Giaconda Limited

ABN 68 108 088 517

Appendix 4E
Preliminary Final Report

Sydney, Australia. 28 August 2007. Giaconda Limited (ASX: GIA), the gastroenterology drug development Company, today announced the release of its final results for the year ending 30 June 2007.

Results for Announcement to the Market

	2007	2006	Change $	Change %
Revenue from ordinary activities	177,595	268,191	(90,596)	(33.78)%
Operating loss from ordinary activities after income tax and significant item	1,011,253	942,768	(68,485)	(7.26)%
Operating loss attributable to members	1,011,253	942,768	(68,485)	(7.26)%
Net tangible assets per security	0.02	0.06	(0.04)	(66.66)%

No dividends have been declared or are expected to be declared.

Key financial points

- The cash position is $1.66M which is in line with budget expectations. This cash position is after allowing $1.26M for capitalised costs.
- The trading results of a loss from operations before tax but after significant item for the year of $1.52M compares to $1.44M for the 12-months ending 30 June 2006 and $1.04M for the year ended 30 June 2005.
- The trading loss for the year was impacted by a significant expense of $0.11M. This expense resulted from the revaluation of the options issued to the CEO on 4 May 2005 due to a correction in vesting dates. This transaction had no impact on the cash balance of the Company.
- The financial performance for the year is as a result of the main operating activities that have occurred during the period being progressing the development of the lead product Myoconda® and commercialisation of Giaconda's product portfolio.

Operational Highlights

- Obtaining a US FDA approved Investigational New Drug (IND) application for Myoconda® to treat MAP in Crohn's Disease

GIACONDA LIMITED
Ground Floor, 44 East Street, Five Dock NSW 2046 Phone: [612] 9370 0069 Fax: [612] 9712 1469
email: info@giacondalimited.com ABN 68 108 088 517 www.giacondalimited.com

- Commencing a Phase IIa trial of Hepaconda® with the dosing of the first patient on 22 June 2007.

- Signing a heads of agreement with Ind Swift Laboratories for the supply and manufacture for the commercial production of Myoconda®.

- Publishing the results in the *Journal of Gastroenterology and Hepatology* of a Phase II clinical study involving Picoconda®.

- Completing formulation and stability testing of the new all-in-one Myoconda® capsule and manufacturing the first cGMP batch of 10,000 capsules for pharmacokinetic testing.

- Extending patent protection for Ibaconda® and Heliconda® in Europe.

About Giaconda Limited
Giaconda Limited is a biotechnology company involved in developing and licensing innovative and cost effective medical therapies in the field of gastroenterology. Giaconda's products are targeted towards the treatment of serious conditions that are not adequately addressed by any existing therapy. In this way, Giaconda's products are intended to satisfy these significant unmet medical needs of the gastrointestinal market. The Giaconda portfolio consists of five products, all of which are novel combinations of known compounds. Giaconda has two lead products, Myoconda® for the treatment of MAP *(Mycobacterium avium paratuberculosis)* infection in Crohn's Disease and Heliconda® for the treatment of resistant *Helicobacter pylori* infection.

For more information please visit www.giacondalimited.com

Except for historical information, this news release may contain forward-looking statements that reflect the Company's current expectation regarding future events. These forward looking statements involve risk and uncertainties, which may cause but are not limited to, changing market conditions, the successful and timely completion of clinical studies, the establishment of corporate alliances, the impact of competitive products and pricing, new product development, uncertainties related to the regulatory approval process, and other risks detailed from time to time in the Company's ongoing quarterly and annual reporting.

CONTACTS:

Company

Patrick McLean – Chief Executive Officer

T: +61 2 9370 0069

E: pmclean@giacondalimited.com

Media & Investor Relations

Fay Weston – Talk Biotech

T: +61 422 206036

E: fayweston@talkbiotech.com.au

Directors' Report

Your Directors present their report on Giaconda Limited (Giaconda or the Company) for the financial year ended 30 June 2007 together with the financial report and the auditor's report thereon.

Principal Activities

The principal activities during the year focused on Giaconda's lead product Myoconda® and consisted of commercial development, clinical development, regulatory development, manufacturing development, intellectual property maintenance and recognition of Giaconda's approach to Crohn's Disease in peer reviewed journals.

The Company's principal activities continue to be the development and commercialisation of 5 products consisting of four therapies, Myoconda®, Hepaconda®, Heliconda® and Ibaconda® and 1 bowel evacuant Picoconda®. These products address significant unmet needs in the global digestive diseases market. The products were developed and patented by Professor Thomas Borody at the Centre for Digestive Diseases in NSW and were acquired by Giaconda. Giaconda continues its efforts in licensing the products to pharmaceutical companies with the key markets for Giaconda being the USA, Europe and Australia.

Directors

The following persons were Directors of Giaconda Limited from the start of the financial year to the date of this report unless otherwise stated.

Prof. Thomas Borody	Director and Chief Medical Officer
Patrick McLean	Director and Chief Executive Officer
Prof Em Tony Moon	Director
Trevor Moore	Director
Richard Woods	Director and Chairman from 22 August 2006
Christopher Bilkey	Director and Chairman until his resignation on 22 August 2006

Review of Operations

Overview

Below is Giaconda's progress, milestones and highlights achieved throughout the year to the date of this report.

Product Commercialisation Progress, Milestones and Highlights

- Giaconda continues building relationships with pharmaceutical companies in the US, Europe and UK with the aim to securing licences for the products.

Clinical and Regulatory Development Progress, Milestones and Highlights

- Commencement of Phase IIa trial on Hepaconda® for Hepatitis C with the dosing of the first patient on 22 June 2007.
- The US FDA approved Myoconda® Investigational New Drug (IND) application for treating MAP in Crohn's Disease.
- The pilot pharmacokinetic trial for the new formulation of Myoconda® has been completed.
- The results of preliminary research on the therapeutic role of Myoconda® in fistulizing Crohn's Disease were presented in a poster at the American College of Gastroenterology meeting in Las Vegas by the Centre for Digestive Diseases. The poster reported on fistula healing in patients with severe Crohn's Disease when treated with Myoconda® and optional curetting. The conclusion was that the administration of Myoconda® in combination with curetting was found to result in partial or prolonged healing of fistulae for the majority of patients and may present another treatment option.

Manufacturing Development Progress, Milestones and Highlights

- A supply and manufacturing contract was signed with Ind Swift Laboratories for Clarithromycin, an active pharmaceutical ingredient in Myoconda®.
- A heads of agreement for the supply and manufacture for the commercial product of Myoconda® was signed with Ind Swift Laboratories.
- Giaconda has sourced the supplies of the remaining two active pharmaceutical ingredients in Myoconda®, Rifabutin and Clofazimine.
- Stability testing on the new all-in-one capsule Myoconda® for the first non-GMP batch has been completed for 6 months with good results.
- The manufacturing development for Myoconda® progressed with 10,000 capsules being manufactured under cGMP conditions by a contracted small scale manufacturing facility and stability testing continues.

Intellectual Property Maintenance and Highlights

- A patent for Ibaconda® was granted in Europe on 28 December 2006.
- A patent for Heliconda® was granted in Europe on 9 November 2006.

Publications in Peer reviewed Journals

- The results of the first large-scale, randomized, placebo-controlled clinical study using anti-MAP therapy were published in the journal *Gastroenterology,* 2007 Vol 132 No. 7. The study, undertaken in 1999, was conducted prior to Giaconda acquiring the anti-MAP therapy. The publication, titled "Two-Year Combination Antibiotic Therapy with Clarithromycin, Rifabutin and Clofazimine for Crohn's Disease", presents the results of this Phase III trial. While the trial did not meet its endpoint which was to cure Crohn's Disease, it did provide some very positive data that has been used in the further development of Myoconda®. Giaconda's interpretation of the results of the 2 year clinical study is that the anti-MAP therapy provided a more effective treatment with a more favourable side effect profile than current conventional therapies. Despite under dosing and a study design that did not reflect the current understanding of how anti-MAP therapy works; the results represent some of the highest remission rates ever published for Crohn's Disease. Two thirds of the patients (66%) being treated with anti-MAP therapy were in full remission at 16 weeks versus the placebo arm of 50%. This was a highly significant difference (p 0.0189). At 52 and 104 weeks the remission rates were 41% and 33% respectively.
- A research paper on the role of Anti-mycobacterial ("Anti-MAP") therapy, in profound healing of ulcerating Crohn's Disease was published in the peer reviewed *Digestive and Liver Disease* journal. Myoconda® is the patented commercial version of the Anti-MAP therapy discussed in the research paper. The presence of scarring fading to normal mucosa on Anti-MAP therapy implies a more profound healing than that reported with standard anti-inflammatory and immunosuppressant drugs. The Journal supports the conclusion that "longitudinal scarring and consequent healing with normal histology should become a standard treatment goal for Crohn's Disease."
- The results of a Phase II clinical study involving Picoconda®, a bowel preparation for gastrointestinal procedures, were presented at the Australian Gastroenterology Week conference in Adelaide and published in the *Journal of Gastroenterology and Hepatology.* The aim of this randomised, single-blinded, comparative Phase II clinical study was to assess the efficacy and safety of the combination of the hypertonic solution and Picoconda® capsules as a bowel preparation, compared to standard Glycoprep, standard Picosulphate preparations and Picoconda® capsules alone. Significantly for Giaconda, one outcome of the trial was that the Picoconda® capsules, with or without the hypertonic solution, were found to be the most favoured bowel preparation by patients and in general, resulted in a lower number of mild adverse events than the other preparations.

