

# **SODA BRANDS LIMITED AND CONTROLLED ENTITIES**

**ABN: 91 081 149 635**

**Annual Financial Report For The Year Ended  
31 July 2009**

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# **SODA BRANDS LIMITED AND CONTROLLED ENTITIES**

**31 July 2009**

**ABN: 91 081 149 635**

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**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES  
REPORT OF THE DIRECTORS'**

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 31 July 2009.

**Principal Activities and Significant Changes in Nature of Activities**

The principal activities of the consolidated group during the financial year were:

- manufacturing and distribution of hair care products exclusively to salons and other selected outlets; and
- distribution of cosmetic products;

**Operating Results and Review of Operations for the year**

**Operating Results**

The consolidated profit/ (-) loss of the consolidated group after providing for income tax and eliminating minority equity interests amounted to \$-6,212,318 (2008 : Loss \$320,450). This represented an 1938% increase on the result reported for the year ended 31 July 2008. The significant increase in losses was largely from impairment of goodwill and inventories.

**Chairman's Report**

Soda Brands Limited (Soda) has incurred an operating loss of \$6.2 million for the 12 months ended 31 July 2009. The result includes impairment of goodwill of \$3.8 million and impairment of inventory of \$0.7 million.

As announced at the half year reporting date, the Directors undertook a number of initiatives to counter-act the problems the company faced in light of the difficult economic climate experienced during the 2009 financial year.

The initiatives included:

- > Senior management team restructure;
- > An 'across the board' cost-cutting program;
- > Entry into a call option to acquire 100% of Incolabs (owner of the 89 year old Innoxa branded skin care range);
- > Board of directors restructure; and
- > Additional funding from the major shareholders (Souls Private Equity Limited and Maximize Equity Pty Limited).

The table below summarises the operating results between the first and second halves of the 2009 financial year. Please refer to the Chairman's Report for a detailed review of the operations of the consolidated group for the financial year.

	2009 Financial Year		
	Half 1	Half 2	Full Year
	\$'000	\$'000	\$'000
<b>Revenue</b>	1,549	815	2,364
<b>Gross Margin</b>	408	391	799
<b>GM%</b>	26%	48%	34%
<b>Overhead Expenses</b>	1,486	856	2,342
<b>EBITDA</b>	(1,078)	(485)	(1,543)
<b>Depreciation &amp; Amortisation</b>	46	32	78
<b>Interest Expense</b>	-	69	68
<b>Net Profit Before One-Offs</b>	(1,124)	(566)	(1,690)
<b><u>One-Off Events</u></b>			
<b>Impairment of Stock</b>	450	263	713
<b>Impairment of Goodwill</b>	3,809	-	3,809
<b>Net Profit / (Loss) After Tax</b>	(5,383)	(829)	(6,212)

While the abovementioned initiatives have improved the operating results in the second six months of the financial year, the business is not forecast to break-even until the second quarter of the 2010 financial year. The business continues to experience a tough sales environment which has led to a significant decline in revenues during the 2009 financial year.

The major shareholders, Souls Private Equity Limited (SPEL) and Maximize Equity Pty Limited (MEQ) have continued to support the Company via secured loans while the business moves towards a break-even cash flow position. These loans equate to \$0.6 million as at 31 July 2009.

Post the successful completion of due diligence enquiries, the Company has exercised the call option over the entire issued share capital of Incolabs which becomes effective on 31 October 2009. The acquisition will be funded via additional secured loans totaling \$2.7 million provided equally by SPEL and MEQ.

It is the intention of the Company to recapitalise via a combination of a rights issue and placement. The recapitalisation will be underwritten by SPEL and MEQ to the level of their secured loans. The detail of the recapitalisation will be sent to all shareholders via their registered mailing address in due course.

The 2009 financial year results are substantially below expectations. The initiatives undertaken by the Company have commenced delivering the stabilisation of the business. The continuation and stabilisation of the Company would not have been possible without the additional funding support of both SPEL and MEQ as well as the efforts of the new management team and all staff. Special mention must go to the acting CEO, Mr. Steven Beinart.

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The acquisition of Incolabs will commence delivering the economies of scale required in operating a branded 'health and beauty care' business. The Incolabs business will commence being consolidated in the Company's results from 1 November 2009.

#### **Financial Position**

The net assets of the consolidated group have decreased by \$5,230,599 from 31 July 2008 to \$-458,469 in 2009. This decrease is largely due to the following factors:

- Impairment loss on goodwill;
- Impairment loss on obsolete and slow moving stock; and
- Write off of bad & doubtful debts.

The directors believe the group is in a stable financial position to run its current operations, profitably.

#### **Significant Changes in State of Affairs**

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- (i) On 09 September 2008 the company acquired the business owned by Hair FX Australia Pty Ltd, the company issued 723,405 ordinary shares at \$36,170.25 as part consideration for the purchase; and
- paid the initial price amount of \$200,000 to the vendor on the completion date; and
  - paid the second payment amount of \$50,000; and
  - deferred purchase price amount of \$100,000 to be paid to the vendor after 12 months of completion.

Changes in controlled entities and divisions:

- (i) Completed the purchase of 100% of issued share capital of Kistani Pty Ltd, which manufactures hair care products by issuance of 8,591,282 ordinary shares to Kistani Holdings Pty Ltd on 09 September 2008; and

Issuance of a further 2,777,778 ordinary shares to Kistani Holdings Pty Ltd at an issue price of 18 cents per share; and

Issuance of 2,880,000 ordinary shares to Kistani Holdings Pty Ltd after 31 July 2011, subject to agreed performance targets; and

Issuance of 11,831,673 options over unissued ordinary shares to Kistani Holdings Pty Ltd at an issue price of 20 cents per share, exercisable before 31 January 2010; and

Issuance of 100,000 options over unissued ordinary shares to Kistani Holdings Pty Ltd at an issue price of 25 cents per share, exercisable before 01 August 2011; and

Issuance of 500,000 options over unissued ordinary shares to Maximize Equity Pty Ltd at an issue price of 25 cents per share, exercisable before 01 August 2012; and

Issuance of 500,000 options over unissued ordinary shares to Starvos Dimitriadis at an issue price of 25 cents per share, exercisable before 01 August 2012; and

Issuance of 150,000 options over unissued ordinary shares to Richard Stanley at an issue price of 25 cents per share, exercisable before 01 August 2012; and

#### **Dividends Paid or Recommended**

There were no dividends paid or proposed during the year.

#### **After Balance Date Events**

Post the successful completion of due diligence enquiries, the Company has exercised the call option over the entire issued share capital of Incolabs Holdings Pty Ltd on 26 October 2009, which becomes effective on 31 October 2009. The acquisition will be funded via additional secured loans totalling \$2.7 million provided equally by Soul Private Equity Limited (SPEL) and Maximize Equity Pty Ltd (MEQ).

On 28 October 2009 the directors have resolved to cancel share options previously issued to the ex-directors.

Chris Photakis passed away and ceased to be a director from 14 August 2009 and David John Fairfull was appointed a director on 01 September 2009 and represents SPEL, the majority shareholder of the group, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

#### **Future Developments, Prospects and Business Strategies**

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

#### **Environmental Issues**

The consolidated group's operations are not subject to significant environmental regulations under the law of the Commonwealth and State. The Company promotes refillable containers for its products to reduce any adverse impact on the environment.

#### **Information on Directors**

FAIRFULL Andrew (Non-exec Chairman)

Qualifications

Experience

—

— Bachelor of Commerce, MAICD, SA Fin

— Twelve year financial service industry experience with Souls Private Equity Limited and six years chartered accounting experience

Interest in Shares and Options

—

115,000 Fully Paid Ordinary Shares - 0.25% of issued capital and 250,000 options

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KROK Maxim (Non-executive Director)  
Interest in Shares and Options

- 
- The director is a nominee director appointed by Maximize Equity Pty Ltd, an ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 24.63% of issued capital and 13,081,673 options

BEINART Steven (CEO -Executive Director)  
Interest in Shares and Options

- 
- The director is a nominee director appointed by Maximize Equity Pty Ltd, an ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 24.63% of issued capital and 13,081,673 options

PHOTAKIS, Christopher (Non-exec Director)  
Interest in Shares and Options

- 
- Nil

FAIRFULL David John (Non-exec Chairman)  
Qualifications  
Experience

- 
- B.Com (UNSW), A.C.I.S, C.P.A., Ffin, M.A.I.C.D.
- Mr. David John Fairfull is merchant banker with over 40 years experience in mergers and acquisitions and underwriting projects. During the past three years, Mr. Fairfull has served as a Director of the following listed companies:  
Australian Pharmaceutical Industries Limited  
Gazal Corporation Limited  
New Hope Corporation Limited\*  
SP Telemedia Limited  
Stockland Trust Group  
Washington H. Soul Pattinson and Company Limited\*  
\* denotes current directorship

Mr. Fairfull represents SPEL, the majority shareholder of the group.

