

# Appendix 4D

## Half-Year Report

**Gage Roads Brewing Co Limited**  
**ABN 22 103 014 320**

**For the Half-Year ended 31 December 2006**

### Results for Announcement to the Market

Revenue from ordinary activities	up	116.2%	to	1,216,106
Loss from ordinary activities after tax attributable to members	up	77.7%	to	(1,645,000)
Net loss attributable to members	up	77.7%	to	(1,645,000)

### Dividends (distributions)

There were no dividends declared for the period.

Net tangible assets per ordinary share	31 December 2006	31 December 2005
	\$	\$
	0.13	0.05

### Details of controlled entities acquired or disposed of

There were no controlled entities acquired or disposed of during the period.

### Details of aggregate share of profits (losses) of associates and joint venture entities

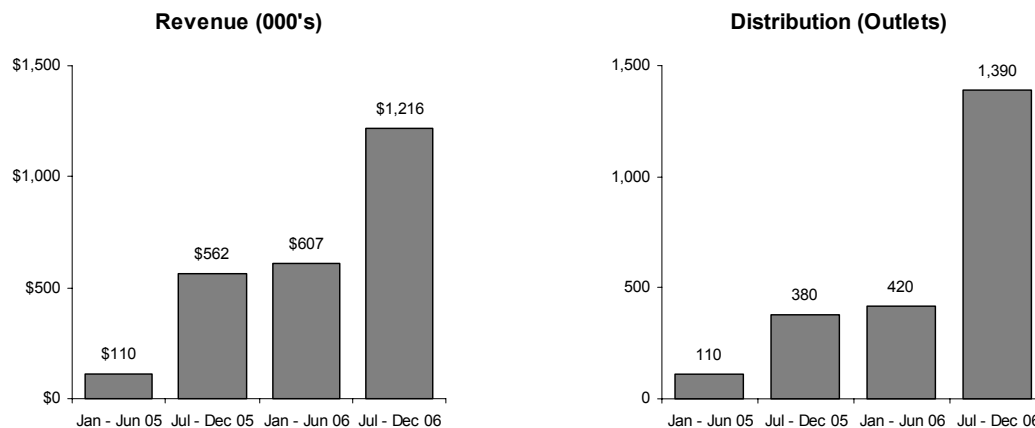
There were no associates or joint venture entities associated with the company for the period.

### Commentary on the results for the half-year ended 31 December 2006

- Revenue of \$1.2m for the first half of FY07, up 116% on the corresponding half-year period FY06
- National distribution agreement executed with Hardy Wine Company
- Strong growth in distribution, retail outlets more than doubled over the last 6 months
- Implementation of the national marketing strategy in the eastern states
- Successful listing on the ASX December 2006

The first half of this financial year has seen significant achievements for Gage Roads Brewing Co. During this period the company entered into a national distribution agreement, bolstered its senior executive team, expanded the Board of Directors, undertook an Initial Public Offering (IPO) of shares and successfully listed the company's shares on the Australian Stock Exchange.

Total revenue from operations was \$1,216,106 for the half-year. Revenue reflects strong growth in distribution nationwide, with the number of retail outlets more than doubling over the last 6 months. This result reflects the initial success of the distribution partnership with the Hardy Wine Company.



Net loss after tax was (\$1,645,000) for the half-year. This result includes a non-cash share-based payments expense of \$524,477 in accordance with AIFRS. This expense relates to the residual expensing of director's options issued December 2003 which were exercised during the period (\$505,058) and the expensing of director's options granted December 2006 attributable to the period (\$19,419). The net loss after tax for the half-year after providing for income tax and before this adjustment amounted to (\$1,120,523).

Marketing expenditure was \$471,691 for the half-year, up 70% on the corresponding half-year period of FY06. This is consistent with the execution of the company's national marketing campaign and long-term brand building strategy.

The company's IPO and listing on the ASX on the 13<sup>th</sup> December 2006 and other issues during the period raised \$4,350,247 net of costs. Cash flow for the half-year amounted to an increase of \$2,713,924 reflecting the proceeds from the issue of shares less expected operating and capital expenditure cash flows of (\$1,571,081) and the repayment of borrowings (\$65,242) in the ordinary course of business.

The director's are pleased with the result of the half-year. The initial strategic focus of creating a national distribution base has been successful. The investment in distribution and marketing over the period is in line with expectations and consistent with the company's long-term brand building strategy. The company is now well positioned as a national producer of premium beer and its brands are growing in consumer awareness. This base of distribution provides the foundation for growth in future sales as the company progressively implements its marketing strategy.