Operations, Commercial, Board & Management Progress, Milestones and Highlights

- 150,000 options were granted to Ms Kirrilli Parker on 26 July 2006.
- 750,000 share options lapsed on 3 July 2007.
- A small grant to attend Bio Milan was received from NSW DSRD.
- As per the Members' approval at the 2006 AGM, Giaconda issued new shares to Directors for the payment of the majority of their director's fees.
- The Audit Committee was renamed the Audit, Risk and Compliance Committee.
- Richard Woods was appointed Chairman of the Board due to the resignation of Chris Bilkey on 22 August 2006.
- Kirrilli Parker was appointed Company Secretary on 1 July 2006 after previously holding the role of Assistant Company Secretary.
- Appointment of Kirrilli Parker as new Chief Operations Officer occurred on 7 May 2007 due to the departure of Rosa Surace.
- Kirrilli Parker resigned from Giaconda Limited effective on the 14 September 2007.
- On 20 August 2007 Giaconda moved principal place of business and registered office to Ground Floor, 44 East Street, Five Dock. The move will increase alignment with the Centre for Digestive Diseases and the management of current and future portfolio development.

Operating Results

The loss of the company for the financial year after providing for income tax amounted to $1,011,253 (FY06 adjusted for AIFRS: loss $942,768).

Dividends Paid

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, State or Territory of Australia.

Significant Changes in the State of Affairs

In the opinion of the Directors of Giaconda there were no significant changes in the state of affairs of the entity that occurred during the financial year under review.

Likely Developments

It is the opinion of the Directors that disclosure of information regarding likely developments in the operations of the consolidated entity and the expected results of those operations would prejudice the interest of the Giaconda. On completion of any commercially sensitive issues Giaconda will adhere to its continuous disclosure policy and make timely announcements to the ASX.

After Balance Date Events

- Issue of 67,306 new shares at $0.39 per share to Non-Executive Directors in accordance with the Employee Share Plan, on 18 July 2007 as payment of a portion of their directors fees as per the Members' Resolution at the 2006 Annual General Meeting.
- 750,000 unquoted share options issued under Giaconda's employee share option plan lapsed on 3 July 2007.
- Kirrilli Parker resigned from Giaconda Limited effective on the 14 September 2007.

With the exception of the above and the CEO's Review of Operations, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the company in subsequent periods.

Information on Board

Director	**Qualifications, Experience and Background**	**Directors' Interests**
Chairman and Independent Non-Executive Director		
R.A.W. Woods	Richard Woods, BCom, LLB (UNSW), GMQ (AGSM) manages a wide range of investments primarily related to human health care. After completing a Bachelor of Law and a Bachelor of Commerce at the University of New South Wales, Richard worked for 4 years as a solicitor at Allen Allen & Hemsley. He progressed to Associate Director at Bain & Company and then to Director at County Natwest. In 1992, Richard moved into the health care arena, becoming CFO for W.E. Woods Pharmaceuticals until 1997. *Special Responsibilities:* Richard is Chair of the Nomination Committee and a member of the Audit, Risk & Compliance and Remuneration committee. *Giaconda Directorship:* Richard became a Director on 30 September 2004 and was appointed Chairman of the Board on 22 August 2006. He was re-elected by the members on 30 October 2006 at the 2006 AGM. *Directorship in other listed entities*: Nil	501,051 ordinary shares

Information on Board (Continued)

Director	Qualifications, Experience and Background	Directors' Interests
Executive Directors		
P.L. McLean	Patrick McLean B.S. holds a Bachelor of Science degree in Chemistry from the University of Minnesota. After 4 years in protein nutrition research, he moved into sales and marketing and has spent the past 22 years in the pharmaceutical industry. In 1999 he joined Axcan Pharma, the largest dedicated gastrointestinal company in the world, as Vice President, Sales and Marketing for North America and ultimately became Senior Vice President for European Commercial Operations where he built Axcan's European business in France, Germany, the UK and Poland. In addition he established a licensing and distribution network with pharmaceutical companies across 18 countries including 3 in S.E. Asia. He is a past president and honorary lifetime member of the Pharmaceutical Marketing Club of Québec and is fluently bilingual in English and French. From June 2002 to June 2004 Patrick was a Director of Axcan Pharma S.A. *Executive Position:* Chief Executive Officer. *Special Responsibilities:* Nil *Giaconda Directorship:* Patrick joined the Board on 16 November 2004 and was re-elected by the members on 30 October 2006 at the 2006 AGM. *Directorship in other listed entities*: Nil	707,000 ordinary shares 1,250,000 share options
T. J. Borody	Prof. Thomas Borody MBBS, MD, PhD, FRACP, FACG, FACP, AGAF holds a doctorate in medicine from the University of New South Wales and is the founder and current Medical Director of the Centre for Digestive Diseases. He has been a recipient of the Winthrop Travelling Fellowship, the Neil Hamilton Fairly Fellowship and the Marshall & Warren Prize, and was a Clinical Fellow in Gastroenterology at the Mayo Clinic in Rochester, Minnesota. He is a member of the Australian Medical Association, the Gastroenterological Society of Australia, the European Gastroenterology Society, the Functional Brain-Gut Research Group and Fellow of the American College of Gastroenterology and the American College of Physicians. Professor Borody supervises a number of major research programs as well as being involved as a reviewer for the American Journal of Gastroenterology, Digestive Diseases and Sciences, Endoscopy, Journal of Gastroenterology and Hepatology, Medical Journal of Australia and Digestive and Liver Diseases. He has published in excess of 160 scientific papers. In 2004 he was appointed an Adjunct Professor of the Faculty of Science at the University of Technology, Sydney and in July 2005, Professor Borody was awarded his PhD from the University of Newcastle. Tom is Chief Medical Officer, under a Services Agreement between the Centre for Digestive Diseases and Giaconda Limited. *Executive Position:* Chief Medical Officer. *Special Responsibilities:* Nil *Giaconda Directorship:* Tom was the initial Director at registration of the company on 23 February 2004 was re-elected by the members on 16 November 2005 at the 2005 AGM. *Directorship in other listed entities*: Nil	50,620,000 ordinary shares

Information on Board (Continued)

Director	Qualifications, Experience and Background	Directors' Interests
Independent Non-Executive Directors		
A. R. Moon	Emeritus Professor Tony Moon, PhD, FAIP started his academic career at Melbourne University where he obtained his Bachelor of Science (Honours) and then his PhD. A widely respected and extensively published Physicist, Tony has had a prestigious history at the University of Technology, Sydney where he has been Dean of Science and of the University Graduate school, as well as acting Deputy Vice Chancellor and acting Pro Vice Chancellor (Research). Internationally, Tony has been Visiting Research Fellow at the University of Stockholm, Sweden; Faculty Research Associate at Arizona State University, US and Research Scientist at the Fritz Haber Institute in Germany. Currently, Tony is Emeritus Professor at UTS. *Special Responsibilities:* Tony is Chair of the Audit, Risk & Compliance Committee and a member of the Nomination and Remuneration Committees. *Giaconda Directorship:* Tony became a Director on 14 December 2004. *Directorship in other listed entities*: Nil	143,729 ordinary shares
T. Moore	Trevor Moore, MPS, PHC, JP a registered pharmacist, graduated from the University of Sydney in 1961. Since that time, he has owned and operated various retail pharmacies around Sydney. Trevor moved into Sales and Marketing with Burroughs Wellcome in Sydney and then progressed on to become Founder and Managing Director of Stephen Hunter Pty Ltd (of Chemist Own brand fame). In recent years, Trevor has become a full-time fund-manager and investor. *Special Responsibilities:* Trevor is Chair of the Remuneration Committee and a member of the Nomination and Audit, Risk & Compliance Committees. *Giaconda Directorship:* Trevor became a Director on 14 December 2004. *Directorship in other listed entities*: Nil	137,729 ordinary shares

Directors' Relevant Interests

The relevant interest of each director in shares and options issued by the Company as notified by the directors to the ASX in accordance with section 205G(1) of the *Corporations Act* 2001 (Cth), at the date of this report are included in the table above.

Information on Company Secretary

Name	Qualifications, Experience and Background
Kirrilli Parker	Kirrilli Parker, BSc (MAQ) MCom (USYD) Grad.Dip.AppCorpGov (CSA) ACIS was appointed Company Secretary on 1 July 2006. Kirrilli started in the biotechnology industry in the area of diagnostics in 2003 with Sienna Capital Limited. She completed a Bachelor of Science in 1997 at Macquarie University and then a Masters of Commerce whilst working for five years in the sports industry with Sydney University Sport and Sydney University Rugby Club. At Sienna she held the position of Executive Officer being responsible for the corporate administration and assisting the CEO with the project management of the research, development and commercialisation of technology from the Ludwig Institute for Cancer Research. Kirrilli completed the Graduate Diploma of Applied Corporate Governance through the Chartered Secretaries of Australia in 2005. She was employed by Giaconda Limited on 17 November 2005. She was appointed Company Secretary on 1 July 2006 and she also holds the position of Chief Operations Officer. Kirrilli is the secretary of the Audit, Risk & Compliance, Nomination and Remuneration Committees.

