86,832	86,832
Additions through acquisition of entity	-	-
Depreciation expense	(109,273)	(109,273)
Carrying amount at the end of year	275,081	275,081
Parent Entity:		
Balance at the beginning of year	103,013	103,013
Additions	63,282	63,282
Depreciation expense	(43,262)	(43,262)
Carrying amount at the end of year	123,033	123,033

The recoverable amount of the cash generating unit has been determined to be its fair value less costs to sell. The fair value was determined with reference to an active market, where the market price of similar equipment and of a similar age was used as the benchmark. Costs for selling the equipment were estimated based on the company's prior history of selling similar equipment.

## Note 14 Intangible Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Goodwill				
Cost	3,021,756	-	-	-
Accumulated impairment losses	-	-	-	-
Net carrying value	3,021,756	-	-	-
Total intangibles	3,021,756	-	-	-

### consolidated group:

	Goodwill
	\$
Year ended 31 July 2006	
Balance at the beginning of year	-
Acquisitions through business combinations	3,021,756
Impairment losses	-
Closing carrying value at 31 July 2006	3,021,756

Intangible assets, other than goodwill have finite useful lives. Goodwill has an infinite life.

Goodwill is allocated to cash-generating units which are based on the group's reporting segments

	2007	2006
	\$	\$
Distribution segment	3,021,756	-
Total	3,021,756	-

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10-year period with the period extending beyond five years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10-year government bonds at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

	Growth Rate	Discount Rate
Distribution segment	20.00%	11.23%

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

#### Note 15 Other Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Prepayments	45,102	8,279	44,388	8,279
Listing costs	-	29,933	-	29,933
Security deposits	10,450	10,450	10,450	10,450
	55,552	48,662	54,838	48,662

#### Note 16 Payables

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
Unsecured liabilities					
Trade payables		85,042	277,586	4,774	93,051
Sundry payables and accrued expenses		100,723	43,658	77,489	908
— subsidiaries of ultimate parent entity		-	-	174,505	-
		185,765	321,244	256,768	93,959

#### Note 17 Borrowings

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT					
Unsecured liabilities					
Bank overdraft		-	12,669	-	12,669
		-	12,669	-	12,669
NON-CURRENT					
Souls Private Equity Limited		-	620,000	-	620,000
		-	620,000	-	620,000

#### Note 18 Tax

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
(a) Liabilities					
CURRENT					
Income Tax		-	-	-	-
TOTAL		-	-	-	-
NON-CURRENT					
(b) 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		518,912	280,450	504,432	280,450
— tax losses:		2,727	2,727	2,727	2,727
— operating losses		-	-	-	-
— Provision		-	-	-	-
		521,639	283,177	507,159	283,177

**Note 19 Provisions**

CURRENT	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
Non-current	-	-	-	-
	9,090	9,090	9,090	9,090

**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 20 Issued Capital**

34,000,000 (2006: 10,333,334) fully paid ordinary shares

6,912,808	1,340,100	6,912,808	1,340,100
6,912,808	1,340,100	6,912,808	1,340,100

**(a) Ordinary Shares**

	Year Ended 31 July 2007		Year Ended 31 July 2006	
	No.	\$	No.	\$
At the beginning of reporting period	19,000,000	1,340,100	10,000,000	770,100
Shares issued during year				
— 1 October 2005			333,333	50,000
— 31 July 2006			8,666,667	520,000
— 30 September 2006	1,000,000	100,000		
As at 30 September 2006	20,000,000	1,440,100		
— 30 September Share Consolidation	(10,000,000)			
Sub total	10,000,000	1,440,100	19,000,000	1,340,100
Shares bought back during the year				
— Shares issued in pursuant to the company listing on the NSX exchange	20,000,000	5,000,000		
— Shares issued in consideration of the acquisition of Salon Only Pty Limited	4,000,000	1,000,000		
At reporting date	34,000,000	7,440,100	19,000,000	1,340,100
Less transaction costs relating to the share issue	-	(527,292)	-	-
Contributed Equity	34,000,000	6,912,808	19,000,000	1,340,100