Interest in Shares and Options  
Special Responsibilities

- 130,000 Fully Paid Ordinary Shares
- Member of Audit Committee & Remuneration Committee

#### Company Secretary

The following person held the position of company secretary at the end of the financial year:  
MCGIBBON, Christopher William — MCGIBBON, Christopher William was appointed company secretary on 09 February 2009.

#### Meetings of Directors

During the financial year, 5 meetings of directors (including committees of directors) were held.  
Attendances by each director during the year were as follows:

	Directors' Meetings		Audit & Remuneration Committee	
	Number eligible to attend	Number attended		
FAIRFULL Andrew (Non-exec Chairman)	5	5	5	5
KROK Maxim (Non-executive Director)	5	5	5	5
BEINART Steven (CEO -Executive Director)	2	2	2	2
PHOTAKIS, Christopher (Non-exec Director)	2	1	2	1
GHATTAS, Nicolas (Executive Director)	3	3	-	-
DIMITRIDIS, Stavros (Non-executive Director)	3	3	-	-
BRETT, Hilton (Non-exec Director)	3	3	-	-
KULMAR, Stephen (Non-exec Director)	3	-	-	-

#### 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 \$20,000 for all of the directors named below:

FAIRFULL Andrew (Non-exec Chairman)  
KROK Maxim (Non-executive Director)  
BEINART Steven (CEO -Executive Director)  
PHOTAKIS, Christopher (Non-exec Director)  
GHATTAS, Nicolas (Executive Director)  
DIMITRIDIS, Stavros (Non-executive Director)

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BRETT, Hilton (Non-exec Director)

KULMAR, Stephen (Non-exec Director)

**Options**

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

Grant Date	Earliest date exercisable	Date of expiry	Exercise price	Number under option
1/12/2006	2/01/2009	31/07/2012	26c	1,750,000
9/09/2008	1/08/2008	31/01/2010	20c	11,831,673
9/09/2008	1/08/2009	1/08/2012	25c	1,250,000
				14,831,673

Options holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 31 July 2009, no ordinary shares of Soda Brands Limited were issued on the exercise of options granted.

**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 in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Rothsay Chartered Accountants for non-audit services provided during the year ended 31 July 2009:

	\$
Taxation services	3,600
Due diligence investigations	1,620
	5,220

**Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 31 July 2009 has been received and can be found on page 9 of the Annual Report.

**ASIC Class Order 98/100 Rounding of Amounts**

The company is an entity to which ASIC Class Order 98/100 does not apply.

**REMUNERATION REPORT**

**Remuneration policy**

The remuneration policy of Soda Brands Limited has been designed to align key management personnel 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 consolidated group'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 key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy is required to be developed by the remuneration committee and approved by the board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.

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- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, ie put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to date of retirement. Any options not exercised before or on the date of termination lapse.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholder interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and are valued using the Black-Scholes methodology.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, ie put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

#### **Performance based remuneration**

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPI's are set for the following year.

In determining whether or not a KPI has been achieved, Soda Brands Limited bases the assessment on audited figures.

#### **Relationship between remuneration policy and company performance**

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve 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 shareholder wealth over the past four years.

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPI's are set for the following year.

In determining whether or not a KPI has been achieved, Soda Brands Limited bases the assessment on audited figures.

#### **Performance Conditions linked to Remuneration**

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

#### **Employment Details of Members of Key Management Personnel and Other Executives**

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, were amongst the five group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of option.

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**Position Held as at 31 July 2009 and any  
change during the year**

**Group Key Management Personnel**

FAIRFULL Andrew (Non-exec Chairman)	No change during the year
KROK Maxim (Non-executive Director)	Appointed on 09 September 2008
BEINART Steven (CEO -Executive Director)	Appointed on 01 May 2009
PHOTAKIS, Christopher (Non-exec Director)	Appointed on 01 May 2009
GHATTAS, Nicolas (Executive Director)	Resigned on 09 February 2009
DIMITRIDIS, Stavros (Non-executive Director)	Resigned on 01 May 2009
BRETT, Hilton (Non-exec Director)	Resigned on 01 May 2009
KULMAR, Stephen (Non-exec Director)	Resigned on 01 May 2009
McGIBBON, Christopher William (General Manager - shared services)	Appointed on 09 February 2009

**Proportions of elements of remuneration related to  
performance**

**Proportions of elements of remuneration  
not related to performance**

	<b>Non-salary cash based incentives</b>	<b>Shares/ Units</b>	<b>Options/ Rights</b>	<b>Fixed Salary/Fees</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Group Key Management Personnel</b>					
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	100	100
KROK Maxim (Non-executive Director)	-	-	-	100	100
BEINART Steven (CEO -Executive Director)	-	-	-	100	100
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	100	100
GHATTAS, Nicolas (Executive Director)	-	-	-	100	100
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	100	100
BRETT, Hilton (Non-exec Director)	-	-	-	100	100
KULMAR, Stephen (Non-exec Director)	-	-	-	100	100
McGIBBON, Christopher William (General Manager - shared services)	-	-	-	-	-

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment.

**Note A:**

Non-executive directors are subject to similar contracts.

**Changes in Directors and Executives Subsequent to Year End**

Chris Photakis passed away and ceased to be a director from 14 August 2009 and David John Fairfull was appointed a director on 01 September 2009 and represents SPEL, the majority shareholder of the group.

**Remuneration Details for the Year Ended 31 July 2009**

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:-

**Table of Benefits and Payments for the year ended 31 July 2009**

		<b>Short-term benefits</b>			<b>Post Employment Benefits</b>		<b>Long-term benefits</b>
	<b>Salary, Fees and Leave</b>	<b>Cash bonuses</b>	<b>Non-monetary</b>	<b>Other</b>	<b>Superannuation</b>	<b>Other</b>	<b>Incentive Plans</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2009</b>							
<b>Group Key Management Personnel</b>							
FAIRFULL Andrew (Non-exec Chairman)	24,000	-	-	-	2,160	-	-
KROK Maxim (Non-executive Director)	26,667	-	-	-	-	-	-
BEINART Steven (CEO - Executive Director)	5,000	-	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	5,000	-	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	208,850	-	-	-	9,451	-	-
DIMITRIDIS, Stavros (Non-executive Director)	15,000	-	-	-	-	-	-
BRETT, Hilton (Non-exec Director)	16,350	-	-	-	-	-	-



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KULMAR, Stephen (Non-exec Director)	16,344	-	-	-	-	-
McGIBBON, Christopher William (General Manager -	-	-	-	-	-	-
	<u>317,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,611</u>	<u>-</u>

	Long-term benefits	Equity-settled share-based payments		Cash-settled shared based payments	Termination benefits	Total
2009	LSL \$	Shares/Units \$	Options/Rights \$	\$	\$	\$
<b>Group Key Management Personnel</b>						
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	-	-	26,160
KROK Maxim (Non-executive Director)	-	-	-	-	-	26,667
BEINART Staven (CEO - Executive Director)	-	-	-	-	-	5,000
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-	5,000
GHATTAS, Nicolas (Executive Director)	-	-	-	-	-	218,301
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	-	-	15,000
BRETT, Hilton (Non-exec Director)	-	-	-	-	-	16,350
KULMAR, Stephen (Non-exec Director)	-	-	-	-	-	16,344
McGIBBON, Christopher William (General Manager -	-	-	-	-	-	-
	-	-	-	-	-	328,822

