



Penrice Soda Holdings Limited

10 July 2009

Dear Fellow Shareholders

IMPORTANT INFORMATION

As you know, London City Equities Limited (and associate shareholders) (**LCE**), which holds 9.6% of the issued share capital of Penrice Soda Holdings Limited (**Penrice**), requisitioned a General Meeting of your Company on 28 May 2009. It is seeking to remove your Chairman, John Heard and non-executive Director, David Trebeck, and have shareholders appoint two persons nominated by LCE in their place.

Your Board formed a sub-committee of non-executive Directors comprising Barbara Gibson, John Hirst and me (**Sub-Committee**) to manage the process of convening the General Meeting. The Sub-Committee sent you a Notice of Meeting and Explanatory Memorandum on 16 June 2009 (**Explanatory Memorandum**).

On 22 June 2009, LCE sent you a Statement by Requisitioning Shareholders regarding the forthcoming General Meeting (**LCE Statement**) outlining a number of matters that it considers are relevant for shareholders. Your Sub-Committee has prepared the following information to ensure shareholders receive complete information when deciding how to vote. The Sub-Committee believes that the:

- 1 The LCE Statement is selective and omits important information
- 2 The LCE Statement does not include any tangible proposal to improve your Company.

The Sub-Committee's assessment remains unchanged and recommends that shareholders vote:

- AGAINST the Director resolutions (Resolutions 1-4)
- FOR the capital refreshing resolution (Resolution 5).

VOTING

I understand that many shareholders are confused about how to vote as there have been two proxy forms sent to shareholders – a white form from Penrice and a yellow form from LCE. In an effort to respond to shareholders who are confused we have attached a new white proxy form. **If you use the new white proxy form you will revoke any appointment made or authorisation granted using the yellow form.**

I urge you to ensure that you cast your vote on this important matter by either attending the meeting in person or returning a proxy form. If you wish to vote by proxy and have not already sent in a proxy form (or if you wish to change your vote), please complete the attached Company approved proxy form and return it so that it is received by Link by not later than 11am on Saturday 25 July 2009.

Yours sincerely

Andrew Fletcher
Chairman of Sub-Committee

1 The LCE Statement is selective and omits important information

The Sub-Committee is concerned by the selective statements that LCE has made in its statement. After careful consideration, the Sub-Committee has decided to provide additional information to ensure all Penrice shareholders are fully and fairly informed.

What was said in the LCE Statement	What was NOT said in the LCE Statement
<p>The proposed changes to the Board are:</p> <ul style="list-style-type: none"> • very modest, • reflect a fair balance 	<ul style="list-style-type: none"> • LCE and its associates own 9.6% of the shares in Penrice. If all Director resolutions are accepted, LCE nominated directors would represent: <ul style="list-style-type: none"> • 33% of Directors • 40% of non-executive Directors
<p>The Penrice Board should be reduced from 6 to 5 over time</p>	<ul style="list-style-type: none"> • If the Board is reduced from 6 to 5, LCE nominated directors would represent: <ul style="list-style-type: none"> • 40% of the Directors • 50% of the non-executive Directors • Mr Turner is Chairman of a small listed company with a market cap of approximately \$3.6M. That company has 5 Directors and intends to increase the number of Directors to at least 6 in that company
<p>Since its float, Penrice's share price has underperformed LCE's share price and the All Ordinaries Index</p>	<ul style="list-style-type: none"> • After its float in March 1987, LCE was suspended from the ASX in 1996 for over three years • Since March 1987, LCE's share price has fallen by over 10% despite over 20 years as a public company • The <i>Way Forward Plan</i> was announced on 29 August 2007 to reposition Penrice for sustainable profitable growth. Since 29 August 2007 until 9 July 2009, Penrice's share price has performed in line with the All Ordinaries Index
<p>Debt borrowings and payables have grown excessively from June 2005 to December 2008 – much more than the investment in the new plant</p>	<ul style="list-style-type: none"> • Under <i>The Way Forward Plan</i>, Penrice has invested \$50M in: <ul style="list-style-type: none"> • growth capital expenditure - \$25M • net mine development costs, primarily overburden, which is treated as inventory - \$25M • Debt and equity funded this investment
<p>Revenues have not grown in years and profits are lower than in 2006</p>	<ul style="list-style-type: none"> • <i>The Way Forward Plan</i> was announced in August 2007 to address declining rates of growth in revenues and profits • Penrice's FY09 revenues and underlying profit after tax are up by over 18% from the previous year
<p>Penrice should not issue an extra 15% of shares without shareholder approval as, amongst other things, LCE is concerned that the Board may make a placement at a significant discount to parties who are not currently shareholders</p>	<ul style="list-style-type: none"> • The 15% limit will be refreshed in December 2009 regardless of the vote at the General Meeting • Penrice is seeking shareholder approval simply to provide flexibility and obtain some benefit from a costly and unnecessary meeting • Your Board has and will act in the best interests of all shareholders and will seek to ensure that they are all shareholders are given the opportunity to participate in capital raisings • The 2008 placement shares were issued at a premium to Penrice's share price, not a discount. The 2008 SPP shares - issued to existing shareholders - were issued at a 10% discount to the placement shares

