

# COSTARELLA DESIGN LIMITED

ABN 42 091 559 125

HALF YEAR FINANCIAL REPORT

FOR THE HALF YEAR ENDED  
31 DECEMBER 2008

<b>CONTENTS</b>	<b>PAGE NO</b>
<b>CORPORATE DIRECTORY</b>	<b>3</b>
<b>DIRECTORS' REPORT</b>	<b>4</b>
<b>INCOME STATEMENT</b>	<b>5</b>
<b>BALANCE SHEET</b>	<b>6</b>
<b>STATEMENT OF CHANGES IN EQUITY</b>	<b>7</b>
<b>CASH FLOW STATEMENT</b>	<b>8</b>
<b>CONDENSED NOTES TO THE FINANCIAL STATEMENTS</b>	<b>9</b>
<b>DIRECTORS' DECLARATION</b>	<b>12</b>
<b>AUDITORS INDEPENDENCE DECLARATION</b>	<b>13</b>
<b>INDEPENDENT AUDIT REPORT</b>	<b>14</b>

## CORPORATE DIRECTORY

<b>HEAD COMPANY:</b>	Costarella Design Limited
<b>DIRECTORS:</b>	Ravindran Govindan – Non-Executive Chairman Aurelio Costarella – Managing Director/Creative Director Sam Di Giacomo – Non-Executive Director Richard Chan – Non-Executive Director
<b>COMPANY SECRETARY:</b>	Peter Caughey
<b>REGISTERED AND PRINCIPAL OFFICE:</b>	23 View Street North Perth WA 6006
<b>TELEPHONE:</b>	08 9227 6535
<b>FACSIMILE:</b>	08 9227 5561
<b>SHARE REGISTER:</b>	Computershare Investor Services Pty Ltd Level 2 45 St Georges Terrace Perth WA 6000  Freecall No: 1300 55 70 10 International Call: +61 8 9323 2000 Facsimile: +61 8 9323 2033
<b>BANKERS:</b>	Commonwealth Bank of Australia Level 4 150 St George's Terrace Perth WA 6000
<b>AUDITORS:</b>	Stantons International Level 1 1 Havelock Street West Perth WA 6005
<b>SOLICITORS:</b>	Price Sierakowski Level 24 44 St Georges Terrace Perth WA 6000
<b>SECURITIES EXCHANGE:</b>	Australian Securities Exchange Limited Code: CLD

## DIRECTORS' REPORT

Your directors submit their report for the half year ended 31 December 2008.

### Directors

The names of the Directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr Ravindran Govindan  
Mr Aurelio Costarella  
Mr Sam Di Giacomo  
Mr Richard Chan

### Review and Results of Operations

Revenue from ordinary activities of the Group for the half year was \$566,404 (31.12.07: \$538,946), representing an increase of 5%. This increase was a result of an increase in sales revenue and considering a significant decrease in net government grants received. Gross profit decreased for the half year to \$27,704 (Gross profit 31.12.06: \$157,755), representing a decrease of 82%. The decrease resulted from a write down made for an inventory impairment of \$24,000 on 31 December 2008 and an increase in cost of sales for the period.

Consolidated net loss from continuing operations after income tax for the half year was \$954,407 (31.12.07: \$711,806), representing an increase of 34%. This was due largely to a total write off of inventory for the half year ended 31 December 2008 of \$202,087.

### Auditor's independence declaration

The auditor's independence declaration is included on page 13 of the financial report.

The Company does not have a formally constituted audit committee.