		Short-term benefits			Post Employment Benefits		Long-term benefits
	Salary, Fees and Leave	Cash bonuses	Non-monetary	Other	Superannuation	Other	Incentive Plans
2008	\$	\$	\$	\$	\$	\$	\$
Group Key Management Personnel							
FAIRFULL Andrew (Non-exec Chairman)	24,385	-	-	-	1,565	-	-
KROK Maxim (Non-executive Director)	-	-	-	-	-	-	-
BEINART Steven (CEO - Executive Director)	-	-	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	198,147	-	-	-	15,604	-	-
DIMITRIDIS, Stavros (Non-executive Director)	1,500	-	-	-	135	-	-
BRETT, Hilton (Non-exec Director)	10,900	-	-	-	10,900	-	-
KULMAR, Stephen (Non-exec Director)	20,000	-	-	-	1,800	-	-
McGIBBON, Christopher William (General Manager -	-	-	-	-	-	-	-
	254,932	-	-	-	30,004	-	-

	Long-term benefits	Equity-settled share-based payments		Cash-settled shared based payments	Termination benefits	Total
2008	LSL \$	Shares/Units \$	Options/Rights \$	\$	\$	\$
Group Key Management Personnel						
FAIRFULL Andrew (Non-exec Chairman)	-	-	-	-	-	25,950
KROK Maxim (Non-executive Director)	-	-	-	-	-	-
BEINART Steven (CEO - Executive Director)	-	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-	-

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GHATTAS, Nicolas (Executive Director)	-	-	-	-	-	213,751
DIMITRIDIS, Stavros (Non- executive Director)	-	-	-	-	-	1,635
BRETT, Hilion (Non-exec Director)	-	-	-	-	-	21,800
KULMAR, Stephen (Non- exec Director)	-	-	-	-	-	21,800
	-	-	-	-	-	284,936

Mr. Maxim Krok and Mr. Steven Beinart are nominee directors appointed by Maximize Equity Pty Ltd and the directors fees for Mr Maxim Krok \$26,667 (2008: \$nil) and Steven Beinart \$5,000 (2008: nil) are paid to Maximize Equity Pty Ltd

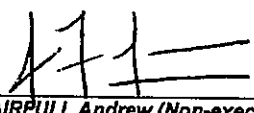
**Securities Received that are not Performance Related**


No key management personnel are entitled to receive securities as part of their remuneration package, which are not performance-based.

**Cash Bonuses, Performance-Related Bonuses and Share-based Payments**

No options and bonuses granted as remuneration during the year to key management personnel and other executives during the year.

This Report of the Directors', incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Director   
**FAIRPULL Andrew (Non-exec Chairman)**  
Dated this 30th day of October 2009

  
**BEINART Steven (CEO -Executive Director)**  
30th day of October 2009

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

I declare that, to the best of my knowledge and belief, during the year ended 31 July 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm Rothsay Chartered Accountants

Name of Partner  Frank Vrachas

Date 30/10/2009

Address Level 18, 6-10 O'Connell Street

Sydney, NSW 2000

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**INCOME STATEMENT FOR THE YEAR ENDED 31 JULY 2009**

	<b>Note</b>	<b>Consolidated Group</b>		<b>Parent Entity</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	2	2,364,386	2,655,415	2,328,213	4,080,526
Changes in inventories of finished goods and work in progress		(2,278,689)	(1,152,406)	(2,253,520)	(1,089,251)
Employee benefits expense		(953,795)	(921,619)	(953,795)	(850,129)
Sales, marketing and branding expense		(302,706)	(267,179)	(300,706)	(253,952)
Distribution Expense		(294,095)	(178,415)	(292,365)	(166,321)
Depreciation and amortisation expense		(78,365)	(132,338)	(78,365)	(132,338)
Other expenses		(791,443)	(308,232)	(790,729)	(296,845)
Finance costs		(68,649)	(15,677)	(68,649)	(15,677)
Loss on impairment of goodwill		(3,808,961)	-	(3,808,961)	-
Loss before income tax	3	(6,212,318)	(320,450)	(6,218,878)	1,276,012
Income tax expense	4	-	-	-	-
Loss from continuing operations		(6,212,318)	(320,450)	(6,218,878)	1,276,012
Loss for the year		(6,212,318)	(320,450)	(6,218,878)	1,276,012
Loss attributable to members of the parent entity		(6,212,318)	(320,450)	(6,218,878)	1,276,012
<b>Overall Operations</b>					
Basic loss per share (cents per share)	7	(13.88)	(0.94)		
Diluted loss per share (cents per share)	7	(10.68)	(0.90)		
<b>Continuing Operations</b>					
Basic loss per share (cents per share)	7	(13.88)	(0.94)		
Diluted loss per share (cents per share)	7	(10.68)	(0.90)		
Dividends per share (cents)		-	-		

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**BALANCE SHEET AS AT 31 JULY 2009**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	19,679	120,024	18,022	117,761
Trade and other receivables	9	286,955	362,364	439,737	1,074,046
Inventories	10	641,887	1,719,577	621,313	1,672,450
Other assets	15	62,496	366,818	62,496	24,930
<b>TOTAL CURRENT ASSETS</b>		<b>1,010,817</b>	<b>2,568,782</b>	<b>1,141,568</b>	<b>2,889,187</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	11	-	-	704	3,293,840
Property, plant and equipment	13	58,349	192,720	58,349	23,719
Intangible assets	14	-	3,293,136	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>58,349</b>	<b>3,485,857</b>	<b>59,053</b>	<b>3,317,559</b>
<b>TOTAL ASSETS</b>		<b>1,069,166</b>	<b>6,054,639</b>	<b>1,200,621</b>	<b>6,206,746</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	16	883,072	1,258,508	872,669	1,252,675
Current tax liabilities	18	-	-	-	-
Short-term provisions	19	14,678	24,001	14,678	24,001
<b>TOTAL CURRENT LIABILITIES</b>		<b>897,750</b>	<b>1,282,509</b>	<b>887,347</b>	<b>1,276,676</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	17	629,885	-	629,885	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>629,885</b>	<b>-</b>	<b>629,885</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>1,527,635</b>	<b>1,282,509</b>	<b>1,517,232</b>	<b>1,276,676</b>
<b>NET ASSETS/ DEFICIT</b>		<b>(458,469)</b>	<b>4,772,130</b>	<b>(316,611)</b>	<b>4,930,070</b>
<b>EQUITY</b>					
Issued capital	20	7,885,006	6,912,808	7,885,006	6,912,808
Reserves		-	(9,521)	-	-
Retained earnings		(8,343,475)	(2,131,157)	(8,201,617)	(1,982,737)
Parent interest		(458,469)	4,772,130	(316,611)	4,930,071
<b>TOTAL EQUITY</b>		<b>(458,469)</b>	<b>4,772,130</b>	<b>(316,611)</b>	<b>4,930,071</b>

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2009**

	Ordinary Share Capital	Accumulated losses	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$
<b>Consolidated Group</b>				
<b>balance at 1 August 2007</b>	6,912,808	(1,810,707)	(9,521)	5,092,580
loss attributable to members of parent entity	-	(320,450)	-	(320,450)
sub-total	6,912,808	(2,131,157)	(9,521)	4,772,130
dividends paid or provided for				
<b>balance at 31 July 2008</b>	6,912,808	(2,131,157)	(9,521)	4,772,130
shares issued during the year	972,198	-	-	972,198
loss attributable to members of parent entity	-	(6,212,318)	9,521	(6,202,797)
sub-total	7,885,006	(8,343,475)	-	(458,469)
dividends paid or provided for				
<b>balance at 31 July 2009</b>	7,885,006	(8,343,475)	-	(458,469)

the accompanying notes form part of these financial statements.