Corporate Governance Statement

This statement outlines the corporate governance practices of Giaconda. Giaconda's corporate governance practices are in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*, unless otherwise stated.

The Directors of Giaconda support and adhere to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*, recognising the need for the highest standard of corporate behaviour, accountability and transparency. All the best practice recommendations of the ASX have been implemented by the Company and are reviewed periodically.

Board of Directors and its Composition

Each of the Directors brings expertise, skills and experience relevant to that needed to support the nature of Giaconda's business and to manage the direction and performance of the Company. This includes significant experience in managing larger pharmaceutical companies, in the raising and management of outside funds, in the domain of medical science, in licensing pharmaceutical therapies, in dealings with suppliers and manufacturers and in establishing academic relationships that foster scientific development.

Giaconda's Board Charter outlines the composition, general responsibilities, specific powers, Board Committees, delegated responsibility and Board self-performance evaluation (available on Company's website). The Board is ultimately responsible for the direction and performance of Giaconda. The role of management is to propose strategies and execute agreed plans.

The structure of the Board and the knowledge and experience that each Director brings to the Board is fundamental to Giaconda achieving its objectives. Giaconda's Board comprises of five directors with a majority of three directors being non-executive independent directors; Emeritus Professor Tony Moon, Mr Trevor Moore and Mr Richard Woods and two Executive Directors; Professor Tom Borody and Mr Patrick McLean. Although Mr Richard Woods is in the top 20 shareholders with a share ownership of 0.687% of Giaconda, his ownership is less than 5%.

Giaconda assesses a director as independent if they are a non-executive director (i.e. not a member of management) and:

- is not a substantial shareholder of Giaconda or an officer of, or otherwise associated
- directly with, a substantial shareholder of Giaconda;
- within the last three years has not been employed in an executive capacity by Giaconda;
- within the last three years has not been a principal of a material professional adviser or a material consultant to Giaconda, or an employee materially associated with the service provided;
- is not a material supplier or customer of Giaconda, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with Giaconda other than as a director of Giaconda;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Giaconda; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Giaconda.

The performance of Giaconda is monitored against approved Business Plans and Strategies by the Board in regular Directors' meeting including a review of the status of the licensing of Giaconda's products and evaluating alternate funding strategies, critical evaluation of the clinical, regulatory and manufacturing plans, review of the status of the Company's intellectual property and financial analysis.

Directors will avoid potential conflicts of interest that may arise from their association with organisations with which the Company might have ongoing commercial relationships by withdrawing from all deliberations. Any Director may seek independent professional advice as considered necessary at Giaconda's expense with the prior approval of the Chair. Each Director has the right to access all relevant Company information and the Company's executives.

The Board considers that the current composition of directors, including their expertise, skills and experience, the majority of the Board being independent non-executive directors, the Chair being an independent non-executive director and the CEO being a director is appropriate for the current size and operations of the Company.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 1*, *Principle 2, Principle 3 and Principle 5.*

Meetings of Directors

The number of meetings of Giaconda's Board of Directors and Board Committees held during the financial year ended 30 June 2007, and the number attended by directors were:

Name	**Directors' Meetings**		**Audit, Risk & Compliance Committee Meetings**		**Nomination Committee Meetings**		**Remuneration Committee Meetings**	
	A	B	A	B	A	B	A	B
Chris Bilkey	1	1	-	-	-	-	-	-
Tom Borody	9	9	-	-	-	-	-	-
Patrick McLean	9	9	-	-	-	-	-	-
Tony Moon	9	9	4	4	2	2	2	2
Trevor Moore	9	9	4	4	3	3	3	3
Richard Woods	9	9	4	4	3	3	3	3

A Number of eligible meetings held in FY07

B Number attended

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee continues to review and make recommendations to the Board on the Company's financial reporting, internal control structure, audit function and risk management systems.

The members of the Audit, Risk and Compliance Committee are:

Tony Moon, Chair, appointed 7 September 2006, Independent Non-Executive Director

Trevor Moore, Independent Non-Executive Director

Richard Woods, Independent Non-Executive Director

The composition of the Audit, Risk and Compliance Committee is that all members are non-executive directors and a majority are independent directors. The Committee invites the Auditor and Executives to meetings as required by the Committee.

The Audit, Risk and Compliance Committee conducted a review of the Committee's Charter on the 30 October 2006 and found that it was in compliance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. At the Committee's request the Board approved a change to the name of the Committee to the Audit, Risk and Compliance Committee which better reflects the activities of the Committee.

Of note in FY07 was the review of all Giaconda's policies which was completed on 18 December 2006. In addition on 23 April 2007 Board and Management participated in determining a risk identification matrix that resulted in a prioritised risk management strategy that mitigates the risks to a level acceptable to the Company. The status of the prioritised risks continues to be reported to the Board at each Board meeting. The Chief Executive Officer has declared in writing to the Board that the financial reporting risk management and associated compliance controls have been assessed and found to be operating effectively for the period up to the approval of the annual financial report.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 4 and Principle 7.*

Nomination Committee

The Nomination Committee reviews and makes recommendations to the Board in relation to the nomination of persons to the Board and evaluation of Board performance.

The members of the Nomination Committee are:

Richard Woods, Chair, appointed 7 September 2006, Independent Non-Executive Director

Tony Moon, Independent Non-Executive Director

Trevor Moore, Independent Non-Executive Director

The composition of the Nomination Committee is a majority of independent directors.

During FY07 the Nomination Committee reviewed the Board Composition and its complement of expertise, skills and experience and size. The Nomination Committee's recommendation to the Board was accepted in that, although there had been a resignation of a Director, in the opinion of the Nomination Committee a new director was not required but the situation would continue to be monitored. A succession plan was developed for Directors and Management and was noted by the Nomination Committee on 30 October 2006.

The Board acknowledges the importance of regular review of Board performance. On 23 April 2007 the Nomination Committee formulated an informal survey to evaluate Board performance. The Board implemented the Board performance review with the results reported to the Board on 4 June 2007.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 8.*

Remuneration Committee

Remuneration Committee reviews and makes recommendations to the Board on the Company's remuneration policy and the remuneration packages of executive officers and the Board.

The members of the Remuneration Committee are:

Trevor Moore, Chair, appointed 14 December 2004 and Independent Non-Executive Director

Tony Moon, Independent Non-Executive Director

Richard Woods, Independent Non-Executive Director

The composition of the Remuneration Committee is a majority of independent directors and the Chair who is an independent director. The CEO is invited to attend the Remuneration Committee meetings as required by the Committee.

During FY07 the Remuneration Committee received Board approval to obtain an independent report that compared the levels of remuneration of Giaconda's Directors and Management with that in the Australian biotechnology industry of New South Wales, Victoria and Australia wide. The results of the comparison were reported to the Board and generally indicated that, apart from the remuneration of the CEO, the remuneration levels of Directors and Management were below average and have been adjusted for FY08, as seen in the Remuneration Report.

Giaconda is adhering to and acting in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 9.*

Ethical Standards

All directors, officers and employees are expected to act with objectivity, independence and integrity trying at all times to enhance the performance and reputation of the Company.

Giaconda has a Securities Trading Policy in place. The Securities Trading Policy was reviewed, amended and approved by the Board on 30 October 2006. The Policy specifies a protocol for the appropriate trading by directors, officers and employees in Giaconda securities and is available on Giaconda website.

Directors must keep the Board advised on an ongoing basis of any potential conflicts of interest.

Giaconda has a Continuous Disclosure Policy whereby communication to shareholders and the community occurs through notifying the ASX and posting the information on the Company's website. The identification of issues that may have a material effect on the price of Giaconda securities are part of Giaconda's Continuous Disclosure Policy and an obligation under the ASX Listing Rules which the Company takes seriously. Announcements made to the market under the continuous disclosure obligation and information provided to shareholders, the media and analysts is released to the ASX first and then posted on Giaconda's website.

Relationship with Shareholders and Stakeholders

Giaconda continues to use the internet as the main method of communicating to shareholders and stakeholders. Information is disseminated through Giaconda's continuous disclosures to the ASX and on its website www.giacondalimited.com. This provides the most cost effective method of communication but involves people interested in Giaconda going to the ASX website and Giaconda's website. Disclosures to the ASX are uploaded to Giaconda's website the same day they are posted and aim to provide ready access to balanced and understandable information about the company and its progress.

Shareholders are encouraged to attend Giaconda's Annual General Meeting and to participate with questions to the Board or the Auditor who are all present.

Due to Giaconda's size the oversight of decision-making by the Board and Management is generally determined by the Board's Code of Conduct available on the Company's website. In addition to this code of conduct Giaconda's policies were reviewed and approved on 19 December 2006 and included a Values and Principles Policy. This outlines the lawful, professional and ethical manner expected on persons representing Giaconda whilst they adhere to the corporate principles and values and the obligation to ensure business conduct in accordance with the policy is observed.

Giaconda is adhering to and acting in accordance the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations, Principle 6 and Principle 10.*

Remuneration Report

Remuneration Policy

Giaconda has a Board approved Remuneration Policy for the Remuneration Committee and Board to refer to when considering remuneration levels for Directors and Executives. The Remuneration Policy allows for the Remuneration Committee to attract and retain experienced and qualified personnel with the capability to mix fixed and variable remuneration with short and long term performance incentives.