This report is made in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Directors



**Sam Di Giacomo**  
**Non-Executive Director**

Perth, 25 February 2009

**INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Note	Consolidated	
		31.12.2008	31.12.2007
		\$	\$
<b>Revenue</b>		<b>521,001</b>	<b>369,227</b>
Cost of sales		(493,297)	(211,472)
Gross Profit		<u>27,704</u>	<u>157,755</u>
Other income	4	45,403	169,719
Brand development expenses		(283,640)	(248,484)
Corporate & administration expenses		(189,521)	(403,520)
Depreciation		(24,736)	(32,703)
Finance costs		(35,649)	(2,435)
Impairment of inventory		(178,087)	-
Staff costs		(315,881)	(352,138)
<b>Loss before income tax expense</b>		<b><u>954,407</u></b>	<b><u>711,806</u></b>
Income tax expense		-	-
<b>Total loss attributable to members of Costarella Design Limited</b>		<b><u>954,407</u></b>	<b><u>711,806</u></b>
Basic loss per share (cents)	6	(1.81)	(1.58)

Condensed notes to the financial statements are included on pages 9 to 11

**BALANCE SHEET  
AS AT 31 DECEMBER 2008**

	Note	Consolidated	
		31.12.2008	30.06.2008
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	5	59,224	110,816
Trade and other receivables		80,157	87,904
Inventories		188,152	346,176
Prepayments		14,069	22,447
<b>Total Current Assets</b>		<b>341,602</b>	<b>567,343</b>
<b>Non-current Assets</b>			
Inventories		-	128,329
Property, plant and equipment		117,403	138,568
<b>Total Non-current Assets</b>		<b>117,403</b>	<b>266,897</b>
<b>TOTAL ASSETS</b>		<b>459,005</b>	<b>834,240</b>
<b>Current Liabilities</b>			
Trade and other payables		519,101	352,044
Borrowings	7	437,783	42,588
Provisions		52,386	51,611
<b>Total Current Liabilities</b>		<b>1,009,270</b>	<b>446,243</b>
<b>Non-Current Liabilities</b>			
Borrowings		15,090	
Provisions		18,801	17,746
<b>Total Non-Current Liabilities</b>		<b>33,891</b>	<b>17,746</b>
<b>TOTAL LIABILITIES</b>		<b>1,043,161</b>	<b>463,989</b>
<b>NET ASSETS</b>		<b>(584,156)</b>	<b>370,251</b>
<b>Equity</b>			
Issued capital		2,480,252	2,480,252
Reserves		325,555	325,555
Accumulated losses		(3,389,963)	(2,435,556)
<b>TOTAL EQUITY</b>		<b>(584,156)</b>	<b>370,251</b>

Condensed notes to the financial statements are included on pages 9 to 11

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

<b>Half year ended 31 December 2008</b>	Issued Capital	Reserves	Accumulated losses	TOTAL
Balance at beginning of the half year	2,480,252	325,555	(2,435,556)	370,251
Loss for the half year	-	-	(954,407)	(954,407)
Balance at end of the half year	2,480,252	325,555	(3,389,963)	(584,156)

<b>Half year ended 31 December 2007</b>	Issued Capital	Reserves	Accumulated losses	TOTAL
Balance at beginning of the half year	2,179,887	-	(823,510)	1,356,377
Issues of share capital, net of capital raising costs	94,000	-	-	94,000
Creation of option reserve, net of capital raising costs	-	310,760	-	310,760
Loss for the half year	-	-	(711,806)	(711,806)
Balance at end of the half year	2,273,887	310,760	(1,535,316)	1,049,331

Condensed notes to the financial statements are included on pages 9 to 11

**CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Note	<b>Consolidated</b>	
		<b>31.12.2008</b>	<b>31.12.2007</b>
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		568,010	355,610
Payments to suppliers and employees		(990,235)	(1,271,649)
Interest received		5,164	15,311
Net proceeds from grants received		1,772	154,117
Other income		739	291
Interest paid		(5,999)	(2,435)
<b>Net cash flows used in operating activities</b>		<u>(420,549)</u>	<u>(748,755)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant & equipment		<u>(2,605)</u>	<u>(30,615)</u>
<b>Net cash flows used in investing activities</b>		<u>(2,605)</u>	<u>(30,615)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of options, net of capital raising costs		-	310,760
Proceeds from borrowings	7	400,000	-
Repayment of borrowings		<u>(28,438)</u>	<u>(44,016)</u>
<b>Net cash flows provided by financing activities</b>		<u>371,562</u>	<u>266,744</u>
<b>Net decrease in cash and cash equivalents held</b>		(51,592)	(512,626)
Cash and cash equivalents at the beginning of the half year		<u>110,816</u>	<u>1,056,103</u>
<b>Cash and cash equivalents at the end of the half year</b>	5	<u>59,224</u>	<u>543,477</u>