	Ordinary Share Capital	Accumulated losses	Foreign Currency Translation	Total
	\$	\$	\$	\$
<b>Parent Entity</b>				
<b>balance at 1 August 2007</b>	6,912,808	(3,258,749)	-	3,654,059
profit attributable to members of parent entity	-	1,276,012	-	1,276,012
sub-total	6,912,808	(1,982,737)	-	4,930,071
dividends paid or provided for				
<b>balance at 31 July 2008</b>	6,912,808	(1,982,737)	-	4,930,071
shares issued during the year	972,198	-	-	972,198
loss attributable to members of parent entity	-	(6,218,878)	-	(6,218,878)
sub-total	7,885,006	(8,201,615)	-	(316,611)
dividends paid or provided for				
<b>balance at 31 July 2009</b>	7,885,006	(8,201,615)	-	(316,611)

the accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2009**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		2,629,375	2,504,284	2,537,864	3,557,645
Interest received		1,482	33,238	1,482	33,238
Payments to suppliers and employees		(3,748,811)	(2,748,329)	(3,487,694)	(3,638,229)
Finance costs		(68,649)	(15,677)	(68,649)	(15,677)
Net cash (used in) operating activities	22	<u>(1,186,603)</u>	<u>(226,484)</u>	<u>(1,016,996)</u>	<u>(63,023)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of business - Hair FX		(515,825)	(271,380)	(515,825)	(271,380)
Purchase of property, plant and equipment		-	(49,977)	(169,001)	(33,024)
Net cash (used in) investing activities		<u>(515,825)</u>	<u>(321,357)</u>	<u>(684,826)</u>	<u>(304,404)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		972,198	-	972,198	-
Proceeds from borrowings		629,885	-	629,885	-
Repayment of borrowings		-	-	-	(173,802)
Net cash provided by (used in) financing activities		<u>1,602,083</u>	<u>-</u>	<u>1,602,083</u>	<u>(173,802)</u>
Net increase in cash held		<u>(100,345)</u>	<u>(547,841)</u>	<u>(99,739)</u>	<u>(541,229)</u>
Cash at beginning of financial year	8	120,024	667,865	117,761	658,990
Cash at end of financial year	8	<u>19,679</u>	<u>120,024</u>	<u>18,022</u>	<u>117,761</u>

The accompanying notes form part of these financial statements.

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2009**

This financial report includes the consolidated financial statements and notes of Soda Brands Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Soda Brands Limited as an individual parent entity ('Parent Entity').

**Note 1 Statement of Significant Accounting Policies**

**Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Issued by the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**Going concern basis**

During the year ended 31 July 2009, the Group incurred negative operating cash flow of \$1,186,603. As at 31 July 2009 the Group has a surplus of current assets over current liabilities of \$113,067 including cash reserve of \$19,679. The Group's net assets are in deficit in the amount of \$458,469.

Notwithstanding the above, the financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the Group requires additional funding to be secured within the next year from sources including:

- \* deferment of the repayment of existing borrowings from the major shareholders,
- \* raising additional borrowings from major shareholders,
- \* equity capital raising, and
- \* the generation of sufficient funds from operating activities.

Having carefully assessed the uncertainties relating to likelihood of securing additional funding, the Group's ability to effectively manage their expenditure and cash flows from operations. The directors believe that the Group will continue to operate as a going concern for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Group will continue to operate a going concern. If the Group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial reports relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

**(a) Principles of Consolidation**

A controlled entity is any entity over which Soda Brands Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 12 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group 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 consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

**Business Combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(b) Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).



Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### **Tax Consolidation**

Soda Brands Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

#### **(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 as indicated less, where applicable, any accumulated depreciation and impairment losses.

##### **Plant and equipment**

Plant and equipment are measured on the cost basis. 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 is depreciated on a straight-line basis over the asset's useful life 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 the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. 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**

**Initial Recognition and Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

**Classification and Subsequent Measurement**

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as (a) the amount at which the financial asset or financial liability is measured at initial recognition (b) less principal repayments (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The group does not designate any interests in subsidiaries, as being subject to the requirements of accounting standards specifically applicable to financial instruments.

**(i) Financial assets at fair value through profit or loss**

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

**(ii) 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 subsequently measured at amortised cost.

**(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

**(v) Financial Liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Fair value**

Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's 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.

**Financial Guarantees**

Where material, financial guarantees issued, which requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(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 combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities 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 year-end 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 values were determined.

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 earnings 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.

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. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

**Equity-settled compensation**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**(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) Provision for Warranties**

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

**(m) 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.

**(n) Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

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

**(o) 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.

**(p) 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 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.

**(q) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(r) 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**

**(a) Impairment**

The group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

As a result of significant decline in gross margins and sales, an impairment of \$3,808,981 has been recognised in respect of goodwill at reporting date.

**Key Judgements**

**(a) Provision for Impairment of Receivables**

The directors believe that a provision for doubtful debts of \$21,198 (2008: \$2,243) is reasonable and that all other trade debtors are fully recoverable as at the end of financial year.

The directors believe that a provision for obsolete and slow moving stock of \$263,633 (2008: nil) is reasonable and that all other inventories are fully recoverable as at the end of financial year.

**(aa) New Accounting Standards for application in future periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group is as follows:-

- AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038 (applicable for annual reporting periods commencing from 1 January 2009). This standard replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the group's board for the purposes of decision making. Whilst the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic level at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management presently do not believe impairment will result however.

- AASB 101 "Presentation of Financial Statements", AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101", and AASB 2007-10 "Further Amendments to Australian Accounting Standards arising from AASB 101" (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group.

• AASB 123 "Borrowing Costs" and AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]" (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

• AASB 2008-1 "Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions and Cancellations [AASB 2]" (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

• AASB 2008-2 "Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2]" (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation;

• AASB 2008-5 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-5) and AASB 2008-6 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the Group's financial statements.

**Note 2 Revenue and Other Income**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Sales Revenue					
— sale of goods		2,362,904	2,622,177	2,326,730	4,047,288
Total Sales Revenue		2,362,904	2,622,177	2,326,730	4,047,288
Other Revenue					
— interest received	2(a)	1,482	33,238	1,482	33,238
Total Other Revenue		1,482	33,238	1,482	33,238
Total Sales Revenue and Other Revenue		2,364,386	2,655,415	2,328,213	4,080,526
(a) Interest revenue from:					
— other persons		1,482	33,238	1,482	33,238
Total interest revenue on financial assets not at fair value through profit or loss		1,482	33,238	1,482	33,238

**Note 3 Profit for the Year**

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
(a) Expenses					
Cost of sales		2,278,689	1,091,996	2,253,520	1,089,251
Interest expense on financial liabilities not at fair value through profit or loss:					
— Ultimate parent entity		15,288	-	15,288	-
— Related companies		14,597	-	15,297	-
— Other persons		38,765	15,677	38,085	15,677
Total interest expense		68,649	15,677	68,649	15,677
Impairment of non-current investments		-	-	3,808,961	-
Impairment of goodwill		3,808,961	-	-	-
Bad and doubtful debts:					
— trade receivables		113,260	-	113,260	-
Total bad and doubtful debts		113,260	-	113,260	-
Rental expense on operating leases		-	-	-	-
— minimum lease payments		-	53,674	-	53,674
Loss on disposal of property, plant and equipment		56,006	-	56,006	-

**Note 4 Income Tax Expense**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax	18	-	-	-	-
Recoupment of prior year tax losses		-	-	-	-
Under provision in respect of prior years		-	-	-	-

Deferred tax assets not brought to account, due to no reasonable assurance of profit in foreseeable future:-

- (b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:  
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%)

— consolidated group	(1,863,695)	(96,135)	(1,865,864)	382,804
— parent entity				
Add:				
Tax effect of:				
— other non-allowable items	-	24,428	-	24,428
— Non deductible impairment	1,142,688	-	1,142,688	-
	(721,007)	(71,707)	(722,975)	407,232
Less:				
Tax effect of:				
— Other deductible expenses	3,833	2,727	3,833	2,727
Income tax attributable to entity	(724,840)	(74,434)	(726,808)	404,505

Deferred tax assets not brought to account, due to no reasonable assurance of profit in foreseeable future:-

#### **Note 5 Interests of Key Management Personnel (KMP)**

Refer to the Remuneration Report contained in the Report of the Directors' for details of the remuneration paid or payable to each member of Key Management Personnel of the Group for the year ended 31 July 2009.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	2009 \$	2008 \$
Short-term employee benefits	317,212	254,932
Post-employment benefits	11,811	30,004
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>328,822</u>	<u>284,936</u>

#### **KMP Options and Rights Holdings**

The number of options over ordinary shares in Soda Brands Limited held during the financial year by each KMP of the Group is as follows:-

