



Explanatory Memorandum for SODA Brands Limited

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Definitions, Terms and Abbreviations

Below is a summary of the definitions, terms and abbreviations used within this Explanatory Memorandum to shareholders.

\$	means Australian Dollars;
Directors or Board	means the Board of Soda in office at the date of this Explanatory Memorandum;
EBITDA	means earnings before interest, tax, depreciation and amortisation;
EGM	means an Extraordinary General Meeting of the shareholders of Soda;
FY	means Financial Year, being 1 August to 31 July;
Explanatory Memorandum	means this Explanatory Memorandum to Soda shareholders dated 11 August 2008;
IPO	means initial public offering;
Kistani	means Kistani Holdings Pty Limited (ACN 131 450 587)

Proposed Transaction means the proposed acquisition of the entire issued share capital of Kistani on the terms set out in this Explanatory Memorandum;

Soda or the Company means Soda Brands Limited (ACN 081 149 635).



Chairman's Address

11 August 2008

Dear Shareholder,

As announced on 10 June 2008, a Share Purchase Agreement was entered into with the shareholders of Kistani. The Share Purchase Agreement contemplates Soda acquiring the entire issued share capital of Kistani.

In the released announcement we indicated that the Proposed Transaction was subject to shareholder approval at an EGM.

Your Directors believe that the Proposed Transaction is in the best interests of all shareholders and unanimously recommend that you support the Proposed Transaction.

Full details of the Proposed Transaction are set out in this Explanatory Memorandum. If you would like to enquire about any aspect of the Proposed Transaction please call me on (02) 9210 7000, or seek advice from your investment adviser or other professional adviser.

I look forward to meeting you personally at the upcoming Extraordinary General Meeting to be held at 179 Palmer Street Darlinghurst, NSW 2010 at 10:30am on 9 September 2008.

Yours sincerely

A handwritten signature in black ink, appearing to read "A Fairfull".

Andrew Fairfull
Chairman
Soda Brands Limited

1. Introduction

On 10 June 2008, the Board of Soda entered into a Share Purchase Agreement with the shareholders of Kistani. The Proposed Transaction is subject to the condition precedent of shareholder approval.

The purpose of this Explanatory Memorandum is to provide the background necessary for Soda shareholders to make an informed decision regarding approval or otherwise of the Proposed Transaction.

The Directors of Soda unanimously recommend that you vote in favour of the Proposed Transaction as they believe that the acquisition is in the best interests of all shareholders.

The major shareholder of Soda, Souls Private Equity Limited, has indicated their intention to vote in favour of the Proposed Transaction for all interests under their control.

If shareholders do not approve the Proposed Transaction, the acquisition of Kistani will not proceed.

2. History of Soda

Soda commenced operations during August 2003. Soda listed on the NSX during January 2007 and raised \$5 million as part of this IPO process.

Prior to the IPO, Soda was the distributor of the Salon Only range of hair care products as well as the distributor for the Robanda range of skin care products. The proceeds raised in the IPO enabled the acquisition of the Salon Only brand and associated manufacturing rights.

Soda completed the HairFX acquisition on 10 June 2008. Post this acquisition Soda now represents the following brands through its current core sales channel of professional hair and beauty salons.

Salon Only	Hair care brand owned by Soda
Nexus	Hair care brand licensed by Soda
Sexy Hair	Hair care brand licensed by Soda
Paul Brown	Hair care brand licensed by Soda
Robanda	Skin care brand licensed by Soda

2.1 Historical Earnings Performance

Below is a summary of Soda's expected (unaudited) and historical audited sales and gross margin performance for each of the twelve months ended 31 July 2006, 31 July 2007 and 31 July 2008.

Soda Brands Limited	Audited	Audited	Unaudited
	Actual	Actual	Expected
Summary Statement of Financial Performance	2006	2007	2008
for the year ended 31 July	\$'000	\$'000	\$'000
Sales	1,825	2,406	2,600
Gross Margin Contribution	890	1,040	1,404
Gross Margin Percentage (%)	49%	43%	54%

Product sales have grown organically over the last two financial years. Sales grew by 32% during the 2007 fiscal year and are expected to grow by 8% in the current 2008 fiscal year ended 31 July.

The acquisition of the Salon Only brand during the 2007 financial year has resulted in the contribution margin being increased from 43% of sales during the 2007 fiscal year to an expected 54% of sales during the current 2008 fiscal year.

2.2 Issued Share Capital

The Company's total issued share capital at 21 July 2008 was \$6.9 million represented by 34,000,000 fully paid ordinary shares held by 261 shareholders.

As a result of the HairFX acquisition on 10 June 2008 an additional 723,405 shares are to be issued upon the completion of the condition precedents involved with that acquisition. The condition precedents are expected to be completed during August 2008.

As at 21 July 2007, Soda had 1,750,000 unexercised options on issue. The options have an exercise price of \$0.25 per option and an expiry date of 31 January 2012.

2.3 Ownership

As at 21 July 2008, Soda's only substantial shareholder was SPEL. SPEL holds 23,200,733 shares which equates to 68% of the entire issued share capital of the Company.