The Remuneration Committee reviews remuneration levels of directors and executives annually. Giaconda salary packages for Executives will generally have a portion of Fixed Pay and Incentive Pay.

Short-term Incentive Pay

Giaconda has in place a short-term incentive pay program in the form of an Executive Performance Incentive Program which is designed to achieve the following objectives:

- Focus key Executives on the achievement of key financial targets that will ultimately lead to an increase in Giaconda's business value.
- Motivate and retain key executives
- Establish a variable remuneration arrangement that links performance with reward.
- Reward and recognise superior performance if achieved

Each Executive has an Individual Performance Incentive Program (Individual PIP) which is set at the start of their employment and reviewed at the end of each fiscal year. The Incentive Pay Opportunity is linked to Performance Measures related to the Executive's position and responsibilities and to the Company's goals and objectives. A review is conducted at the end of each financial year to determine the Performance Measures that have been achieved and the corresponding Incentive Pay that has been earned from the Incentive Pay Opportunity.

Long-term Incentive Pay

Giaconda's executive salary packages will generally have a portion as long-term incentive pay based on the performance of Giaconda. The Executives at the start of their term may be issued with Giaconda securities that are exercisable over a number of years. The issue of securities is not based on the individual performance of the Executive. The securities are issued to encourage the Executive to work cooperatively and productively, and perform at their highest level whereby the Executive shares in the overall success of Giaconda.

Giaconda uses long-term incentive pay to:

- Attract and retain key Executives to Giaconda
- Encourage Executives to perform at their highest level which in turn will benefit the Company where the value generated may be reflected in the share price
- Encourage Executives and employees to work cooperatively and productively together that will benefit the Company where the value generated may be reflected in the share price.

Service Agreements

Remuneration levels are reviewed each year to take into account market rates, the scope of the role performed by the Executive and the financial health of the company. The Remuneration Committee with Board approval obtained an independent report that compared the levels of remuneration of Giaconda's Directors and Management with that in the Australian biotechnology industry of New South Wales, Victoria and Australia wide. The results were used to review the remuneration levels for FY08.

Patrick McLean, Chief Executive Officer

Giaconda previously entered into an Executive Services Agreement without a fixed term with Mr Patrick McLean on 1 November 2004 for the role of Chief Executive Officer. Giaconda has reviewed the Agreement and it continues for FY08 on the same terms.

Termination can occur by:

- either party on notice of a minimum of 4 months (which may be paid in lieu);
- by Giaconda for usually summary breaches;
- by Patrick if Giaconda commits a serious breach of the agreement; or
- by Giaconda if the position becomes redundant, where by Patrick is entitled to receive a redundancy slightly higher than that prescribed under the Employment Protect Act 1982 (NSW)

FY08 Remuneration

- the fixed pay remuneration is $260,000 per annum (FY07 $260,000) plus compulsory superannuation. ($110,000 comprises a living away from home allowance).
- The short-term incentive pay opportunity based on performance criteria set by the Board is $240,000 (FY07 $240,000)
- No additional long-term incentive pay would be paid to Patrick in FY08.
- The amount may be packaged in any manner agreed between Giaconda and Patrick.

Kirrilli Parker, Chief Operations Officer & Company Secretary

Giaconda previously entered into an Employment Agreement without a fixed term with Ms Kirrilli Parker on 17 November 2005 for the role of Corporative Administrative Officer and Assistant Company Secretary. Kirrilli was appointed Company Secretary and Chief Administrative Officer on 1 July 2006. Her position was reviewed and changed on 7 May 2007 so that Kirrilli continues for FY08 on the following terms as Chief Operations Officer & Company Secretary until her resignation which will be effective on the 14 September 2007.

Termination can occur by:

- either party on notice of a minimum of 3 months and maximum of 6 months depending on the number of years of service.
- by Giaconda for usually summary breaches;

- by Kirrilli if Giaconda commits a serious breach of the agreement; or
- by Giaconda if the position becomes redundant, where by Kirrilli is entitled to receive a redundancy slightly higher than that prescribed under the Employment Protect Act 1982 (NSW)

FY08 Remuneration

- the fixed pay remuneration is $120,000 per annum (FY07: $ 98,763) plus compulsory superannuation.
- The short-term incentive pay opportunity based on performance criteria set by the Board is $15,000 (FY07: $15,000)
- No additional long-term incentive pay would be paid to Kirrilli in FY08.

Tom Borody, Chief Medical Officer

The structure of the Chief Medical Officer being fulfilled by Professor Thomas Borody changed during FY06 in that Giaconda established a Service Agreement with the Centre for Digestive Diseases to supply Professor Borody's services as Chief Medical Officer. This contractual arrangement began on 1 January 2006 at a cost of $170,000 per annum.

The Board approved that Professor Borody would receive $60,000 per annum in Director's Fees.

During 1 July 2005 to 31 December 2006 Giaconda had entered an Executive Services agreement with Professor Borody in the position of Chief Medical Officer at $230,000 per annum. The Services Agreement with the Centre for Digestive Diseases replaces Professor Borody's Executive Services Agreement.

Rosa Surace, Chief Operating Officer (departed 4 May 2007)

Giaconda previously entered into an Executive Services Agreement without a fixed term with Ms Rosa Surace on 1 July 2004 for the role of Chief Operating Officer. Ms Rosa Surace departed from Giaconda Limited on 4 May 2007 receiving payment in lieu of notice of 2 months salary.

Remuneration to 4 May 2007

- The fixed pay remuneration was $145,000 per annum (FY06: $120,000) plus compulsory superannuation of which she received $13,251 to 4 May 2007.
- The short-term incentive opportunity based on performance criteria set by the Board was $15,000 (FY06: $12,000) of which $0 of incentive pay was achieved.
- No additional long-term incentive pay was paid to Rosa in FY07.

Non-Executive Directors

The Remuneration Committee reviewed the Non-Executive Directors' maximum aggregate remuneration of $240,000 per annum as per Giaconda's Constitution and recommended to the Board that the maximum aggregate remuneration of $240,000 per annum remain the same for FY08. The Board adopted the Remuneration Committee's recommendation.

Non-Executive Directors remuneration has been $30,000 per annum and $60,000 per annum for the Chair, since their appointments in 2004. An independent review of Giaconda's remuneration levels for Non-Executive Directors was found to be below the Australian biotechnology sector average. In light of this the Board reviewed the Non-Executive Directors' salary and approved a salary increase to $48,000 per annum for Non-Executive Directors and $96,000 per annum for the Non-Executive Chair for FY08. The Non-Executive Directors agreed to accept $43,000 per annum and $91,000 per annum of their directors' fees as a new issue of fully paid ordinary shares in Giaconda Limited subject to the Members' approval at the 2007 Annual General Meeting.

FY07 Remuneration of Directors and Executives

	Name	Director's Fee Entitlement	Director's Fee Paid in Cash[1]	Director's Fee Paid in Shares[2] Number Value $	Executive's Fee	Super-annuation	Short-term Incentive Pay (achieved from Incentive Opportunity)	Long-term Incentive Pay - Options Issued[3] Number Value $	Total
Non-Executive Directors									
Independent (Resigned on 22/08/06)	Chris Bilkey	$8,877	-	-	-	$5,288	-	-	$14,165
Independent	Trevor Moore	$30,000	$5,000	$25,000 13,646 shares @ $0.458 12,600 shares @ $0.496 12,500 shares @ $0.500 16,025 shares @ $0.390	-	$788	-	-	$30,788
Independent	Tony Moon	$30,000	$5,000	$25,000 13,646 shares @ $0.458 12,600 shares @ $0.496 12,500 shares @ $0.500 16,025 shares @ $0.390	-	$788	-	-	$30,788
Independent (Appointed Chairman on 22/08/07)	Richard Woods	$55,598	$5,000	$50,598 20,410 shares @ $0.458 27,721 shares @ $0.496 27,500 shares @ $0.500 16,025 shares @ $0.390	-	$788	-	-	$56,386
Executive Directors									
CEO	Patrick McLean	-	-	-	$260,000[4]	$13,500	$52,800	-	$326,300
CMO	Tom Borody	$60,000[5]	-	-	$170,000[6]	-	-	-	$230,000
Executives									
COO to 04.05.07	Rosa Surace	-	-	-	$186,793[7]	$13,251	$0	-	$200,044
CAO & Company Secretary (from 01.07.06) & COO from 07.05.07	Kirrilli Parker	-	-	-	$98,763	$8,889	$21,175	150,000 options $8,055	$128,827

[1] For settlement of current year and prior years Directors Fees entitlements.
[2] For settlement of current year and prior years Directors Fees entitlements, and issued in accordance with the Employee Share Plan.
[3] The value of the options has been calculated pursuant to AASB 2 – Share Based Payments
[4] Of the total package, $50,000 is recorded as a contingent liability, see Notes to the Financial Statements
[5] $60,000 is recorded as a contingent liability, see Notes to the Financial Statements
[6] $170,000 is recorded as a contingent liability, see Notes to the Financial Statements
[7] Includes payout of employee entitlements upon departure.

Officers Who Were Previously Partners of the Audit Firm

There are no officers of Giaconda who were previously partners of the current audit firm, BKR Walker Wayland (NSW Partnership) Chartered Accountants.

Indemnities

During the six months, Giaconda paid a premium in the sum of $23,865 in respect of a contract insuring the directors of Giaconda, the secretary and all officers of Giaconda, against any liability incurred by such a director, secretary or officer to the extent permitted by the Corporations Act 2001.