31 July 2009	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
FAIRFULL Andrew (Non-exec Chairman)	250,000	-	-	-	250,000	-	-	-
KROK Maxim (Non-executive Director)*	-	-	-	-	-	-	-	-
BEINART Steven (CEO - Executive Director)*	-	-	-	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	1,000,000	-	-	-	1,000,000	-	-	-
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	-	-	-	-	-
BRETT, Hilton (Non-exec Director)	250,000	-	-	-	250,000	-	-	-
KULMAR, Stephen (Non-exec Director)	250,000	-	-	-	250,000	-	-	-
Kistari Holdings Pty Ltd *	-	-	-	13,081,673	13,081,673	-	-	-
McGIBBON, Christopher William (General Manager - shared services)	-	-	-	-	-	-	-	-
	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>13,081,673</u>	<u>14,831,673</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 July 2008	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
FAIRFULL Andrew (Non-exec Chairman)	250,000	-	-	-	250,000	-	-	-
KROK Maxim (Non-executive Director)*	-	-	-	-	-	-	-	-
BEINART Steven (CEO - Executive Director)*	-	-	-	-	-	-	-	-

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PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	1,000,000	-	-	1,000,000	1,000,000	1,000,000
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	-	-	-
BRETT, Hilton (Non-exec Director)	250,000	-	-	250,000	-	-
KULMAR, Stephen (Non-exec Director)	250,000	-	-	250,000	250,000	-
Kistani Holdings Pty Ltd *	-	-	-	-	-	-
	<b>1,750,000</b>	<b>-</b>	<b>-</b>	<b>1,750,000</b>	<b>1,250,000</b>	<b>1,000,000</b>

\* Mr. Maxim Krok and Mr. Steven Beinart are nominee directors appointed by Maximize Equity Pty Ltd, which is the ultimate holding company for Kistani Holdings Pty Ltd. The options are granted to Kistani Holdings Pty Ltd on 09 September 2008 as part of purchase consideration to acquire the 100 equity in Kistani Pty Ltd.

**KMP Shareholdings**

The number of ordinary shares in Soda Brands Limited held during the financial year by each KMP of the Group is as follows:-

**31 July 2009**

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
FAIRFULL Andrew (Non-exec Director)	115,000	-	-	-	115,000
KROK Maxim (Non-executive Director)*	-	-	-	-	-
BEINART Steven (CEO -Executive Director)*	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	1,275,000	-	-	-	1,275,000
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	-	-
BRETT, Hilton (Non-exec Director)	150,000	-	-	-	150,000
KULMAR, Stephen (Non-exec Director)	-	-	-	-	-
Kistani Holdings Pty Ltd *	-	-	-	11,369,060	11,369,060
McGIBBON, Christopher William (General Manager - shared services)	-	-	-	-	-
	<b>1,540,000</b>	<b>-</b>	<b>-</b>	<b>11,369,060</b>	<b>12,909,060</b>

**31 July 2008**

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
FAIRFULL Andrew (Non-exec Director)	75,000	-	-	40,000	115,000
KROK Maxim (Non-executive Director)*	-	-	-	-	-
BEINART Steven (CEO -Executive Director)*	-	-	-	-	-
PHOTAKIS, Christopher (Non-exec Director)	-	-	-	-	-
GHATTAS, Nicolas (Executive Director)	1,275,000	-	-	-	1,275,000
DIMITRIDIS, Stavros (Non-executive Director)	-	-	-	-	-
BRETT, Hilton (Non-exec Director)	150,000	-	-	-	150,000
KULMAR, Stephen (Non-exec Director)	-	-	-	-	-
Kistani Holdings Pty Ltd *	-	-	-	-	-
McGIBBON, Christopher William (General Manager - shared services)	-	-	-	-	-
	<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>40,000</b>	<b>1,540,000</b>

\* Mr. Maxim Krok and Mr. Steven Beinart are nominees directors appointed by Maximize Equity Pty Ltd, which is the ultimate holding company for Kistani Holdings Pty Ltd. The shares of the group are purchased by Kistani Holdings Pty Ltd on 09 September 2008.

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

**Note 6 Auditors' Remuneration**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	15,000	20,500	15,000	20,500
— taxation services	3,600	2,000	3,600	2,000
— due diligence services	1,620	-	1,620	-
— taxation services provided by related practice of auditor	-	-	-	-

Remuneration of other auditors of subsidiaries for:  
 — auditing or reviewing the financial report of subsidiaries

**Note 7 Earnings per Share**

	<b>Consolidated Group</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
(a) Reconciliation of earnings to profit or loss		
Profit	(6,212,318)	(320,450)
Earnings used to calculate basic EPS	(6,212,318)	(320,450)
Earnings used in the calculation of dilutive EPS	(6,212,318)	(320,450)
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations	(6,212,318)	(320,450)
Earnings used to calculate basic EPS from continuing operations	(6,212,318)	(320,450)
Earnings used in the calculation of dilutive EPS from continuing operations	(6,212,318)	(320,450)
(c) Reconciliation of earnings to profit or loss from discontinuing operations		
Profit from discontinuing operations	-	-
Earnings used to calculate basic EPS from discontinuing operations	-	-
(d) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 44,767,613	No. 34,000,000
Weighted average number of options outstanding	13,398,065	1,750,000
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	58,165,678	35,750,000

**Note 8 Cash and Cash Equivalents**

	<b>Note</b>	<b>Consolidated Group</b>		<b>Parent Entity</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		\$	\$	\$	\$
Cash at bank and in hand		19,679	120,024	18,022	117,761
	26	19,679	120,024	18,022	117,761

**Reconciliation of cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	19,679	120,024	18,022	117,761
	19,679	120,024	18,022	117,761

**Note 9 Trade and Other Receivables**

	<b>Note</b>	<b>Consolidated Group</b>		<b>Parent Entity</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		\$	\$	\$	\$
<b>CURRENT</b>					
Trade receivables		308,153	364,607	289,824	361,097
Provision for impairment	9(a)	(21,198)	(2,243)	(21,198)	(2,243)
		286,955	362,364	268,626	358,854
Other receivables		-	-	-	341,888
Amounts receivable from:					
— wholly-owned subsidiaries		-	-	171,111	373,304
Total current trade and other receivables		286,955	362,364	439,737	1,074,048

**(a) Provision For Impairment of Receivables**

Current trade and term receivables are non-interest bearing and generally on 30 - 90 day terms. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	<b>Opening Balance 1 August 2007</b>	<b>Charge for the Year</b>	<b>Amounts Written Off</b>	<b>Closing Balance 31 July 2008</b>
	\$	\$	\$	\$
<b>Consolidated Group</b>				
(i) Current trade receivables	-	2,243	-	2,243
	-	2,243	-	2,243



**Parent Entity**  
**(i) Current trade receivables**

-	2,243	-	2,243
-	2,243	-	2,243
Opening Balance 1 August 2008	Charge for the Year	Amounts Written Off	Closing Balance 31 July 2009
\$	\$	\$	\$

**Consolidated Group**  
**(i) Current trade receivables**

2,243	109,478	90,523	21,198
2,243	109,478	90,523	21,198

**Parent Entity**  
**(i) Current trade receivables**

2,243	109,478	90,523	21,198
2,243	109,478	90,523	21,198

There are no balances within trade and other receivables that contain assets that are not impaired. It is expected these balances will be received when due. Impaired assets are provided for in full.

**Credit risk - Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 9. The main source of credit risk to the Group is considered to relate to the class of assets described as Trade and Other Receivables.

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
<b>(b) Financial Assets classified as receivables</b>		\$	\$	\$	\$
Trade and other Receivables					
— Total Current		286,955	362,384	439,737	1,074,046
Less construction contracts in progress		286,955	362,384	439,737	1,074,046
Financial Assets	26	286,955	362,384	439,737	1,074,046

**Note 10 Inventories**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>CURRENT</b>					
At cost					
Finished goods		-	1,719,577	-	1,672,450
		-	1,719,577	-	1,672,450
At net realisable value					
Finished goods		905,220	-	884,846	-
Provision for slow moving/ obsolete stock		(263,533)	-	(263,533)	-
		641,687	1,719,577	621,313	1,672,450

**Note 11 Other Financial Assets**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>NON CURRENT</b>					
Available-for-sale financial assets	11a	-	-	704	3,293,840
		-	-	704	3,293,840
<b>(a) Available-for-sale financial assets comprise:</b>					
<b>NON CURRENT</b>					
Unlisted investments, at recoverable amount					
— shares in other corporations at cost		-	-	3,809,665	3,293,840
Less: Impairment provision		-	-	(3,808,961)	-
		-	-	704	3,293,840
Total non-current available-for-sale financial assets	26	-	-	704	3,293,840

**Note 12 Controlled Entities**

**(a) Controlled Entities Consolidated**

Subsidiaries of Soda Brands Limited:	Country of Incorporation	Percentage Owned (%)	
		2009	2008
SO Distributions Pty Ltd	Australia	100%	100%
Salon Only Pty Ltd	Australia	100%	100%
Soda Brands (NZ) Limited	New Zealand	100%	100%

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2009**

Soda Brands (UK) Limited  
Kistani Pty Ltd

United Kingdom  
Australia

100% 100%  
100% 0%

\* Percentage of voting power is in proportion to ownership  
All the above entities are dormant (non-operating) during the financial year.