Please refer to the attached financial report for the half-year ended 31 December 2006 for a more detailed review of operations.

## Compliance statement

1. This report, and the accounts upon which this report is based, have been prepared in accordance with AASB Standards.
2. This report, and the accounts upon which the report is based, use the same accounting policies.

3. This report gives a true and fair view of the matters disclosed.  
4. This report is based upon accounts to which one of the following applies:

☐

The accounts have been audited.

☒

The accounts have been subject to review.

☐

The accounts are in the process of being audited or subject to review.

☐

The accounts have *not* yet been audited or reviewed.

5. The auditors' review report is attached.  
6. The entity has a formally constituted audit committee.



Signed:

Company Secretary

Date: 27 February 2007

Name:

John Hoedemaker (Company Secretary)

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**GAGE ROADS BREWING CO LTD**  
**FINANCIAL REPORT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**  
  
**ACN 103 014 320**

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Directors' report	2
Auditor's independence declaration	4
Directors' declaration	5
Income statement	6
Balance sheet	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Independent auditor's report	16

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 June 2006, the prospectus issued on 8 November 2006 and any public announcements made by Gage Roads Brewing Company Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

**Gage Roads Brewing Co Ltd**  
**Directors' report**  
**For the half-year ended 31 December 2006**

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Your directors present their report on Gage Roads Brewing Co Ltd for the half-year ended 31 December 2006.

**Directors**

The following persons were directors of the Company during the whole of the financial half-year and up to the date of this report unless otherwise stated:

John R.R. Hoedemaker  
Willem P. Hoedemaker  
Paul L. McKenzie  
Peter A. Nolin  
Michael D. Perrott (appointed - 27 October 2006)

**Principal activities**

During the year the principal continuing activities of the Company was the brewing, packaging, marketing and selling of craft brewed beer.

No significant change in the nature of these activities occurred during the year.

**Dividends**

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

**Operating Result**

The loss of the Company for the half-year ended 31 December 2006 after providing for income tax amounted to (\$1,645,000) (2005: (\$925,842)).

In accordance with the adoption of AIFRS earnings has been adjusted being the recognition of shared-based payments expense of \$524,477 (2005: \$153,994), which is further explained in note 2 and 3 to the financial report. This is a non cash adjustment. The loss of the Company for the half-year after providing for income tax and before this adjustment amounted to (\$1,120,523) (2005: (\$771,848)).

**Review of Operations**

The first half of this financial year has seen significant achievements for Gage Roads Brewing Co. During this period the company entered into a national distribution agreement, bolstered its senior executive team, expanded the Board of Directors, undertook an Initial Public Offering (IPO) of shares and successfully listed the company's shares on the Australian Stock Exchange.

A brief summary of the company's growth shows revenue at \$1.2 million for the half year, up 116% on the corresponding half year period of FY06. Revenue reflects strong growth in distribution nationwide, with the number of retail outlets more than doubling over the last 6 months.

This result is consistent with the Board's long-term strategy of building a portfolio of premium Australian beer brands and is in line with the Board's expectations.

In July 2006, the company executed an exclusive national distribution agreement with the Hardy Wine Company, the largest wine distributor in the country by volume. Sales of packaged beer began on 1<sup>st</sup> August, with the company retaining direct sales of draught beer.

The distribution partnership with the Hardy Wine Company is developing strongly. Gage Roads three beer brands are now being sold in all states and territories throughout Australia. Along with the growth of distribution within the independent liquor trade, ranging in the national liquor chains continues to expand. All Gage Roads products have recently been listed nationally with Woolworths' 'Dan Murphy's' chain of stores.

In addition to domestic sales growth, Gage Roads has begun exporting beer in small volumes to North America and Asia.

In September 2006, Gage Roads recruited an experienced fast moving consumer goods marketing executive to the role of national marketing manager. His employment rounds out the senior management team. Under his direction, the national marketing campaign commenced, including significant activity in the eastern states. Sponsorship, promotions and print advertising campaigns, both local and national, were executed resulting in growing consumer awareness of Gage Roads.

To complement the growth of the company, Michael Perrott was appointed to the Board of Directors in October as an independent, non-executive director. Michael has extensive public company experience, including directorships on several listed public companies, and accepted the position of Chairman of the Board. Paul McKenzie retired as Chairman and retains his role as a non-executive director.