Giaconda has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of Giaconda against any liability incurred by such an officer or auditor.

Proceedings on Behalf of the 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 twelve months.

Options

At the date of this report, options over unissued shares or interests of the Company are as detailed in the table. The options carry no rights to vote, participate in any future share or interest issue, or for dividends.

Grantee	Options Granted	Options Vested	Exercise Price	Expiry Date	Conditions on Vesting
Patrick McLean	1,250,000	1,250,000	$0.50	4 May 2010	Yes
Mark Allen	100,000	-	$0.50	5 years after listing	Yes
James Hare	50,000	50,000	$0.50	5 years after listing	Yes (conditions fulfilled)
Kirrilli Parker	150,000	150,000	$0.50	17 Nov 2010	Yes
Kirrilli Parker	150,000	150,000	$0.50	1 Jul 2011	Yes
Antony Wettstein	60,000	60,000	$0.50	13 Jan 2011	No

No options have been exercised as at the date of this report. All options are in respect of ordinary shares in the Company.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 15 of the Directors' Report.

Non Audit Services

The board of directors are satisfied that the provision of the non-audit services is compatible with the general standards of independence imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors for the following reasons:

(a) The Audit, Risk and Compliance Committee has received an appropriate audit independence declaration from the Auditor.

(b) All non-audit services are reviewed and approved by the Audit, Risk and Compliance Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor.

(c) 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.

(d) All non-audit services are provided by a related entity of the external auditor, BKR Walker Wayland Services Pty Limited and the services are provided by staff not involved in the audit engagement.

The following fees for non-audit services were paid/payable to a related entity of the external auditors during the year ended 30 June 2007:

	$
Taxation services	24,156
Accounting services provided including compilation of monthly management reports	64,745
Other	1,042
	89,943

This statement is made on the basis of advice provided by the Audit, Risk and Compliance Committee.

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

Patrick L. McLean

Chief Executive Officer and Director

Richard A. Woods

Chairman and Director

Dated: 27 August 2007

BKR Walker Wayland
(NSW Partnership)
Chartered Accountants

8th Floor
55 Hunter Street Sydney

GPO Box 4836 Sydney
NSW 2001 Australia

Telephone +61 2 9951 5400
Facsimile +61 2 9951 5454
mail@bkrwwnsw.com.au

Website www.bkrww.com.au

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GIACONDA LIMITED

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2007 there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit/review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit/review.

BKR Walker Wayland

BKR Walker Wayland
(NSW PARTNERSHIP)
Chartered Accountants
Dated this 27th day of August 2007

T F Tyler
Partner

Partners: AS Roger, HC Thomas, RS Woods, SE Arnold, TF Tyler, PW MacLean, GD Allsopp
Consultants: PJ Longhurst
Independent members of BKR International and BKR Walker Wayland National Association Inc.

Liability is limited by the Accountants Scheme, Approved under the Professional Standards Act 1994 (NSW)

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 $	2006 $
INCOME			
Revenue from ordinary activities	2	177,595	268,191
EXPENSES			
Personnel		(671,303)	(869,702)
Finance and legal		(192,678)	(178,726)
Administration		(337,345)	(255,914)
Research and development		(238,410)	(233,501)
Licensing		(148,848)	(170,369)
		(1,588,584)	(1,708,212)
Loss from ordinary activities before income tax benefit and significant item		(1,410,989)	(1,440,021)
Significant item	3	(110,605)	-
Loss from ordinary activities before income tax benefit but after significant item	3	(1,521,594)	(1,440,021)
Income tax benefit relating to ordinary activities and significant item	4	510,341	497,253
Loss from ordinary activities after income tax benefit attributable to members of the Company		(1,011,253)	(942,768)
Total changes in equity other than those resulting from transactions with owners as owners		(1,011,253)	(942,768)
Overall Operations:			
Basic earnings per share (cents per share)	7	(0.01)	(0.01)
Diluted earnings per share (cents per share)	7	(0.01)	(0.01)

BALANCE SHEET AS AT 30 JUNE 2007

	Note	2007 $	2006 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	1,661,479	4,289,110
Trade and other receivables	9	20,536	55,227
Other current assets	10	58,113	17,698
TOTAL CURRENT ASSETS		1,740,128	4,362,035
NON-CURRENT ASSETS			
Property, plant and equipment	11	45,272	63,437
Intangible assets	12	2,099,520	885,664
Deferred tax assets	15	1,839,185	964,630
TOTAL NON-CURRENT ASSETS		3,983,977	1,913,731
TOTAL ASSETS		5,724,105	6,275,766
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	303,187	501,603
Interest bearing liabilities	14	3,904	3,512
Provisions	16	19,515	45,756
TOTAL CURRENT LIABILITIES		326,606	550,871
NON-CURRENT LIABILITIES			
Interest bearing liabilities	14	3,236	7,140
Deferred tax liabilities	15	484,765	120,551
TOTAL NON-CURRENT LIABILITIES		488,001	127,691
TOTAL LIABILITIES		814,607	678,562
NET ASSETS		4,909,498	5,597,204
EQUITY			
Contributed equity	17	7,260,509	7,055,622
Reserves	18	305,826	187,166
Accumulated losses		(2,656,837)	(1,645,584)
TOTAL EQUITY		4,909,498	5,597,204

The accompanying notes form part of these financial statements.

CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	$	$	$	$	$
	Share Capital Ordinary	Accumulated Losses	Options Reserve	Hedge Reserve	Total
Balance at *01.07.2005*	1,933,901	(702,816)	136,533	-	1,367,618
Shares issued during the year (net of equity raising costs)	5,121,721	-	-	-	5,121,721
Options reserve on recognition of options at granting date	-	-	50,633	-	50,633
Losses attributable to members of parent entity	-	(942,768)	-	-	(942,768)
Sub-total	5,121,721	(942,768)	50,633	-	4,229,586
Balance at *30.06.06*	7,055,622	(1,645,584)	187,166	-	5,597,204
Shares issued during the year (net of equity raising costs)	204,887	-	-	-	204,887
Options reserve on recognition of options at granting date	-	-	118,660	-	118,660
Foreign exchange movement due to designated cash flow hedge	-	-	-	(8,867)	(8,867)
Transfer from reserve to non-current asset	-	-	-	8,867	8,867
Losses attributable to members of parent entity	-	(1,011,253)	-		(1,011,253)
Sub-total	204,887	(1,011,253)	118,660	-	(687,706)
Balance at *30.06.2007*	7,260,509	(2,656,837)	305,826	-	4,909,498

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 $	2006 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		3,000	35,740
Payments to suppliers and employees		(1,739,755)	(1,249,386)
Interest received		174,595	232,451
Borrowing costs / lease charges		(981)	(402)
Net cash used in operating activities	22b	(1,563,141)	(981,597)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,360)	(45,044)
Payments for intellectual property		(1,261,540)	(497,022)
Net cash used in investing activities		(1,264,900)	(542,066)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares or shares to be issued		204,887	5,473,313
Repayment of interest bearing liabilities		(4,476)	(4,476)
Net cash from financing activities		200,411	5,468,837
NET INCREASE (DECREASE) IN CASH HELD		(2,627,633)	3,945,174
Cash at beginning of year		4,289,110	343,936
CASH AT END OF YEAR	22a	1,661,479	4,289,110

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report of Giaconda Limited complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs.

Accounting Policies

(a) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense (benefit) is based on the profit (loss) from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is debited or credited in the income statement except where it relates to items that may be debited or credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying value 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.

Subsequent costs are included in the asset's carrying value 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.

Increases in the carrying value arising on revaluation of assets are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amounts of all fixed assets including capitalised lease assets, are depreciated on a straight line basis over their useful lives to the Company commencing from the time the assets are 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
Office furniture and equipment	20% to 25%
Computer equipment	25%
Apartment furniture	20% to 25%

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

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying value. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (continued)

(c) 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 Company 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 their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease.

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.

(d) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

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 stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative Investments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Giaconda Limited designates certain derivatives as either:

i. hedges of the fair value of recognised assets and liabilities or a firm commitment (fair value hedge); or

ii. hedges of highly probable forecast transactions (cash flow hedges)

At the inception of the transaction the relationship between hedging instruments and hedges items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivates that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss, or to the cost of the asset where the hedged item is a non-current asset.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(e) Intangibles

Patents and trade marks

Patents and trade marks are recognised at cost of acquisition. Patents and trade marks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

The amortisable amount of patents and trade marks is amortised on a straight line basis over the term of the patent and trade mark commencing from the time the intangible is registered.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Amortisation of development costs will commence at the time that income is generated by the products.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (continued)

(f) 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, plus related on-costs. 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.

Equity-settled compensation

The company operates a number of share-based compensation plans. These include both an employee share option plan and an employee share plan. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(g) Cash and Cash Equivalents

Cash and cash equivalents includes 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.

(h) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

(i) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian 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.

(j) Comparative Figures

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

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements 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 Company.

Key Estimates – Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of intellectual property, including patents and trade marks, and capitalised development costs for the year ended 30 June 2007.