**(b) Acquisition of Controlled Entities**

On 09 September 2008 the parent entity completed the acquisition of 100% of Kistani Pty Ltd and became entitled to all profits earned from 09 September 2008 for a purchase consideration of:

Issuance of 8,591,282 ordinary shares; and  
Issuance of a further 2,777,778 ordinary shares at an issue price of 18 cents per share; and  
Issuance of 2,880,000 ordinary shares after 31 July 2011, subject to agreed performance targets; and  
Issuance of 11,831,673 options over unissued ordinary shares at an issue price of 20 cents per share, exercisable before 31 January 2010; and  
Issuance of 100,000 options over unissued ordinary shares at an issue price of 25 cents per share, exercisable before 01 August 2011; and  
Issuance of 500,000 options over unissued ordinary shares at an issue price of 25 cents per share, exercisable before 01 August 2012; and  
Issuance of 500,000 options over unissued ordinary shares at an issue price of 25 cents per share, exercisable before 01 August 2012; and  
Issuance of 150,000 options over unissued ordinary shares to Richard Stanley at an issue price of 25 cents per share, exercisable before 01 August 2012; and

**(c) Option to acquire an entity**

During the year, the company entered into a put & call option agreement with Christopher William McGibbon, General Manager/ Company Secretary to acquire the entire share capital of Innoxia Group Pty Ltd (a company incorporated in Australia) (Innoxia) for a option fee of \$1. Should the company decides to exercise the call option, subject to Innoxia meeting certain condition, the purchase consideration will be settled by issuance of 570,000 ordinary shares of Soda Brands Limited.

**Note 13 Property, Plant and Equipment**

**PLANT AND EQUIPMENT**

Plant and equipment:

At cost

Accumulated depreciation

Total Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
	442,129	568,203	442,129	237,248
	(383,780)	(375,483)	(383,780)	(213,529)
	<u>58,349</u>	<u>192,720</u>	<u>58,349</u>	<u>23,719</u>

**(a) Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Total
	\$	\$
<b>Consolidated Group:</b>		
Balance at 1 August 2007	275,081	275,081
Additions	49,977	49,977
Depreciation expense	(132,338)	(132,338)
Balance at 31 July 2008	<u>192,720</u>	<u>192,720</u>
Disposals	(56,006)	(56,006)
Depreciation expense	(78,365)	(78,365)
Balance at 31 July 2009	<u>58,349</u>	<u>58,349</u>
<b>Parent Entity:</b>		
Balance at 1 August 2007	123,033	123,033
Additions	33,024	33,024
Depreciation expense	(132,338)	(132,338)
Balance at 31 July 2008	<u>23,719</u>	<u>23,719</u>
Additions	169,001	169,001
Disposals	(56,006)	(56,006)
Depreciation expense	(78,365)	(78,365)
Balance at 31 July 2009	<u>58,349</u>	<u>58,349</u>

**Note 14 Intangible Assets**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Goodwill	2,000,000	2,000,000		
Cost				

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
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Accumulated impaired losses	(3,808,961)	-	-
Net carrying value	-	3,293,136	-
Total intangibles	-	3,293,136	-

**Consolidated Group:**

	Goodwill
	\$
<b>Year ended 31 July 2008</b>	
Balance at the beginning of year	3,021,756
Additions	271,380
Disposals	-
Amortisation charge	-
Impairment losses	-
	<u>3,293,136</u>
<b>Year ended 31 July 2009</b>	
Balance at the beginning of year	3,293,136
Additions	515,825
Impairment losses	(3,808,961)
Closing value at 31 July 2009	<u>-</u>

**Impairment Disclosures**

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

	2009	2008
	\$	\$
Distribution segment	-	3,293,136
Total	-	<u>3,293,136</u>

In terms of its accounting policy in respect of goodwill, the company performs its impairment testing at 31 July with the most recent impairment testing being done as at 31 July 2009. As a result of the significant decline in gross margins and sales goodwill is impaired by \$3,808,961 (2008: nil).

The recoverable amount of the cash generating units (CGU's) has been determined based on value-in use calculation which discount the estimated future cash flows expected to be generated from the respective CGU's.

In the case of all CGUs, the estimated cash flows for the first year of analysis are based on management's internal reforecasts for the 2010 financial year. Such forecasts take into account the level of sales and gross margins and detailed expense estimates by expense type. The estimated year 1 cash flows have been projected for a further 4 years, taking account of management's expectations. A long term growth rate of 3.0 % ( 31 July 2009 : 5.0%) has been applied to determine the terminal value of the CGU's. A pre- tax discount rate of 12% ( 31 July 2008: 12%) has been applied to such future cash flows.

**Note 15 Other Assets**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CURRENT</b>				
Prepayments	33,583	24,930	33,583	24,930
Other assets	28,913	341,888	28,913	-
	<u>62,496</u>	<u>366,818</u>	<u>62,496</u>	<u>24,930</u>

**Note 16 Trade and Other Payables**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CURRENT</b>				
Unsecured liabilities				
Trade payables	327,955	286,241	327,237	283,892
Sundry payables and accrued expenses	381,940	972,267	372,256	988,783
Amounts payable to:				
— ultimate parent entity	95,441	-	95,441	-
— other related parties	77,736	-	77,736	-
16(a)	<u>883,072</u>	<u>1,258,508</u>	<u>872,669</u>	<u>1,252,675</u>

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Financial liabilities at amortised cost classified as trade and other payables				
Trade and other payables				
— Total Current	<u>883,072</u>	<u>1,258,508</u>	<u>872,669</u>	<u>1,252,675</u>

Financial liabilities as trade and other payables

26	883,072	1,258,508	872,869	1,252,675
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**Note 17 Borrowings**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
CURRENT					
NON-CURRENT					
Unsecured liabilities					
Ultimate parent entity		315,288	-	315,288	-
Related entities		314,597	-	314,597	-
Total borrowings	28	629,885	-	629,885	-

The loan documents would be drawn between Soul Private Equity Limited (SPEL) and Maximize Equity Pty Ltd (MEQ), who would register a fixed and floating charge with ASIC over Soda Brands assets.

**Note 18 Tax**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Income Tax Payable	-	-	-	-
TOTAL	-	-	-	-

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 \$21,468 (2008: \$24,228)
- tax losses; operating losses \$1,296,091 (2008: \$571,452)

**Note 19 Provisions**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Short-term Employee Benefits				
Opening balance at 1 August 2008	24,001	9,090	24,001	9,090
Additional provisions	47,861	14,911	47,861	14,911
Amounts used	(57,184)	-	(57,184)	-
Balance at 31 July 2009	14,678	24,001	14,678	24,001

**Analysis of Total Provisions**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Current	14,678	24,001	14,678	24,001
Non-current	-	-	-	-
	14,678	24,001	14,678	24,001

**Note 20 Issued Capital**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
46,156,208 (2008: 34,000,000) fully paid ordinary shares	7,885,008	6,912,808	7,885,008	6,912,808
	7,885,008	6,912,808	7,885,008	6,912,808

**(a) Ordinary Shares**

At the beginning of reporting period  
 Shares issued during year  
     — 9/09/2008  
     — 30/07/2009  
 At reporting date

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	No.	No.	No.	No.
At the beginning of reporting period	34,000,000	34,000,000	34,000,000	34,000,000
Shares issued during year				
— 9/09/2008	12,092,465	-	12,092,465	-
— 30/07/2009	63,743	-	63,743	-
At reporting date	46,156,208	34,000,000	46,156,208	34,000,000

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

**(b) 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 23: Share-based Payments.
- (ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 23: Share-based Payments.
- (iii) For information relating to share options issued for acquisition of controlled entities during the financial year. Refer to Note 12: Controlled Entities.