2.4 Share Price History & Liquidity

Since the listing on 12 January 2007 there have been a total of 19 trades in the Company's shares representing a total volume of 395,470 shares.

Soda's share price traded between \$0.05 and \$0.26 per share over the period 12 January 2007 to 21 July 2008 implying a market capitalisation of between \$1.7 million and \$8.8 million on an undiluted basis.

The last trade in Soda's shares occurred on 24 June 2008. The volume was 40,000 shares at a price of \$0.15 per share.

3. Who is Kistani?

Kistani is the current exclusive distributor of the Matis skincare brand throughout Australia and New Zealand as well as the exclusive distributor for the haircare brands Thairapy and Biosense throughout Australia and New Zealand. The initial terms of the distribution agreements are: -

Soda Brands Ltd	
Acquisition of Kistani	Distribution Term
Initial Distribution Term	Month / Year
Matis	31-Dec-16
Thairapy	01-Aug-13
Biosense	01-Aug-13

The current Kistani business has annual sales for the Matis brand of \$700,000 and achieves gross margin percentages of 50% based on current exchange rate levels. The Thairapy and Biosense brands will be launched in Australia during the 2009 financial year.

4. Rationale for the Proposed Transaction and the Recent HairFX Acquisition

The reasons for your Board to execute the HairFX and Kistani acquisitions include: -

- The ability to market and sell the HairFX brands on a national basis utilising SODA's existing sales and administration infrastructure as opposed to the current NSW only focus of HairFX;

- The addition of the Nexxus range includes a high quality colour range that will be immediately launched into the market (including to SODA's current client base of 800 hair salons);
- The ability to extend current SODA relationships with the larger retailers due to the ability to represent several brands across a range of market price points;
- The ability to become a "one stop shop" to hair salons because we now represent multi-brands that cover the full spectrum of their clients' price ranges (high, mid and low) as well as now having a colour range which is the daily "bread and butter" consumable utilised within hair salons;
- Expanding SODA's client base from the current 800 doors to 1,500 doors and the associated sell-in of the multi-brands across the entire expanded client base;
- The ability to "defray" the administration costs, listed corporate costs and other infrastructure costs over a larger sales and gross margin contribution base;
- The savings associated with the consolidation of warehousing and freight costs to one supplier;
- Post the acquisitions, the combined business will boost the level of sales and gross margin contribution by 79% and 76% respectively when compared to the expected results for SODA for the current 31 July 2008 financial year (on a 'pre-acquisitions' basis). The table below summarises the expected increase in sales and gross margin contribution without including the operating efficiencies and sales growth initiatives that the expanded management team have planned; and

Soda Brands Limited	SODA (as is)	SODA (as is)	SODA (as is)	Proforma
	Actual	Actual	Annualised	Post Acquisitions
Comparative Sales and	2006FY	2007FY	2008FY	Annualised
Gross Margin Contribution	A\$	A\$	A\$	2008FY
Sales	1,825,000	2,406,000	2,600,000	4,800,000
Gross Margin (%)	49%	43%	54%	54%
Gross Margin Contribution (\$)	890,000	1,040,000	1,404,000	2,574,000

- As part of the Kistani acquisition the Company will be gaining an additional supportive 'cornerstone' shareholder that is committed to the vision of 'organic' and 'acquisition' growth within the health, beauty and wellbeing segments.

5. Summary of the Terms of the Proposed Transaction

5.1 Structure and Pricing of Kistani Acquisition

The Kistani acquisition has been structured in four separate parts.

The existing base Kistani business is being acquired for \$429,564 and is being settled via the issue of 8,591,282 shares in Soda plus a total of 1,250,000 options exercisable at \$0.25 per share with an exercise period between 1 August 2009 and 31 July 2012.

Secondly, the Kistani shareholders will provide an equity injection of \$500,000 to Soda via a placement at \$0.18 per share (2,777,778 shares).

Thirdly, the current Kistani shareholders will have the option to provide an additional equity injection of \$2,336,335 to Soda via a placement at \$0.20 per share (11,831,673 shares). The option period is between 1 August 2008 and 31 January 2010.

Finally, the current senior management team and shareholders of Kistani will receive additional 'performance' shares based on achieving earnings targets per share during the 31 July 2011 and 31 July 2012 financial years.

5.2 'Performance' Shares

The Proposed Transaction provides incentives to the management team and vending shareholders of Kistani to achieve EBITDA per share targets for both the 2011 and 2012 financial years.

The consolidated Soda target for the 31 July 2011 financial year is an EBITDA per share greater than \$0.051. If this target is achieved an additional 2,880,000 shares will be issued for the acquisition of Kistani.

Where the EBITDA per share for the 31 July 2011 financial year is equal to or greater than \$0.0459 but less than \$0.051, the number of shares issued will be calculated as:

$$\text{Shares Granted} = 2,880,000 \times (\text{FY 2011 EBITDA per share} \div \$0.051)$$

The consolidated Soda target for the 31 July 2012 financial year is an EBITDA per share greater than \$0.057. If this target is achieved an additional 5,760,000 shares will be issued for the acquisition of Kistani.