NOTE 2: REVENUE	2007 $	2006 $
Operating activities		
— Grants received	3,000	35,740
— Interest received from financial institutions	174,595	232,451
Total Revenue	177,595	268,191

NOTE 3: LOSS FROM ORDINARY ACTIVITIES		
Loss from ordinary activities before income tax expense has been determined after:		
Expenses		
Depreciation of property, plant and equipment	18,974	16,272
Amortisation of leased plant and equipment	2,551	3,401
Amortisation of intangible assets	47,684	34,453
Rental expense on operating leases		
- minimum lease payments	30,102	30,085
Research and development costs	238,410	177,190
Realised foreign exchange movements	634	-
Unrealised foreign exchange movements	248	-
Significant item		
The following significant expense item is relevant in explaining the financial performance:		
Revaluation of options issued to CEO on 4 May 2005 due to a correction in vesting dates (note 23)	110,605	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4: INCOME TAX BENEFIT	2007 $	2006 $
a. The components of the tax benefit comprise:		
Current tax	-	-
Deferred tax (Note 15)	510,341	497,253
	510,341	497,253
b. The prima facie tax on loss from ordinary activities before income tax is reconciled as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2006: 30%)	456,478	432,006
Less:		
Tax effect of:		
— tax losses brought to account as a deferred tax asset	(889,646)	(603,448)
— non-deductible amortisation	(15,962)	(11,356)
— other non-allowable items	(31,816)	(21,734)
— movement in allowances and provisions	7,872	(7,772)
	(929,552)	(644,310)
Add:		
Tax effect of:		
— other allowable deductions	473,074	212,304
Income tax attributable to Company	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Directors**

The following were Directors of Giaconda Limited during the financial year:

(i) *Chairperson – Non-executive Director*

Christopher Robert Bilkey (resigned as Chairperson and Director on 22 August 2006)

Richard Andrew Wade Woods (appointed Chairperson on 22 August 2006)

(ii) *Executive Directors*

Professor Thomas Julius Borody, Chief Medical Officer

Patrick Laughlin McLean, Chief Executive Officer

(iii) *Non-executive Directors*

Professor Emeritus Anthony Ronald Moon

Trevor Moore

b. **Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year

Name	*Position*
Rosa Surace	Chief Operating Officer (departed on 4 May 2007)
Kirrilli Parker	Chief Administrative Officer (appointed on 1 July 2006) and Chief Operating Officer (from 7 May 2007)

All of the above persons were also key management persons during the year ended 30 June 2006 unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

c. **Compensation Practices**

The Board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Key management personnel are paid up to 20 weeks of their salary in the event of redundancy, depending on their years of service.

The Company seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically, the incorporation of incentive payments based on performance against targets contained in the approved business plan. These targets relate to the product development, product licensing and Company administration. This scheme provides management with a performance target focused upon the necessary steps to achieve approval and sale of Giaconda products in the marketplace and to fulfil its administration requirements.

Bonuses included per Note 5(d) are based on these targets. The objective of the reward scheme is to both reinforce the short- and long-term goals of the Company and to provide a common interest between management and shareholders.

The employment conditions of the Chief Executive Officer, Patrick McLean and other key management personnel are formalised in contracts of employment. Other than the Chief Medical Officer, Professor Thomas Borody, all other key management personnel are permanent employees of Giaconda Limited. Professor Thomas Borody is engaged to carry out the duties and responsibilities of Chief Medical Officer for the Company under a Services Agreement with the Centre for Digestive Diseases Pty Limited. The fixed five-year contract, which commenced on 1 January 2006, contains no incentive component.

The employment contracts of the other key executives stipulate a range of termination periods from 1 to 6 months, depending on the time of service. The Company may terminate an employment contract without cause by providing written notice for the appropriate termination period or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of up to 20 weeks of their salary, depending on their years of service. Termination payments are generally not payable on resignation (other than payment in lieu of notice) or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. The employee may terminate the employment contract without cause by providing written notice for the appropriate termination period.

The Remuneration Committee determines the amount of any increase in base salary together with the size of, and criteria applicable to, any bonus payments for each key management personnel.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

d. **Key Management Personnel Compensation**

Key Management Person	Short-term Benefits				Post- employment Benefits
	Cash & salary	Performance Bonuses	Non-cash benefit	Other	Superannuation
	$	$	$	$	$
Financial Year 30 June 2007					
Capacity as Director					
Christopher Robert Bilkey	8,877	-	-	-	5,288
Richard Andrew Wade Woods	55,562*****	-	-	-	788
Anthony Ronald Moon	30,000*****	-	-	-	788
Trevor Moore	30,000*****	-	-	-	788
Thomas Julius Borody	60,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	150,000	52,800**	-	110,000******	13,500
Thomas Julius Borody	170,000***	-	-	-	-
Rosa Surace	186,793	-	-	-	13,251
Kirrilli Parker	98,763	21,175*	-	-	8,889
	789,995	73,975	-	110,000	43,292
Financial Year 30 June 2006					
Capacity as Director					
Christopher Robert Bilkey	60,000*	-	-	-	-
Richard Andrew Wade Woods	30,000*	-	-	-	-
Anthony Ronald Moon	30,000*	-	-	-	-
Trevor Moore	30,000*	-	-	-	-
Thomas Julius Borody	30,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	150,000	42,500**	-	110,000	13,500
Thomas Julius Borody	200,000****	-	-	-	-
Rosa Surace	120,000	5,400*	-	-	11,286
	650,000	47,900	-	110,000	24,786

* Taken up as an accrual for the financial year in question.
** Taken up as a contingent liability.
*** Taken up as a contingent liability. Where payments are made in respect of this remuneration, they are paid to the Centre for Digestive Diseases, a related party of Professor Thomas Borody.
**** Of this amount, $115,000 has been taken up as a contingent liability and will be paid to Professor Thomas Borody as an employee of Giaconda Limited, while $85,000 has been paid to the Centre for Digestive Diseases, a related part of Professor Thomas Borody.
***** Of these amounts, $5,000 was paid in cash, the remainder was paid in shares in the Employee Share Plan.
****** Of this amount, $50,000 has been taken up as a contingent liability.

e. **Compensation Options**

Options Granted As Compensation

					Terms & Conditions for Each Grant		
	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Key Management Personnel							
Kirrilli Parker	150,000	150,000	26/07/06	8,055	0.50	26/07/06	25/07/2011

Kirrilli Parker

- 50,000 options vest upon grant date, being 26 July 2006 with a first exercise date of 26 July 2006 and expire on 25 July 2011.
- 50,000 options vest upon grant date, being 26 July 2006 with a first exercise date of 1 July 2007 and expire on 25 July 2011.
- 50,000 options vest upon grant date, being 26 July 2006 with a first exercise date of 1 July 2008 and expire on 25 July 2011.

The options have been valued at grant date using a modified binomial options method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

f. **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

	Balance 1.07.2006	Granted as Compensation	Options Exercised	Net Change* Other
Patrick Laughlin McLean	1,250,000	-	-	-
Rosa Surace	750,000	-	-	(750,000)
Kirrilli Parker	150,000	150,000		-
Total	2,150,000	150,000	-	(750,000)

The Net Change Other reflected above includes those options that have been forfeited by holders as well as options issued during the year under review.

	Balance 30.6.2007	Total Vested 30.6.2007	Total Exercisable 30.6.2007	Total Unexercisable 30.6.2007
Patrick Laughlin McLean	1,250,000	1,250,000	1,000,000	250,000
Kirrilli Parker	300,000	300,000	150,000	150,000
Total	1,550,000	1,550,000	1,150,000	400,000

g. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2007
Christopher Robert Bilkey (resigned as director on 22 August 2006)	2,000,000	-	-	-	2,000,000
Richard Andrew Wade Woods	295,000	170,795	-	-	465,795
Anthony Ronald Moon	6,000	121,704	-	-	127,704
Trevor Moore	-	121,704	-	-	121,704
Thomas Julius Borody	50,620,000	-	-	-	50,620,000
Patrick Laughlin McLean	707,000	-	-	-	707,000
Rosa Surace (departed on 4 May 2007)	-	-	-	-	-
Kirrilli Parker	6,000	-	-	-	6,000
Total	53,634,000	414,203	-		54,048,203

* Net Change Other refers to shares purchased or sold during the financial year.