**(c) Capital Management**

Management strives to control the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

There are no externally imposed capital requirements.

Management has been challenged to manage the group's capital due to the adverse operating results.

		Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Total borrowings	Note 16, 17 8	1,512,957	1,258,508	1,502,554	1,252,675
Less cash and cash equivalents		(19,679)	(120,024)	(18,022)	(117,761)
Net debt		1,493,278	1,138,484	1,484,532	1,134,913
Total equity		(458,469)	4,772,130	(316,611)	4,830,071
Total capital		1,034,809	5,910,614	1,167,922	6,064,984
Gearing ratio		144%	19%	127%	19%

**Note 21 Segment Reporting**

	Distribution	
	2009	2008
	\$	\$
<b>Primary Reporting — Business Segments</b>		
<b>REVENUE</b>		
External Sales	2,362,904	2,622,177
Other segments		
Total sales revenue	2,362,904	2,622,177
<b>RESULT</b>		
Segment result	(6,143,688)	(304,773)
Finance Costs	(88,649)	(15,677)
Profit before Income	(6,212,318)	(320,450)
<b>ASSETS</b>		
Segment assets	1,069,166	6,054,639
Total assets	1,069,166	6,054,639
<b>LIABILITIES</b>		
Segment liabilities	1,527,635	1,282,509
Total liabilities	1,527,635	1,282,509
<b>OTHER</b>		
Acquisitions of non-current segment assets	515,825	3,293,136
Depreciation and amortisation of segment assets	(76,365)	(132,336)

**Secondary Reporting — Geographical Segments**

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Geographical location:						
Australia	2,326,730	2,551,779	1,200,621	6,196,520	59,053	3,486,561
New Zealand	36,173	70,398	(131,457)	(141,883)	(704)	-
United Kingdom	-	-	2	2	-	-
Other Countries	-	-	-	-	-	-
	2,362,904	2,622,177	1,069,166	6,054,639	58,349	3,486,561

**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 arm's length. These transfers are eliminated on consolidation.

#### Business and Geographical Segments

##### Business segments

The consolidated group has the following business segments:

- Distribution division provides a range of services throughout Australia, New Zealand and United Kingdom.

##### Geographical segments

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

#### Note 22 Cash Flow Information

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
<b>(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>				
Profit after Income tax	(6,212,318)	(320,450)	(6,218,878)	1,278,012
Non-cash flows in profit				
Depreciation	78,365	132,338	78,365	132,338
Impairment of goodwill	3,808,961		3,808,961	
Impairment of investments				
Net (gain)/loss on disposal of property, plant and equipment	56,006	-	56,006	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	75,409	(239,131)	393,374	(997,414)
(Increase)/decrease in other assets	304,321		304,324	
(Increase)/decrease in inventories	1,077,890	(886,896)	1,051,136	(1,858,578)
Increase/(decrease) in trade payables and accruals	517,487	1,072,744	588,777	1,189,708
Increase/(decrease) in other payable	(868,724)		(1,089,739)	
Increase/(decrease) in provisions	(24,001)	14,911	(9,322)	14,911
Cash flow from operations	<u>(1,188,603)</u>	<u>(226,484)</u>	<u>(1,018,996)</u>	<u>(63,023)</u>

#### Note 23 Share-based Payments

- (i) On 01 December 2006, 1,750,000 share options were granted to directors to take up ordinary shares at an exercise price of 25cents each. The options are exercisable on or before 31 July 2012. The options hold no voting or dividend rights and are not transferable.

- (ii) 1,700,000 Employees' options are to be issued on expiry of four years from the date of public listing (i.e. January 2011).

All options granted to key management personnel are ordinary shares in Soda Brands Limited which confers a right of one share for every option held.

	Consolidated Group		Parent Entity	
	Number	Weighted average exercise price	Number	Weighted average exercise price
<b>Outstanding as at 31 July 2007</b>	1,750,000	25c	1,750,000	25c
Granted				
Forfeited				
Exercised				
Expired				
<b>Outstanding as at 31 July 2008</b>	1,750,000	25c	1,750,000	25c
Granted				
Forfeited				
Exercised				
Expired				
<b>Outstanding as at 31 July 2009</b>	1,750,000	25c	1,750,000	25c
Options exercisable as at 31 July 2009:	1,750,000	25c	1,750,000	25c
Options exercisable as at 31 July 2008:	1,750,000	25c	1,750,000	25c

Included under employee benefits expense in the income statement is nil (2008: nil) and relates to equity settled share based payment transactions. As the exercise price on the date of issue and since the day of issue of the options was equal or less than the fair value of shares.

**Note 24 Events After the Balance Sheet Date**

The Company has exercised the call option over the entire issued share capital of Incolabs Holdings Pty Ltd on 26 October 2009, which becomes effective on 31 October 2009. The acquisition will be funded via additional secured loans totaling \$2.7 million provided equally by Soul Private Equity Limited (SPEL) and Maximise Equity Pty Ltd (MEQ).

On 28 October 2009 the directors have resolved to cancel share options previously issued to the ex-directors.

Chris Photakis passed away and ceased to be a director from 14 August 2009 and David John Fairfull was appointed a director on 01 September 2009 and represents SPEL, the majority shareholder of the group, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

**Note 25 Related Party Transactions**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
(a) Ultimate Parent Company				
Cash loans from/ (to) ultimate parent entity, Souls Private Equity Limited (SPEL)	-	(140,000)	-	(140,000)
Payment/ (Receipt) of interest on cash loans provided by SPEL	15,288	(33,238)	15,288	(33,238)
Other payables to SPEL (Payroll tax paid by SPEL)	95,441	-	95,441	-
(b) Other Related Parties				
Cash loans from/ (to) associated company, Maximise Equity Loan (MEL)	-	-	-	-
Payment/ (Receipt) of interest on cash loans provided by MEL	14,697	-	15,297	-
Other payables to Incolabs Pty Ltd	77,736	-	77,736	-
(c) Wholly owned subsidiaries				
Receivables from/ (to) subsidiary - So Distribution Pty Ltd	-	-	-	178,591
Receivables from/ (to) subsidiary - Soda Brands (NZ) Pty Ltd	-	-	171,111	194,713
(d) Identification of Related Parties Ultimate Parent Entity				
The parent entity is ultimately controlled by Souls Private Equity Limited, which held 50.27% of the issued share capital of the parent entity as at 31 July 2009 (2008: 68.2%). Souls Private Equity Limited is incorporated in Australia.				

As disclosed in Note 11(c) the Company has entered into a put & call option agreement for purchase of the entire share capital of Innoxia Group Pty Ltd (Innoxia) - a company incorporated in Australia with Christopher William McGibbon - General Manager/ Company Secretary.

**Note 26 Financial Risk Management**

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:-

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and cash equivalents	8	19,679	120,024	18,022	117,761
Loans and receivables	9f	286,955	362,364	439,737	1,074,046
Available-for-sale financial assets					
— Equity investments	11b	-	-	704	3,293,840
		306,634	482,387	458,463	4,485,647
<b>Financial Liabilities</b>					
<b>Financial liabilities at amortised cost</b>					
— Trade and other payables	16	883,072	1,258,508	872,669	1,252,875
— Borrowings	17	629,885	-	629,885	-
		1,512,957	1,258,508	1,502,554	1,252,875

**Financial Risk Management Policies**

**Specific Financial Risk Exposures and Management**

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and commodity and equity price risk.

**a. Interest rate risk**

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The company has borrowings from its ultimate holding company and related entities.

Interest rate risk is managed using a mix of fixed and floating rate debt. It is the policy of the group to keep between 5% and 10% of debt on fixed interest rates.

**b. Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:-

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

**c. Foreign exchange risk**

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

Due to instruments held by overseas operations, fluctuation in New Zealand dollar may impact on the Group's financial results unless those exposures are appropriately hedged.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent is considered immaterial and is therefore not shown.