In November, the company lodged a Prospectus in relation to its Initial Public Offering (IPO) of shares. The offer closed oversubscribed and the company successfully applied for quotation of the official list of the Australian Stock Exchange. The shares began trading on 13<sup>th</sup> December 2006.

**Gage Roads Brewing Co Ltd**  
**Directors' report**  
**For the half-year ended 31 December 2006**

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In the coming half year, Gage Roads will continue to invest in and develop its distribution partnership with the Hardy Wine Company as part of the company's long term brand building strategy. The initial focus will continue to be the expansion of distribution throughout Australia to provide the base from which to grow future volumes. In addition, export opportunities have emerged that will be investigated and pursued.

Concurrent with the increasing availability of Gage Roads' brands, the company will continue to build brand awareness through the execution of the company's marketing strategy. Investment in entrenching the brand at the consumer level will remain an essential focus of the business.

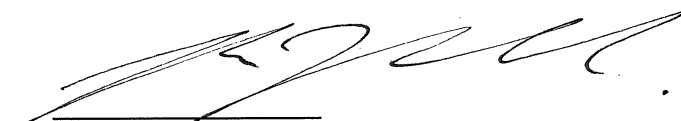
In conjunction with its core operations, the company has identified an opportunity to contract brew or toll manufacture products for third parties. Subsequent to the close of the half year, Gage Roads executed its first contract brewing agreement to produce draught beer for another party. The company is currently in discussions with other interested parties and intends to continue to develop this prospect as a means to utilise latent capacity and diversify the business.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.



Peter A. Nolin  
Director



John Hoedemaker  
Director

Dated at Palmira on the 22 day of February 2007.



**Horwath Audit (WA) Pty Ltd**

ABN 79 112 284 787

*Chartered Accountants*

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22 February 2007

**Private and Confidential**

**The Board of Directors**

Gage Roads Brewing Co Ltd

PO Box 2024

PALMYRA

WA 6157

**AUDITOR'S INDEPENDENCE DECLARATION**

This declaration is made in connection with my review of the financial report of Gage Roads Brewing Co Ltd for the half year ended 31 December 2006 and in accordance with the provisions of the Corporations Act 2001.

I declare that, to the best of any knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this review.

Yours sincerely

**HORWATH AUDIT (WA) PTY LTD**

*HORWATH*

*Glyn O'Brien*

**GLYN O'BRIEN**

Director

**Gage Roads Brewing Co Ltd**  
**Directors' declaration**  
**For the half-year ended 31 December 2006**

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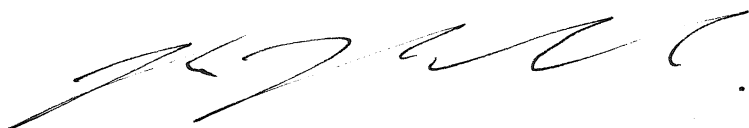
In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Peter A. Nolin  
Director



John R.R. Hoedemaker  
Director

Dated at **PALMYRA** on the **22nd** day of February 2007.



**Gage Roads Brewing Co Ltd**  
**Income statement**  
**For the half-year ended 31 December 2006**

	Notes	31 December 2006 \$	Unaudited 31 December 2005 \$
<b>Revenue from continuing operations</b>		<b>1,216,106</b>	562,395
Raw materials, excise, consumables & delivery		(750,128)	(291,572)
Operating expenses		(243,808)	(151,553)
Employee benefits expense		(1,076,985)	(559,361)
Depreciation and amortisation expense		(54,881)	(53,799)
Sales and marketing		(471,691)	(276,958)
Administration costs		(179,710)	(87,700)
Occupancy costs		(55,659)	(49,746)
Finance costs		(28,244)	(17,548)
<b>Loss before income tax</b>		<b>(1,645,000)</b>	(925,842)
Income tax expense		-	-
<b>Loss for the half-year</b>	<b>2</b>	<b>(1,645,000)</b>	(925,842)
<b>Loss attributable to members of Gage Roads Brewing Co Ltd</b>		<b>(1,645,000)</b>	(925,842)
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share for loss attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share		(3.7)	(2.4)
Diluted earnings per share		(3.4)	(1.8)

*The above income statement should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Ltd**  
**Balance sheet**  
**As at 31 December 2006**