NOTE 6: AUDITORS' REMUNERATION	2007 $	2006 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	23,000	31,300
- accounting services provided by related practice of auditor	89,943	65,037

NOTE 7: EARNINGS PER SHARE			
a.	Reconciliation of earnings to loss		
	Loss	(1,011,253)	(942,768)
	Earnings used to calculate basic EPS	(1,011,253)	(942,768)
	Earnings used in the calculation of dilutive EPS	(1,011,253)	(942,768)
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	72,707,101	69,375,000
	Weighted average number of options outstanding	-	-
	Weighted average number of converting preference shares on issue	-	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	72,707,101	69,375,000
c.	Diluted earnings per share is not reflected for discontinuing operations as the result is anti-dilutive in nature		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 8: CASH AND CASH EQUIVALENTS	2007 $	2006 $
Cash at bank	1,661,479	4,289,110
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	1,661,479	4,289,110

NOTE 9: TRADE & OTHER RECEIVABLES		
Trade and other debtors	20,536	55,227

NOTE 10: OTHER CURRENT ASSETS		
Prepayments – general	58,113	17,698

NOTE 11: PROPERTY, PLANT AND EQUIPMENT		
Office furniture at cost	8,812	8,812
Less accumulated depreciation	(3,746)	(2,479)
	5,066	6,333
Computer equipment at cost	39,533	38,901
Less accumulated depreciation	(21,131)	(10,059)
	18,402	28,842
Office equipment at cost	10,144	10,144
Less accumulated depreciation	(4,955)	(2,891)
	5,189	7,253
Apartment furniture at cost	7,106	7,106
Less accumulated depreciation	(2,920)	(1,873)
	4,186	5,233
Leased assets at cost	15,645	15,645
Less accumulated amortisation	(7,993)	(5,442)
	7,652	10,203
Website at cost	9,940	7,212
Less accumulated depreciation	(5,163)	(1,639)
	4,777	5,573
Total property, plant and equipment	45,272	63,437

Movements in Carrying Values

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

	Office Furniture	Computer Equipment	Office Equipment	Apartment Furniture	Leased Assets	Website	Total
Balance at the beginning of year	6,333	28,842	7,253	5,233	10,203	5,573	63,437
Additions	-	632	-	-	-	2,728	3,360
Disposals	-	-	-	-	-	-	-
Depreciation expense	(1,267)	(11,072)	(2,064)	(1,047)	(2,551)	(3,524)	(21,525)
Carrying value at the end of year	5,066	18,402	5,189	4,186	7,652	4,777	45,272

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 12: INTANGIBLE ASSETS	2007 $	2006 $
Intellectual property at cost	400,000	400,000
Less accumulated amortisation	(47,924)	(23,962)
	352,074	376,038
Patents and trade marks at cost	289,319	118,279
Less accumulated amortisation	(34,213)	(10,491)
	255,106	107,788
Development costs	1,492,338	401,838
Less accumulated amortisation	-	-
	1,492,338	401,838
	2,099,520	885,664

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	$	$	$	$
Year ended 30 June 2006				
Balance at the beginning of year	400,000	23,095	-	423,095
Additions	-	95,184	401,838	497,022
Disposals	-	-	-	-
Amortisation charge	(23,962)	(10,491)	-	(34,453)
Impairment losses	-	-	-	-
Closing value at 30 June 2006	376,038	107,788	401,838	885,664
Year ended 30 June 2007				
Balance at the beginning of year	376,038	107,788	401,838	885,664
Additions	-	171,040	1,090,500	1,261,540
Disposals	-	-	-	-
Amortisation charge	(23,962)	(23,722)	-	(47,684)
Impairment losses	-	-	-	-
Closing value at 30 June 2007	352,076	255,106	1,492,338	2,099,520

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under administration in the income statement.

NOTE 13: TRADE & OTHER PAYABLES	2007 $	2006 $
Trade payables	168,439	148,754
Sundry payables	14,258	38,334
Accrued expenses *	120,490	314,515
	303,187	501,603

* accrued expenses are made up of directors' fees, employee incentives and audit fees.

NOTE 14: INTEREST BEARING LIABILITIES	Note	2007 $	2006 $
CURRENT			
Lease liability	19	3,904	3,512
NON-CURRENT			
Lease liability	19	3,236	7,140

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 15: TAX	Note	2007 $	2006 $
a. **Liabilities**			
Deferred tax liabilities comprise:			
Capitalised development costs		484,765	120,551
		484,765	120,551
b. **Assets**			
Deferred tax assets comprise:			
Transaction costs on equity issue		-	84,666
Future income tax benefit attributable to tax losses		1,810,663	844,955
Fair value adjustments		22,668	21,282
Provisions		5,854	13,727
Other		-	-
		1,839,185	964,630
c. **Reconciliations**			
i. **Gross Movements**			
The overall movement in the deferred tax account is as follows:			
Opening balance		844,079	346,826
Credit to income statement		510,341	497,253
Closing balance		1,354,420	844,079
ii. **Deferred Tax Liabilities**			
The movement in deferred tax liabilitiy for each temporary difference during the year is as follows:			
Opening balance		120,551	12,966
Charged to the income statement		364,214	107,585
Closing balance		484,765	120,551
iii. **Deferred Tax Assets**			
The movement in deferred tax assets for each temporary difference during the year is as follows:			
Opening balance		964,630	359,792
Credited to the income statement		874,535	604,838
Closing balance		1,839,185	964,630

NOTE 16: PROVISIONS

Employee benefits	16a	19,515	45,756
a. Aggregate employee entitlement liability		19,515	45,756
b. Number of employees at year end		2	3

NOTE 17: ISSUED CAPITAL

72,914,203 (2006: 72,500,000) fully paid ordinary shares	7,260,509	7,055,622
a. **Ordinary shares**	No.	No.
At the beginning of reporting period	72,500,000	60,000,000
Shares issued during the year		
— issue of shares at $0.4960 cents each	52,921	-
— issue of shares at $0.4580 each	47,702	-
— issue of shares at $0.50 each	313,580	12,500,000*
At reporting date	72,914,203	72,500,000

* 500,000 shares were issued to Findlay & Co Stockbrokers (Underwriters) Pty Limited, under the terms of an Underwriting Agreement made on 2 August 2005.

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 Giaconda 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 18: RESERVES

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

NOTE 19: CAPITAL AND LEASING COMMITMENTS		**2007 $**	**2006 $**
a.	**Finance Lease Commitments Payable**		
	— not later than 1 year	4,476	4,476
	— later than 1 year but not later than 5 years	3,362	7,838
	Minimum lease payments	7,838	12,314
	Less future finance charges	(698)	(1,661)
	Total Lease Liability	7,140	10,653
b.	**Operating Lease Commitments**		
	Non-cancellable operating leases contracted for but not capitalised in the financial statements		
	Payable		
	— not later than 1 year	21,406	46,930
	— later than 1 year but not later than 5 years	-	2,500
		21,406	49,430

Two leases form part of the operating lease commitment.

The lease for the principal place of business is a non-cancellable lease with a one-year term, with rent payable monthly in advance. The lease expires on 17 December 2007.

The lease for the residence of the Chief Executive Officer is a non-cancellable lease with a one-year term, with rent payable monthly in advance. Upon completion of the term, the tenant can stay in the premises unless or until the agreement is ended.

c.	**Capital Commitments**	**2007 $**	**2006 $**
	Future capital expenditure contracted for but not yet incurred		
	Payable		
	— not later than 1 year	136,590	-
	— later than 1 year but not later than 5 years	-	-
		136,590	-

The company engaged Biovail in Toronto, Canada to execute a pharmacokinetic study comparing two formulations of Myoconda. The study was completed in June 2007 and is in the process of analysis. Under the terms of the contract, the remainder of the contract will be due and payable upon completion of the analysis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 20: CONTINGENT LIABILITIES	2007 $	2006 $
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Chief Medical Officer Fees The Company has engaged Professor Thomas Borody as Chief Medical Officer. The agreement provided for an annual salary to be paid for these services of $230,000. The agreement operated from 1 January 2005 to 31 December 2005. Professor Borody has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations.	230,000	230,000
Non-Executive Director Fees Professor Thomas Borody, as a non-executive director of the Company for the period 15 June 2004 to 31 December 2004 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations.	16,438	16,438
Executive Director Fees Professor Thomas Borody, as an executive director of the Company for the period 1 January 2006 to 30 June 2007 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations.	90,000	30,000
Chief Executive Officer Incentive Payment The Chief Executive Officer has been paid an incentive under his incentive program. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations. It is noted that $42,000 is in respect of services for the 2005 financial year and was payable in 2006. $93,600 is in respect of services for the 2006 financial year and was payable in 2007. $52,800 is in respect of services for the 2007 financial year and will be payable in 2008.	188,400	135,600
Chief Executive Officer Living-Away-From-Home-Allowance Payment The Chief Executive Officer is paid a living-away-from-home-allowance under his employment contract. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations.	50,000	-
Centre of Digestive Diseases The Company has engaged the Centre for Digestive Diseases, a related party of Professor Thomas Borody, to provide the service of Chief Medical Officer. The agreement provides for an annual fee to be paid for these services of $170,000 commencing 1 July 2006. The Centre for Digestive Diseases has agreed to defer payment of this amount until the first to occur of; (a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or (b) There is change in ownership of more than 50% of the issued shares of the Company. In the event that the above is not accomplished, he will release the Company from these obligations.	170,000	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21: SEGMENT REPORTING

Primary Reporting — Business Segments

	Development	
	2007 $	**2006 $**
REVENUE		
Segment income	177,595	268,191
RESULT		
Loss before income tax	(1,521,594)	(1,440,021)
Income tax benefit	510,341	497,253
Loss after income tax	(1,011,253)	(942,768)
ASSETS		
Segment assets	5,724,105	6,275,766
LIABILITIES		
Segment liabilities	814,607	678,562

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.

Business and Geographical Segments

Business segments

The principal activity of the Company was that of the development and commercialisation of therapies for gastrointestinal diseases and disorders.

Geographical segments

The Company operates from Sydney, New South Wales, Australia. It will conduct clinical trials in the United Kingdom, Australia, Europe and North America.