**Options on ordinary shares**

Directors' options issued prior to listing at the exercise price of \$0.25 each  
Employee share option plan (to be issued in the future)  
Customer Loyalty Program (to be issued in the future)

Consolidated Group		Parent Entity	
2007	2006	2007	2006
No.	No.	No.	No.
1,750,000	-	1,750,000	-
1,700,000	-	1,700,000	-
3,400,000	-	3,400,000	-
6,850,000	-	6,850,000	-

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

**(d) Options**

- (i) For information relating to the SODA Brands Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 26.  
(ii) For information relating to share options issued to executive directors during the financial year, refer to Note 5.

**Note 21 Reserves****(a) Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary

**(b) Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options

**Note 22 Capital and Leasing Commitments**

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>(a) Operating Lease Commitments</b>					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		42,356	44,988	42,356	44,988
— between 12 months and 5 years		89,332	72,504	89,332	72,504
— greater than 5 years		-	-	-	-
		131,688	117,492	131,688	117,492

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the CPI. An option exists to renew the lease at the end of the three-year term for an additional term of five years.

#### Note 23 Contingent Liabilities and Contingent Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Estimates of the potential financial effect of contingent liabilities that may become payable:	-	-	-	-

#### Note 24 Segment Reporting

	Distribution		Consolidated Group (Continuing Operations)	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Primary Reporting — Business Segments</b>				
REVENUE				
External Sales	2,461,604	1,827,341	2,461,604	1,827,341
Other segments	-	-	-	-
Total sales revenue	2,461,604	1,827,341	2,461,604	1,827,341
Unallocated revenue	-	-	-	-
Total revenue from ordinary activities				
RESULT				
Segment result	(722,957)	(167,127)	(722,957)	(167,127)
Unallocated expenses net of unallocated revenue	-	-	-	-
Borrowing Costs	(71,916)	(76,766)	(71,916)	(76,766)
Profit before income tax	(794,873)	(243,893)	(794,873)	(243,893)
Income tax expense	(794,873)	(243,893)	(794,873)	(243,893)
Profit after income tax	(794,873)	(243,893)	(794,873)	(243,893)
ASSETS				
Segment assets	5,287,434	1,287,268	5,287,434	1,287,268
Total assets	5,287,434	1,287,268	5,287,434	1,287,268
LIABILITIES				
Segment liabilities	194,855	963,003	194,855	963,003
Total liabilities	194,855	963,003	194,855	963,003
OTHER				
Acquisitions of non-current segment assets	3,021,756	-	3,021,756	-
Depreciation and amortisation of segment assets	(109,273)	(72,000)	(109,273)	(72,000)

#### Secondary Reporting — Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Geographical location:						
Australia	2,375,706	1,827,341	5,334,897	324,265	3,297,541	297,522
New Zealand	29,898	-	(47,465)	-	-	-
United Kingdom	-	-	2	-	-	-
	2,405,604	1,827,341	5,287,434	324,265	3,297,541	297,522

#### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

#### Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arms length. These transfers are eliminated on consolidation.

#### Business and Geographical Segments

##### Business segments

The consolidated group has the following five business

- Distribution division provides a range of services throughout Australia and New Zealand and specialises in the distribution of hair care and beauty products.

##### Geographical segments

The consolidated group's business segments are located in Australia, New Zealand and the United Kingdom.