	31 December 2006 \$	30 June 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,986,238	1,272,314
Trade and other receivables	537,126	212,037
Inventories	238,476	226,725
Total current assets	<u>4,761,840</u>	<u>1,711,076</u>
<b>Non-current assets</b>		
Property, plant and equipment	2,071,719	1,693,595
Intangible assets	3,769	3,769
Other	2,644	2,736
Total non-current assets	<u>2,078,132</u>	<u>1,700,100</u>
<b>Total assets</b>	<u>6,839,972</u>	<u>3,411,176</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	463,665	208,830
Borrowings	139,161	133,344
Provisions	47,438	37,958
Total current liabilities	<u>650,264</u>	<u>380,132</u>
<b>Non-current liabilities</b>		
Borrowings	518,228	589,287
Total non-current liabilities	<u>518,228</u>	<u>589,287</u>
<b>Total liabilities</b>	<u>1,168,492</u>	<u>969,419</u>
<b>Net assets</b>	<u>5,671,480</u>	<u>2,441,757</u>
<b>EQUITY</b>		
Contributed equity	10,661,361	5,406,500
Share options reserve	19,419	399,557
Accumulated losses	(5,009,300)	(3,364,300)
<b>Total equity</b>	<u>5,671,480</u>	<u>2,441,757</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Ltd**  
**Statement of changes in equity**  
**For the half-year ended 31 December 2006**

	Notes	31 Dec 2006 \$	Unaudited 31 Dec 2005 \$
<b>Total equity at the beginning of the half-year</b>		<u>2,441,757</u>	<u>2,399,421</u>
<b>Net income recognised directly in equity</b>			
<b>Loss for the half-year</b>		<u>(1,645,000)</u>	<u>(925,842)</u>
<b>Total recognised income and expense for the half-year attributable to the members of Gage Roads Brewing Co Ltd</b>		<u>(1,645,000)</u>	<u>(925,842)</u>
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	3	5,254,861	483,000
Director share options	3	(380,138)	153,994
		<u>4,874,723</u>	<u>636,994</u>
<b>Total equity at the end of the half-year</b>		<u>5,671,480</u>	<u>2,110,573</u>
Total recognised income and expense for the half-year is attributable to:			
Members of Gage Roads Brewing Co Ltd		<u>(1,645,000)</u>	<u>(925,842)</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Ltd**  
**Cash flow statement**  
**For the half-year ended 31 December 2006**

	31 Dec 2006 \$	Unaudited 31 Dec 2005 \$
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	908,327	546,590
Payments to suppliers and employees (inclusive of GST)	<u>(2,053,386)</u>	<u>(1,279,718)</u>
	(1,145,059)	(733,128)
Interest received	35,135	13,871
Interest paid	<u>(28,244)</u>	<u>(4,560)</u>
<b>Net cash outflow from operating activities</b>	<u>(1,138,168)</u>	<u>(723,817)</u>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(432,913)	(196,534)
Payments for intangibles	-	(2,790)
<b>Net cash outflow from investing activities</b>	<u>(432,913)</u>	<u>(199,324)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities	4,835,424	476,250
Share issue transaction costs	(485,177)	-
Proceeds from borrowings	-	702,254
Repayment of borrowings	<u>(65,242)</u>	<u>(39,868)</u>
<b>Net cash inflow from financing activities</b>	<u>4,285,005</u>	<u>1,138,636</u>
<b>Net increase in cash and cash equivalents</b>	2,713,924	215,495
Cash and cash equivalents at the beginning of the half-year	<u>1,272,314</u>	<u>892,529</u>
<b>Cash and cash equivalents at the end of the half-year</b>	<u>3,986,238</u>	<u>1,108,024</u>

*The above cash flow statement should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the half-years presented.

**(a) Basis of preparation**

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Gage Roads Brewing Co Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

*Early adoption of standards*

The Company has not elected to apply the early adoption of those standards released but not yet effective to the annual reporting period beginning 1 July 2007. See note 1(t) for further details.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

**(b) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

**(c) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for major business activities as follows:

*(i) Sale of goods*

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

*(ii) Interest income*

Interest revenue is recognised on a time proportional basis using the effective interest method, see note 1(j).

**(d) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(d) Income tax (continued)**

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(e) Leases**

Leases of property, plant and equipment where the entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**(f) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(g) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid instruments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(h) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(i) Inventories**

*Raw materials and stores, work in progress and finished goods*

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. They include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(j) Investments and other financial assets**

The Company classifies its investments in the following categories: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

Loans and receivables are carried at amortised cost using the effective interest method.