NOTE 22: CASH FLOW INFORMATION			**2007 $**	**2006 $**
a.	**Reconciliation of Cash**			
	Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
	Cash on hand		-	-
	Cash at bank		1,661,479	4,289,110
			1,661,479	4,289,110
b.	**Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax**			
	Loss from ordinary activities after income tax		(1,011,253)	(942,768)
	Non-cash flows in profit from ordinary activities:			
	—	Amortisation	50,235	37,854
	—	Depreciation	18,974	16,272
	—	Lease charges	965	1,315
	Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries			
	—	(Increase) decrease in receivables	34,691	(23,831)
	—	Increase in deferred assets	(874,555)	(604,838)
	—	Increase in prepayments – general	(40,415)	(7,866)
	—	Increase (decrease) in payables	(198,416)	352,769
	—	Increase in deferred tax liabilities	364,214	107,585
	—	Increase (decrease) in provisions	(26,241)	31,278
	—	Increase in option reserve	118,660	50,633
	Cash flows from operations		(1,563,141)	(981,597)
c.	**Non-cash Financing and Investing Activities**			
	There were no items acquired under a finance lease during the year.			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2007:

(i) On 4 May 2005, 1,250,000 share options were granted to the Chief Executive Officer under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	500,000	Immediately.
2	250,000	Not before date which Giaconda is quoted on the ASX.
3	250,000	Not before 1 July 2006.
4	250,000	Not before 1 July 2007.

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of grant.

(ii) On 19 May 2005, 750,000 share options were granted to the Chief Operating Officer under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. These options were forfeited on 3 July 2007. The financial statements have been adjusted to reflect this post balance date event.

(iii) On 23 June 2005, 50,000 share options were granted to a "promoter" of the Giaconda Limited IPO under an Option Agreement dated 03 May 2005, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	50,000	Not before date which Giaconda is quoted on the ASX

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date which Giaconda Limited is quoted on the ASX.

(iv) On 23 June 2005, 100,000 share options were granted to a "promoter" of the Giaconda Limited IPO under an Option Agreement dated 20 June 2005, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	100,000	Not before date which Giaconda received regulatory approval of Myoconda in the United States

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date which Giaconda Limited is quoted on the ASX.

(v) On 23 January 2006, 60,000 share options were granted to a substantial contributor to the development of Giaconda's products under an Option Agreement dated 13 January 2006, to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	60,000	Immediately

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of the agreement.

(vi) On 23 January 2006, 150,000 share options were granted to the Corporate Administration Officer/Assistant Company Secretary (now Chief Operating Officer/Company Secretary) under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	50,000	Not before 23 January 2006
2	50,000	Not before 17 November 2006
3	50,000	Not before 17 November 2007

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of grant.

(vii) On 26 July 2006, 150,000 share options were granted to the Chief Administration Officer/Company Secretary (now Chief Operating Officer/Company Secretary) under the Giaconda Limited Employee Share Option Plan to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable as follows;

Tranche	Number of Options	Exercise Date
1	50,000	Not before 26 July 2006
2	50,000	Not before 1 July 2007
3	50,000	Not before 1 July 2008

The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23: SHARE-BASED PAYMENTS (CONTINUED)

All options granted are ordinary shares in Giaconda Limited, which confer a right of one ordinary share for every option held.

	2007		2006	
	Number of Options	**Weighted Average Exercise Price $**	**Number of Options**	**Weighted Average Exercise Price $**
Outstanding at the beginning of the year	2,360,000	0.50	2,400,000	0.50
Granted	150,000	0.50	210,000	0.50
Forfeited	(750,000)	0.50	(250,000)	0.50
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,760,000	0.50	2,360,000	0.50
Exercisable at year-end	1,260,000	0.50	1,395,000	0.50

There were no options exercised during the year ended 30 June 2007.

The options outstanding at 30 June 2007 had a weighted average exercise price of $0.50 and a weighted average remaining contractual life of 3.07 years. The exercise price is $0.50 in respect of options outstanding at 30 June 2007.

The weighted average fair value of the options granted during the year was $8,055.

This price was calculated by using a modified binomial option pricing model applying the following inputs:

Weighted average exercise price	$0.50
Underlying share price	$0.33
Expected share price volatility	28%
Risk free interest rate	6.40%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the contracted expiry date as no options have been exercised since the commencement of the Company.

Included under operational expense in the income statement is $8,055 (2006: $50,633), that relates, in full, to equity-settled share-based payment transactions.

There is also a significant item of expense recorded in the income statement of $110,605. This is a revaluation of the options granted to the Chief Executive Officer on 4 May 2005 which resulted from the corrected vesting dates detailed in the Company announcement dated 22 December 2006.

NOTE 24: EVENTS AFTER THE BALANCE SHEET DATE

The company issued 67,306 shares at $0.39 per share to Non-executive Directors on 18 July 2007 in accordance with the Employee Share Plan as payment of a portion of their directors fees.

750,000 unquoted share options issued under the Employee Share Option Plan lapsed on 3 July 2007. The financial statements have been adjusted to reflect this event.

With the exception of the above, the directors are not aware of any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Company in subsequent periods.

NOTE 25: FINANCIAL INSTRUMENTS

a. **Financial Risk Management**

The Company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable.

The main purpose of non-derivative financial instruments is to hedge foreign currency risk.

The Company does not have any derivative instruments at 30 June 2007.

i. Treasury Risk Management

Directors and the senior executive meet on a regular basis to consider the extent of interest rate exposure and where necessary evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The main risks the Company is exposed to through its financial instruments are foreign currency risk and liquidity risk.

Interest rate risk

The Company is not exposed to interest rate risk.

Foreign currency risk

The Company manages foreign currency risk by maintaining a Canadian Dollar bank account to act as a natural hedge.

Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are maintained.

Credit risk

The Company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into.

Price risk

The Company is not exposed to any material commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 25: FINANCIAL INSTRUMENTS (CONTINUED)

b. **Interest Rate Risk**

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing			
					Within 1 Year		1 to 5 Years	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Financial Assets	%	%	$	$	$	$	$	$
Cash	5.16%	5.81%	653,542	258,571	1,007,937	4,030,539	-	-
Total Financial Assets			653,542	258,571	1,007,937	4,030,539	-	-
Financial Liabilities								
Lease liability	10.62%	10.62%	-	-	3,904	3,512	3,236	7,140
Total Financial Liabilities			-	-	3,904	3,512	3,236	7,140

c. **Net fair values**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

NOTE 26: RELATED PARTY TRANSACTIONS	2007 $	2006 $
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:		
Director related entities		
Purchase of drugs and Efficacy Report from the Centre for Digestive Diseases a related entity of Professor Thomas Borody.	-	2,554
Purchase of advertising with the Centre for Digestive Diseases a related entity of Professor Thomas Borody	-	4,126

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 27: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Outline of Amendment	Application Date of the Standard	Application Date for the Company
2005–10 Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced by the issuing of AASB 7: Financial Instruments Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts			
	AASB 101: Presentation of Financial Statements			
	AASB 114: Segment Reporting			
	AASB 117: Leases			
	AASB 133: Earnings per share			
	AASB 1023: General Insurance Contracts			
	AASB 1038: Life Insurance Contracts			
	AASB 139: Financial Instruments Recognition and Measurement			
AASB 7 Financial Instrument Disclosures	AASB 132: Financial Instruments: Disclosure and Presentation	As above.	1 January 2007	1 July 2007

NOTE 28: COMPANY DETAILS

The registered office of the Company as of 20th August 2007:

Ground Floor, 44 East Street
Five Dock New South Wales 2046

The principal place of business of the Company as of 20th August 2007:

Ground Floor, 44 East Street
Five Dock New South Wales 2046

These notes form part of the financial statements

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 16 to 34, are in accordance with the Corporations Act 2001 and:
   a. comply with Australian Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company;
2. The Chief Executive Officer has 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 Australian 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.

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

Patrick L. McLean

Director and Chief Executive Officer

Richard A. Woods

Director and Chairman

Dated: 27 August 2007

BKR Walker Wayland
(NSW Partnership)
Chartered Accountants

8th Floor
55 Hunter Street Sydney

GPO Box 4836 Sydney
NSW 2001 Australia

Telephone +61 2 9951 5400
Facsimile +61 2 9951 5454
mail@bkrwwnsw.com.au

Website www.bkrww.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GIACONDA LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Giaconda Limited which comprises the balance sheet as at 30 June 2007, 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 Company.

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.

Audit 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.

The 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 judgement, including 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 controls 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 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.

Partners: AS Roger, HC Thomas, RS Woods, SE Arnold, TF Tyler, PW MacLean, GD Allsopp

Consultants: PJ Longhurst

Independent members of BKR International and BKR Walker Wayland National Association Inc.

Liability is limited by the Accountants Scheme, Approved under the Professional Standards Act 1994 (NSW)

BKR Walker Wayland
(NSW Partnership)
Chartered Accountants

8th Floor
55 Hunter Street Sydney

GPO Box 4836 Sydney
NSW 2001 Australia

Telephone +61 2 9951 5400
Facsimile +61 2 9951 5454
mail@bkrwwnsw.com.au

Website www.bkrww.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GIACONDA LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Audit Opinion

In our opinion:

a. The financial report of Giaconda Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the Company's financial position as at 30 June 2007 and of the 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; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BKR Walker Wayland

BKR Walker Wayland	**T F Tyler**
(NSW Partnership)	**Partner**
Chartered Accountants	

Dated this 27th day of August 2007

Partners: AS Roger, HC Thomas, RS Woods, SE Arnold, TF Tyler, PW MacLean, GD Allsopp
Consultants: PJ Longhurst
Independent members of BKR International and BKR Walker Wayland National Association Inc.

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