Condensed notes to the financial statements are included on pages 9 to 11



## CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES

#### **Basis of preparation**

The consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that the financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Costarella Design Limited during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half year report contains condensed financial statements as defined AASB 134: Interim Financial Reporting and does not include full disclosures of the type normally included in the annual financial report.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

#### **Going Concern**

The financial statements of the economic entity have been prepared on a going concern basis which anticipates the ability of the economic entity to meet its obligations in the normal course of the business.

The economic entity needs to raise capital to enable it to continue its activities as in the past. It is considered that the economic entity should achieve sufficient funds from capital /debt raising to enable it to meet its obligations. If the economic entity is unable to continue as a going concern then it may be required to realise its assets and extinguish its liabilities, other than in the normal course of business and at amounts different from those stated in the financial statements.

The economic entity has secured a \$100,000 extension on the convertible loan from Amrita Capital Ltd to be utilised for the costs of the due diligence for the ALCT acquisition as detailed in notes 7 and 9. Also detailed in note 10 is the convertible loan of \$200,000 that has been secured through the 100% subsidiary Aurelio Costarella Pty Ltd to be utilised for the working capital of the fashion business.

### 2. SEGMENT REPORTING

The Company operates in Australia and Overseas in the fashion wholesale and retail sector. Sales in the overseas regions of North America, Europe, Asia and the Middle East were not material for segment reporting purposes.

The trading activities during the financial year in the subsidiary SU Design Pty Ltd were not material for segment reporting purposes. There were no trading activities during the financial year in the subsidiaries Costarella Design Asia Pte Ltd and Aurelio Costarella Pty Ltd.

## CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 3. SUBSIDIARIES

On 24 December 2008, the Company incorporated Aurelio Costarella Pty Ltd with an issued capital of \$1. The Company has three 100% owned subsidiaries comprising Costarella Design Asia Pte Ltd, Su Design Pty Ltd and Aurelio Costarella Pty Ltd.

	<b>Consolidated</b>	
	<b>31.12.2008</b>	<b>31.12.2007</b>
	\$	\$
<b>4. OTHER REVENUE</b>		
<b>Revenue from non-operating activities:</b>		
Interest revenue	5,164	15,311
Government grant received	40,000	154,117
Other revenue	239	291
Total revenue from non-operating activities	45,403	169,719

### 5. CASH AND CASH EQUIVALENTS

For the purposes of the half year cash flow statement, cash and cash equivalents are comprised of the following:

Cash on hand	496	802
Cash at bank	58,728	542,675
	59,224	543,477

### 6. LOSS PER SHARE

<b>Consolidated</b>	
<b>31.12.2008</b>	<b>31.12.2007</b>
No.	No.

Weighted average number of ordinary shares used in the calculation of basic loss per share

52,739,477	45,012,589
------------	------------

Diluted loss per share has not been disclosed, as it results in a more favourable loss per share than that of basic loss per share.

### 7. CONVERTIBLE LOAN

The Company secured a \$400,000 convertible loan from Amrita Capital Ltd on the terms and conditions set out in the ASX market release of 31 July 2008. The Company also secured a \$100,000 extension of this convertible loan to a limit of \$500,000 as released to the market on 8 December 2008 under the same terms and conditions of the original loan. This loan has only been drawn down to \$400,000.

## CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 8. CONTINGENT LIABILITIES

The Group has a contingent liability of \$100,000 with Zhejiang Jiaxing payable on receipt of a consignment of goods ordered for the current business operations of the Group.