**(j) Investments and other financial assets**

The Company assesses at each balance date whether there is objective evidence that a financial asset of group of financial assets is impaired.

**(k) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**(l) Property, plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amount, net of their residual values, over their estimated useful lives, as follows:

Brewery, plant & equipment	3.33% - 30%
Office equipment	7.5% - 100%
Motor vehicles	13.64% - 18.75%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(l) Property, plant and equipment (continued)**

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 (note 1(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(m) Intangible assets**

*Trademarks*

Trademarks are treated as having an infinite useful life because they are expected to contribute to the net cash flows indefinitely. Therefore, the trademarks would not be amortised until their useful life is determined to be finite. They would be individually tested for impairment in accordance with AASB 136 annually and whenever there is an indication that any of the trademarks may be impaired. They are carried at cost.

**(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial half-year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

**(o) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(p) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**(q) Employee benefits**

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experiences of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Share-based payments*

The fair value of options at grant date is independently determined using a Black-Scholes or Binomial option pricing model that takes into account the exercise price, term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.



**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(q) Employee benefits (continued)**

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of then number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of the options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received are credited to share capital.

**(r) Contributed equity**

Ordinary shares are classified as equity. The preference shares are classified as equity on the basis that they rank parri passu in any surplus assets of the Company in the event that it is wound up and that such surplus amounts remain after the settlement of all liabilities, including the preference shares' face value.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

**(s) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

**(t) New accounting standards and UIG interpretations**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038)*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Company's financial instruments.

(ii) *UIG 10 Interim Financial Reporting and Impairment*

UIG 10 is applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standard early. Application of the interpretation will not affect any of the amounts recognised in the financial statements.

**Gage Roads Brewing Co Ltd**  
**Notes to the accounts**  
**For the half-year ended 31 December 2006**

**Note 2 : Profit for the half-year**

	2006 \$	2005 \$
Loss for the half-year includes the following items that are unusual because of their nature, size or incidence:		
<b>Expenses</b>		
Directors options expensed	524,477	153,994
	<u>524,477</u>	<u>153,994</u>

**Note 3 : Equity securities issued**

	2006 Shares	2005 Shares	2006 \$	2005 \$
<i>Issues of shares during the half-year</i>				
Preference shares issued 28/10/05, 16c	-	3,018,750	-	483,000
Preference shares issued 7/7/06, 20c	1,276,368		255,274	
Preference shares issued 8/8/06, 20c	400,000		80,000	
Conversion of preference shares to ordinary shares	-	-	-	-
Bonus issue 1 for 10	4,697,942		-	
Consolidation issue 1 for 2	(25,838,663)		-	
Listing on Australian Stock Exchange on 8 December 2006:				
IPO Ordinary shares issued, at 40c	10,000,000	-	4,000,000	-
Converting note, at 40c	1,250,000		500,000	
Payment of directors options exercise price	-		149	
Directors options issued and converted, transferred from share-based payments option reserve	7,481,782		524,477	
Directors options converted and transferred from share-based payments option reserve			380,138	
Capital raising costs	-		(485,177)	
	<u>(732,571)</u>	3,018,750	<u>5,254,861</u>	483,000

At 31 December 2006 there were 44,570,458 ordinary shares in issue.

**Note 4 : Segment reporting**

The Company operates in one business segment, being the manufacture and sale of beer, and in one geographical segment, being Australia.

**Note 5 : Contingencies**

**(a) Contingent liabilities and assets**

There are no material contingent liabilities or contingent assets of the Company at the balance date.

**Note 6 : Events occurring after the balance sheet date**

No matter or circumstance has arisen since 31 December 2006, which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

**Independent auditors' review report to members of  
Gage Roads Brewing Co Limited**

We have reviewed the accompanying half year financial report of Gage Roads Brewing Co Ltd, which comprises the balance sheet at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

***Directors' Responsibility for the Half Year Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half year 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Auditor of an Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not fairly presented, in all material respects, in accordance with AASB 134 *Interim Financial Reporting*. As the auditor of Gage Roads Brewing Co Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Independence***

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.



## **Conclusion**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Gage Roads Brewing Co Ltd does not fairly present, in all material respects the financial position of the company at 31 December 2006, and of its financial performance and its cash flows for the half year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Dated the 22<sup>nd</sup> day of February 2007.

**HORWATH AUDIT (WA) PTY LTD**

**HORWATH**

**GLYN OBRIEN**

Director