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax</b>				
Profit from ordinary activities after income tax	(794,873)	(243,893)	(1,490,661)	(1,016,291)
Cash flows excluded from profit from ordinary activities attributable to operating activities				
Depreciation	109,273	75,188	43,262	31,035
Foreign exchange translation reserve	(9,520)			
Increase/(decrease) in trade and term receivables	(169,447)	(5,606)	(43,217)	4,817
Increase/(decrease) in prepayments and other assets	(6,890)	78,193	(6,176)	(36,375)
Increase/(decrease) in inter-company receivables	-	-	127,934	-
Increase/(decrease) in inventories	(171,986)	(167,987)	10,072	2,556
(Increase)/decrease in trade payables and accruals	(135,480)	(45,451)	(89,185)	(33,647)
(Increase)/decrease in other payable	-	-	77,489	-
Increase/(decrease) in provisions	-	(28,871)	-	(28,871)
Cash flow from operations	(1,178,923)	(338,427)	(1,370,482)	(1,076,776)

**(b) Acquisition of Entities**

During the year, 100% the issued capital of Salon Only Pty Limited was acquired. Details of this transaction are:

Purchase consideration	-	-	3,021,756	-
Cash consideration	-	-	2,021,756	-
Consideration settled by issuance of 4,000,000 ordinary shares at \$0.25 being the market value of the shares	-	-	1,000,000	-
Cash outflow	-	-	3,021,756	-

Assets and liabilities held at acquisition date:

Goodwill on consolidation

-	-	-	-
3,021,756	-	-	-
3,021,756	-	-	-

The goodwill is attributable to the ownership of the SO Brand owned by the acquired business and the significant synergies expected to arise after the group's acquisition of Salon Only Pty Limited

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value.

**(c) Non-cash Financing and Investing Activities**

**(i) Share Issue**

4,000,000 ordinary shares were issued at 25 cents as part of the consideration for the purchase of Salon Only Pty Limited. The share issue was based on the fair value of the company which was determined by reference to the Initial Public Offering price.

**(d) Loan Facilities**

Loan facilities  
Amount utilised

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loan facilities	-	620,000	-	620,000
Amount utilised	-	(620,000)	-	(620,000)

**Note 26 Share-based Payments**

The following share-based payment arrangements existed at 31 July 2007:

1,750,000 share options were granted to directors as disclosed in Note 5. The Options grant a right, on exercise, to be issued one Ordinary Share at an exercise price of 25 cents per share.

1,750,000 Directors' Options have been issued. The options expire on 31 July 2011, if not exercised by that date. As the fair value of the options issued at the time of the issue or since has not exceeded the exercise price of 25 cents, no amount has been expensed as directors remuneration per Accounting Standard AASB 1046.

1,700,000 Employees' Options are to be issued on expiry of four years from the date of public listing of shares (i.e. 2 Jan 2011).

3,400,000 Loyalty Plan Options are to be issued on or after the expiry of 13 months from the date of public listing (i.e. 2 Feb 2008). The company's potential exposure based on current sales achieved by customers in the loyalty program amounts to \$84,000.

At the date of this report, issued and unissued ordinary shares of SODA Brands Limited under option are as follows:

Type Of Option Plan	Grant Date	Date of expiry	Exercise price	Number of options	Number of shares
Directors' Options		31/07/2011	25c	1,750,000	-
Employee Share Option Plan	Not Yet Granted		To be determined	1,700,000	-
Customer Loyalty Option Plan	Not Yet Granted		To be determined	3,400,000	-
				6,850,000	-

Included under employee benefits expense in the income statement is NIL (2006: NIL), and relates, in full, to equity-settled share-based payment transactions, as the exercise price on date of issue and since the day of issue was equal or less than the fair value of the options issued.

## Note 27 Events After the Balance Sheet Date

- (a) There were at the date of this report no matters or circumstances which have arisen since 31 July 2007 that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the financial year subsequent to 31 July 2007.
- (b) The financial report was authorised for issue on 15 August 2007 by the board of directors.

## Note 28 Related Party Transactions

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
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:				
<b>(a) Ultimate Parent Company</b>				
Loan facilities from ultimate parent entity, Souls Private Equity Limited (SPEL)	-	620,000	-	620,000
Payment of interest on loan facilities provided by SPEL	71,916	68,695	71,916	68,695
<b>(b) Wholly owned subsidiaries</b>				
Receivable from/(to) subsidiary - Soda Brands (NZ) Limited	-	-	37,358	-
Receivable from/(to) subsidiary - SO Distributions Pty Limited	-	-	(174,505)	127,934
<b>(c) Share based transactions</b>				

### Shares issued to SPEL as at 31 July 2007

Consolidated Group		Parent Entity	
2007	2006	2007	2006
No.	No.	No.	No.
23,200,733	8,833,334	23,200,733	8,833,334

The shares held by the directors are detailed in note 5.