### 9. SUBSEQUENT EVENTS

#### **Proposed Acquisition**

On 18 December 2008 the company advised the market (refer ASX Market Release of that date) that it had entered into a non-binding Memorandum of Understanding for the proposed acquisition of the entire issued and paid-up capital of Asian Centre For Liver Diseases & Transplantation Inc (ALCT). The terms and conditions of the proposed acquisition are set out in the ASX Market Release.

#### **Proposed Disposal to Related Parties**

Concurrently with the proposed acquisition, the company proposes to dispose of the assets and liabilities of the current fashion business to related parties. The terms and conditions relating to this proposal are yet to be determined and may include a buy back of shares.

#### **Convertible Loan**

On 2 February 2009 the company advised the market (refer ASX Market Release of that date) that it had, through its subsidiary Aurelio Costarella Pty Ltd, secured a convertible loan of \$200,000 on the terms and conditions set out in the ASX Market Release.

#### **Research and Development Offset**

On 29 January 2009 the company lodged its 2008 income tax return which included a claim for a research and development offset of \$209,986.80. The company expects to receive a refund for this amount from the ATO by the end of February 2009.

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Costarella Design Limited, I state that:

- (1) In the opinion of the Directors:
  - (a) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001 including:
    - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 December 2008 and of their performance for the half year ended on that date; and
    - (ii) complying with accounting standards and the Corporations Act 2001; and
  - (b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001, for the half year ending 31 December 2008.

On behalf of the Board.



**Sam Di Giacomo**  
**Non-Executive Director**

Perth, 25 February 2009

# Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET  
WEST PERTH WA 6005, AUSTRALIA  
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204  
www.stantons.com.au

25 February 2009

Board of Directors  
Costarella Design Limited  
23 View Street  
North Perth, WA 6006

Dear Directors

**RE: COSTARELLA DESIGN LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Costarella Design Limited.

As the Audit Director for the review of the financial statements of Costarella Design Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

**STANTONS INTERNATIONAL**  
**(Authorised Audit Company)**



**J P Van Dieren**  
**Director**

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF COSTARELLA DESIGN LIMITED

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Costarella Design Limited, which comprises the consolidated balance sheet as at 31 December 2008, and the consolidated 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. The consolidated entity comprises both Costarella Design Ltd ("the Company") and the entities it controlled during that half-year.

#### *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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim And Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Costarella Design Limited, 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 *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Costarella Design Limited on 26 February 2009.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Costarella Design Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

### *Emphasis on Matter of Going Concern*

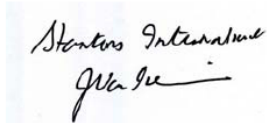
Without qualification to the review conclusion expressed above, attention is drawn to the following matters:

As referred to in note 1 to the financial statements, the financial statements have been prepared on a going concern basis. At 31 December 2008 the consolidated entity had negative working capital of \$667,668 and incurred losses for the half year of \$954,407 increasing accumulated losses to \$3,389,963. The consolidated entity had a deficiency in net assets of \$584,156. The directors have stated in note 1 that the consolidated entity is dependent upon the ability of the Company to raise further equity and loan funds.

The ability of the Company and the consolidated entity to continue as going concerns and to meet planned and committed expenditure requirements is subject to the Company and the consolidated equity raising further equity and/or loan capital and returning to profitability through its existing businesses and proposed business activities. In our opinion there is uncertainty as to when or whether these objectives will be met.

In the event that the Company and the consolidated entity is not successful in returning to profitable operations and/or raising further equity and loan funds, the Company and consolidated entity may not be able to continue as going concerns and the realisable value of the consolidated entity's assets may be significantly less than their current carrying values.

**STANTONS INTERNATIONAL**  
**(Authorised Audit Company)**



**J P Van Dieren**  
Director

West Perth, Western Australia  
25 February 2009