Where the EBITDA per share for the 31 July 2012 financial year is equal to or greater than \$0.0513 but less than \$0.057, the number of shares issued will be calculated as:

$$\text{Shares Granted} = 5,760,000 \times (\text{FY 2012 EBITDA per share} \div \$0.057)$$

Whether the EBITDA per share targets will be achieved will be dependent on the future management performance of Soda.

5.3 Effect on Ownership

As at 21 July 2008 the ownership of Soda is represented by the table below.

Soda Brands Limited		
Summary of Ownership of Shares on Issue	Shares	%
Souls Private Equity Limited	23,200,733	68.2%
Shareholders subscribed in the IPO	10,799,267	31.8%
Total Shares on Issue	34,000,000	100.0%

Post the issue of shares to the vendors of HairFX, the initial acquisition of the Kistani business and the receipt of the \$500,000 placement from the Kistani shareholders, the ownership of Soda is represented by the table below.

Soda Brands Limited		
Summary of Ownership of Shares on Issue	Shares	%
Souls Private Equity Limited	23,200,733	50.3%
Shareholders subscribed in the IPO	10,799,267	23.4%
Vendors of HairFX	723,405	1.6%
Vendors of Kistani	11,369,060	24.7%
Total Shares on Issue	46,092,465	73.8%

Post the receipt of the \$2.3 million placement from the Kistani shareholders and if the EBITDA per share targets are met for both the 2011 and 2012 financial years, the ownership of Soda is represented by the table below.

Soda Brands Limited		
Summary of Ownership of Shares on Issue	Shares	%
Souls Private Equity Limited	23,200,733	34.9%
Shareholders subscribed in the IPO	10,799,267	16.2%
Vendors of HairFX	723,405	1.1%
Vendors of Kistani	31,840,733	47.8%
Total Shares on Issue	66,564,138	51.1%

5.4 Financial Impact on Soda

By completing the Proposed Transaction, Soda is expected to generate annual product sales of \$5,000,000 for the 2009 financial year prior to executing management's sales growth initiatives. This represents a 92% increase over the estimated product sales for the current financial year ended 31 July 2008 of \$2,600,000.

By completing the Proposed Transaction, Soda is expected to generate annual contribution margin of \$2,700,000 for the 2009 financial year prior to executing management's growth initiatives as well as extracting management's planned operating efficiencies. This represents a 92% increase over the estimated gross margin contribution for the current financial year ended 31 July 2008 of \$1,404,000.

The table below summarises the expected annualised improved impact on sales, gross margin contribution (prior to implementing management's growth plans as well as extracting management's planned operating efficiencies) as compared to the historical performance of Soda.

Soda Brands Limited	Audited Actual 2006 \$'000	Audited Actual 2007 \$'000	Unaudited Expected 2008 \$'000	Post Acquisition Annualised \$'000
Summary Statement of Financial Performance for the year ended 31 July				
Sales	1,825	2,406	2,600	5,000
Gross Margin Contribution	890	1,040	1,404	2,700
Gross Margin Percentage (%)	49%	43%	54%	54%

Had the Proposed Transaction been effected as at 31 January 2007 (the latest available audited balance date) in addition to the completion of the HairFX acquisition, Soda's Proforma balance sheet would have comprised the following:

Soda Brands Limited Proforma Balance Sheet as at 31 January 2007	\$'000
Cash	265
Net Working Capital	1,779
Other Assets	95
Property, Plant & Equipment	249
Goodwill	3,656
Unsecured Interest Bearing Loans	(500)
Provisions	(8)
Net Assets	<u>5,536</u>

6. Directors' Recommendation for the Proposed Transaction

The Directors unanimously recommend the Proposed Transaction.

It is the Directors' view that the Proposed Transaction represents

The Directors believe that Soda's corporate structure, working capital and cash balances, nil debt and the listing on the NSX enables the aggregation of suitable assets within the 'health, beauty and wellbeing' industries.

7. Soda's Due Diligence Process

Soda and Kistani commenced discussions with regards to Proposed Transaction during April 2008.

As part of the due diligence process, Soda engaged Pitt Capital Partners to advise the Board on the corporate finance and financial aspects of the Proposed Transaction.


As part of the due diligence process, Soda engaged HGR to provide legal assistance with the drafting of the legal agreements associated with the Proposed Transaction.

8. If the Proposed Transaction does not Proceed

In the event of the Proposed Transaction not proceeding, Soda would continue operating its current business (the brands of Salon Only, Robanda, Sexy Hair, Nexxus and Paul Brown) under normal conditions and would consider other acquisitions or proposals to benefit shareholders.

This Explanatory Memorandum is signed for and on behalf of the Company by Andrew Fairfull, being a director of the Company who is authorised to sign this Explanatory Memorandum pursuant to a resolution passed on 9 September.

Dated this 11th day of August 2008



Andrew Fairfull
Non-executive Chairman
Soda Brands Limited