**2009**

**Consolidated**

**Functional currency of Group entity**

Australian Dollars

New Zealand Dollars

Balance sheet exposure

Net financial assets/(liabilities) in AUD \$		
NZD	AUD	Total AUD
	(316,611)	(316,611)
(141,858)		(141,858)
(141,858)	(316,611)	(458,469)

**2008**

**Consolidated**

**Functional currency of Group entity**

Australian Dollars

New Zealand Dollars

Balance sheet exposure

Net financial assets/(liabilities) in AUD \$		
NZD	AUD	Total AUD
	4,920,550	4,920,550
(148,420)		(148,420)
(148,420)	4,920,550	4,772,130

**d. Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilization of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the FRMC has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, then risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

**Credit Risk Exposures**

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographic basis, the Group has significant credit risk exposures to Australia given the substantial operations in this region. Details with respect to credit risk of Trade and Other Receivables is provided in Note 9.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 9.

Credit risk related to balances with banks and other financial institutions is managed by the FRMC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on S&P counterparty credit ratings.

Note	Consolidated Group	Parent Entity
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**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2009**

	2009	2008	2009	2008
	\$	\$	\$	\$
Cash and cash equivalents				
- AAA Rated	19,679	120,024	18,022	117,761
<b>8</b>	<u>19,679</u>	<u>120,024</u>	<u>18,022</u>	<u>117,761</u>

**e. Price risk**

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

**Net Fair Values**

**Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

Consolidated Group	Footnote	2009		2008	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	(i)	19,679	19,679	120,024	120,024
Trade and other receivables	(i)	286,955	286,955	362,364	362,364
<b>Total financial assets</b>		<u>306,634</u>	<u>306,634</u>	<u>482,387</u>	<u>482,387</u>
<b>Financial liabilities</b>					
Trade and other payables	(i)	883,072	883,072	1,258,508	1,258,508
<b>Total financial liabilities</b>		<u>883,072</u>	<u>883,072</u>	<u>1,258,508</u>	<u>1,258,508</u>
<b>Parent Entity</b>	<b>Footnote</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	(i)	18,022	18,022	117,761	117,761
Trade and other receivables	(i)	439,737	439,737	1,074,048	1,074,048
Investments - available for sale	(ii)	704	704	3,293,840	3,293,840
<b>Total financial assets</b>		<u>458,463</u>	<u>458,463</u>	<u>4,485,647</u>	<u>4,485,647</u>
<b>Financial liabilities</b>					
Trade and other payables	(i)	872,669	872,669	1,252,675	1,252,675
<b>Total financial liabilities</b>		<u>872,669</u>	<u>872,669</u>	<u>1,252,675</u>	<u>1,252,675</u>

The fair values disclosed in the above table have been determined based on the following methodologies:

- Cash and cash equivalents, trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables excludes amounts provided for relating to annual leave which is not considered a financial instrument.
- The directors have determined that the fair values of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. Consequently, such assets are recognised at cost and their fair values have also been stated at cost in the table above. There is no active market for these investments, and there is no present intention to dispose of such investments.

**Note 27 Company Details**

The registered office of the company is:

Soda Brands Limited  
 Building 1, Suite 3  
 108 Old Pittwater Road  
 Brookvale NSW 2100

The principal places of business are:

Soda Brands Limited  
 Building 1, Suite 3  
 108 Old Pittwater Road  
 Brookvale NSW 2100

**SODA BRANDS LIMITED ABN: 91 081 149 635  
AND CONTROLLED ENTITIES  
DIRECTORS' DECLARATION**

The directors of the company declare that:

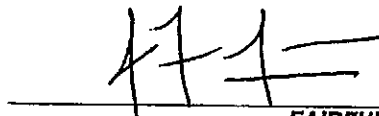
1. the financial statements and notes, as set out on pages 10 to 31, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the financial position as at 31 July 2009 and of the performance for the year ended on that date of the company and consolidated group;
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.

The company and a wholly-owned subsidiary, [insert company name], have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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

Director



**FAIRFULL Andrew (Non-exec Chairman)**

Dated this 30th day of October 2009

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES  
INDEPENDENT AUDITOR'S 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 2009, 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 [insert date], would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's Opinion*

In our opinion:

- a. the financial report of 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 and consolidated entity's financial position as at 31 July 2009 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;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Significant uncertainty regarding continuation as a Going Concern**

Without qualifying our opinion, we draw attention to Note 1 in the financial statements that indicates that the consolidated entity is seeking to raise additional funding by way of borrowing and issue of shares or from other external sources. These conditions, along with other matters as set forth in Note 1, indicates that there is significant uncertainty about the consolidated entity's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

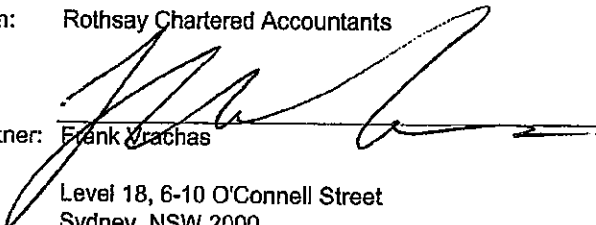
**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 31 July 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Soda Brands Limited for the year ended 31 July 2009, complies with section 300A of the Corporations Act 2001.

Name of Firm: Rothsay Chartered Accountants

Name of Partner:  Frank Vrachas

Address: Level 18, 6-10 O'Connell Street  
Sydney, NSW 2000

Dated this 30th day of October 2009

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES**  
**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

**1. Shareholding**

**a. Distribution of Shareholders**

Category (size of holding)	Number	
	Ordinary	Redeemable
1 – 1,000	-	-
1,001 – 5,000	2	-
5,001 – 10,000	142	-
10,001 – 100,000	107	-
100,001 – and over	15	-
	<u>266</u>	<u>-</u>

**b. The number of shareholdings held in less than marketable parcels is nil.**

**c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2009 are:**

Shareholder	Number	
	Ordinary	Preference
Soul Private Equity Limited	23,200,733	-
Kistani Holdings Pty Ltd	11,369,060	-
Avenue Investments Pty Ltd	1,275,000	-
Mydate Pty Ltd	1,200,000	-
Hair Fx Australia Pty Ltd	723,405	-

**d. Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

- These shares have no voting rights.

**e. 20 Largest Shareholders — Ordinary Shares**

Name	Number of Ordinary Fully Paid Shares	% Held of Issued Ordinary Capital
	Held	
1. Soul Private Equity Limited	23,200,733	50.27%
2. Kistani Holdings Pty Ltd	11,369,060	24.63%
3. Avenue Investments Pty Ltd	1,275,000	2.76%
4. Mydate Pty Ltd	1,200,000	2.60%
5. Hair Fx Australia Pty Ltd	723,405	1.57%
6. Her Way Pty Ltd	548,106	1.19%
7. Frank Boffa Pty Ltd	548,106	1.19%
8. Cordony Salons Pty Ltd	548,106	1.19%
9. Cardony & Co. Pty Ltd	548,106	1.19%
10. Chris Boffa Pty Ltd	548,106	1.19%
11. Mrs Marry Ghatta & Nicholas Ghatta	466,667	1.01%
12. Tidereef Pty Ltd	261,000	0.57%
13. Scarf Family Superannuation	231,470	0.50%
14. Temant Pty Ltd	150,000	0.32%
15. Rastana Holdings Pty Ltd	150,000	0.32%
16. Ronald Bernard Gaffney	100,000	0.22%
17. D J Fairfull Pty Ltd	100,000	0.22%
18. Camjon Pty Ltd	100,000	0.22%
19. Busker's End Pty Ltd	100,000	0.22%
20. Murang Pty Ltd	80,000	0.17%
	<u>42,247,865</u>	<u>91.63%</u>

**f. 20 Largest Shareholders — Redeemable Preference Shares**

Number of Redeemable Preference Fully Paid Shares Held	% Held of Issued Redeemable Preference Shares
Nil	Nil

**SODA BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES  
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

No redeemable preference shares issued

2. The name of the company secretary is MCGIBBON, Christopher William.
3. The address of the principal registered office in Australia is Soda Brands Limited, Building 1, Suite 3, 106 Old Pittwater Road, Brookvale NSW 2100. Telephone 02 88239200.
4. Registers of securities are held at the following addresses  
NSW Soda Brands Limited, Building 1, Suite 3, 106 Old Pittwater Road, Brookvale NSW 2100
5. **Stock Exchange Listing**  
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the National Stock Exchange Limited.
6. **Unquoted Securities**  
Options over Unissued Shares  
A total of 14,831,673 options are on issue.