What was said in the LCE Statement	What was NOT said in the LCE Statement
Mr Murray is Chief Operating Officer of LCE	<ul style="list-style-type: none"> • LCE has a market cap of \$8.9M¹ and no employees • Penrice has a market cap of over \$50M and has over 300 employees
Mr Murray is Chairman of Belmont Holdings Limited	<ul style="list-style-type: none"> • Belmont has a market cap of \$4.3M² and no employees
LCE made a significant gain on its investment in CCI Holdings Limited (CCI)	<ul style="list-style-type: none"> • LCE made a gain of around \$9M on CCI • LCE and indirectly Belmont lost about \$10M on an earlier investment in Towles Plc. Mr Murray was a director of Towles Plc
<p>Mr Turner was Managing Director of Ludowici Limited (Ludowici) from July 1996 to June 2007. While Managing Director, Ludowici's:</p> <ul style="list-style-type: none"> • EBIT³ increased from \$3.4M to \$12.7M from 1999 to 2006 • market cap increased from \$30M in July 1996 to \$160M in June 2007 	<ul style="list-style-type: none"> • Mr Turner's profit growth comparison is incomplete • Mr Turner compares EBIT performance from 1999 to 2006 – ignoring he started in 1996 and EBIT fell by over 40% from 1996 to 1999 • Ludowici's EBIT rose from \$5.9M in 1996 to \$7.7M in 2007, the year Mr Turner retired, an annual growth of only 2.3% per annum • Mr Turner's profit calculation in 2006 (EBIT of \$12.7M) includes the benefit of a one-off profit of \$2.4M, being the sale of real estate, not from the operations of the company • Eight months after Mr Turner left the company, Ludowici announced write downs of \$11.7M relating to 2007, the year Mr Turner retired • Since that announcement its share price has fallen by over 75% and its market cap is now \$31M⁴
Mr Turner is Chair of Kip McGrath Centres Limited (KMC)	<ul style="list-style-type: none"> • KMC has a market cap of \$3.6M⁵ • KMC has 5 directors and KMC has announced its intention to increase the size of the Board
Recent hedging and superannuation losses were a shock	<ul style="list-style-type: none"> • Penrice announced in October 2008 it expected a first half loss for the six months ended 31 December 2008 • LCE invested in November 2008 after weeks of investigations and was aware of the hedging positions • Unrealised hedging losses are accounting losses not cash losses • The superannuation losses impacted retained earnings not profits or cash
<p>Concerns expressed by LCE to the Penrice Board have not garnered the serious attention of Penrice</p> <p>LCE expressed a wish for a Board seat on 10 March and wrote to Penrice requesting a Board seat on 16 March</p>	<ul style="list-style-type: none"> • Following 16 March letter from LCE, Penrice advised LCE that the timing of an appointment was inappropriate, but that the matter would be further considered following the release of Penrice's full year results • On 1 May 2009, LCE wrote to Penrice saying that it intended to submit a request that Penrice Directors convene a General Meeting of shareholders to consider the removal of three (unnamed) Penrice Directors and the appointment of two LCE nominees • To avoid the disruption and cost of a General Meeting, Penrice offered LCE one nominee to the Board, which was considered reasonable given LCE's 9.6% shareholding. LCE rejected that Penrice offer

¹ As at 9 July 2009

² As at 9 July 2009

³ EBIT means earnings before interest and tax

⁴ As at 9 July 2009

⁵ As at 9 July 2009

2 The LCE Statement does not include any tangible proposal to improve your Company

Neither LCE's request for a General Meeting nor its subsequent statement include any tangible proposal for the advancement of the Company. Instead, the LCE nominated Directors have offered vague generalities. Shareholders are urged to support the Company's present direction under its successful *Way Forward Plan*.

The LCE nominated directors' plans to improve your Company	Penrice Shareholders should consider
<ul style="list-style-type: none"> Change the name to Penrice Holdings Limited 	<ul style="list-style-type: none"> Your Board does not consider this costly exercise to be justified at this time
<ul style="list-style-type: none"> Understanding the business by Mr Murray having personal hands-on involvement over two months 	<ul style="list-style-type: none"> Mr Murray investigated the business thoroughly before LCE made its investment It is not clear whether Mr Murray is suggesting he have an executive role in the first two months and subsequently Mr Turner has not contacted Penrice or its Board prior to seeking to be appointed as a Director Neither Mr Murray nor Mr Turner have no experience in the chemical of mining industries
<ul style="list-style-type: none"> Extend the debt facilities, debt reduction through a rights issue 	<ul style="list-style-type: none"> An extension of existing bank facilities has been agreed in principle with Penrice's banking syndicate to provide for an extension of two years to March 2012
<ul style="list-style-type: none"> Understand inventories and schist materials 	<ul style="list-style-type: none"> The primary increase in the carrying value of inventories is due to mine operational needs - overburden removal Penrice - unlike most mines - has found markets to sell this product. As the overburden is saleable, the cost to extract the overburden is treated as inventory - a requirement of accounting standards Schist sales commenced in 2009
<ul style="list-style-type: none"> Reduce directors fees by 25% for <u>one year</u> and target cost reductions 	<ul style="list-style-type: none"> Your Board is focussed on meaningful cost reductions. Reducing Directors fees by 25% for one year saves the Company approximately \$80k Requesting an unnecessary General Meeting four months earlier than the Annual General Meeting will cost more circa \$100k
<ul style="list-style-type: none"> Change the dividend policy 	<ul style="list-style-type: none"> Penrice will adopt a responsible dividend policy as the <i>Way Forward Plan</i> delivers and economic circumstances improve
<ul style="list-style-type: none"> Review the capital structure 	<ul style="list-style-type: none"> Bank facilities have been extended to March 2012 Penrice has already stated its intention to reduce the level of gearing Debt will be reduced from mid 2010 Equity raising remains under constant review