## (d) Identification of Related Parties Ultimate Parent Entity

The parent entity is ultimately controlled by Souls Private Equity Limited which held 68.2% of the issued share capital of the parent entity as at 31 July 2007. Souls Private Equity Limited is a company incorporated in Australia

## Note 29 Financial Instruments

### (a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares, and derivatives.

The main purpose of non-derivative financial instruments is to raise finance for group operations. Derivatives are used by the group for hedging purposes. Such instruments include forward exchange and currency option contracts and interest rate swap agreements. The group does not speculate in the trading of derivative instruments.

#### (i) Treasury Risk Management

A finance committee consisting of senior executives 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

The group is debt free therefore the group is not exposed to interest rate risk except that any variations in base lending rates may affect the interest receivable on excess funds in the bank account

##### Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The operations of New Zealand and United Kingdom subsidiaries pose exchange variation risk to the parent

##### 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

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

##### Price risk

The group is exposed to price risk in respect of packaging and raw materials used for production of hair care products.



## Financial Instruments

**(ii) Interest Rate Risk**

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

	Weighted Average Effective 2007	2006	Floating Interest Rate 2007	2006	Within Year 2007	2006	1 to 5 years 2007	2006	Over 5 Years 2007	2006	Non-interest Bearing 2007	2006	Total 2007	2006
<b>Financial Assets:</b>														
Cash and cash equivalents	5.25	2.00	667,665.03	15,337	-	-	-	-	-	-	-	-	667,665	15,337
Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>			<b>667,665</b>	<b>15,337</b>									<b>667,665</b>	<b>15,337</b>
<b>Financial Liabilities:</b>														
Bank loans and overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' loans - SPEL	-	9.00	-	-	-	-	-	620,000	-	-	-	-	-	620,000
Trade and sundry creditors	-	-	-	-	-	-	-	-	-	-	185,765	321,244	185,765	321,244
<b>Total Financial Liabilities</b>								<b>620,000</b>			<b>185,765</b>	<b>321,244</b>	<b>185,765</b>	<b>321,244</b>

(iii) **Net Fair Values**

The net fair values of:

- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Fair values are materially in line with carrying values. A discount rate of 11.23% (2006: 9%) has been applied to all non-current borrowings to determine fair value

### Note 30

### Company Details

The registered office of the company is:

**SODA Brands Limited**

3A/3 140 William Street

WOOLLOOMOOLOO NSW 2011

The principal places of SODA Brands Limited are:

**SODA Brands Limited**

3A/3 140 William Street

WOOLLOOMOOLOO NSW 2011



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 7 to 23, 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 2007 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that
  - (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.

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

A handwritten signature in black ink, appearing to read "A. Fairfull", written over a horizontal line.

Director

*FAIRFULL Andrew (Non-exec Chairman)*

Dated this 15th day of October 2007

**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF SODA BRANDS LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of SODA Brands Limited (the company) and SODA Brands Limited and controlled entities (the consolidated entity), which comprises the balance sheet as at 31 July 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of SODA Brands Limited on 15 October 2007 would be in the same terms if provided to the directors as at the date of this auditor's report.

**Audit Opinion**

In our opinion:

- a. the financial report of SODA Brands Limited and SODA Brands Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's and consolidated entities' financial position as at 31 July 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International financial Reporting Standards as disclosed in Note 1.

Name of Firm

**Rothsay Chartered Accountants**

Audit Partner

  
Frank Vrachas

Date

15/10/2007

Address

Level 18, 6-10 O'Connell Street  
SYDNEY NSW 2000