BKR
WALKER WAYLAND

Giaconda
LIMITED

GIACONDA LIMITED

A.B.N. 68 108 088 517

ANNUAL FINANCIAL REPORT

YEAR ENDED 30 JUNE 2005

Contents

Directors' Report

Your directors present their report on Giaconda Limited (**Giaconda**) for the financial year ended 30 June 2005.

Directors

The names of the directors of Giaconda in office at any time during the year and to the date of the report are:

Thomas Borody	Director
David Lance	Director (Died April 14, 2005)
Christopher Bilkey	Director
Richard Woods	Director (Appointed 30 September 2004)
Patrick McLean	Chief Executive Officer (Appointed 16 November 2004)
Trevor Moore	Director (Appointed 14 December 2004)
Tony Moon	Director (Appointed 14 December 2004)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

Giaconda was established to commercialise a range of clinically proven, well-patented therapies which address significant unmet needs of the global digestive diseases market. These therapies have been developed and patented by Prof. Thomas Borody at his Centre for Digestive Diseases in NSW and will be licensed to pharmaceutical companies in the key markets of the USA, EU and Australia.

Operating Results

The consolidated loss of the company for the financial year after providing for income tax amounted to $905,987.

Dividends Paid

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

Review of Operations

During the financial year, the principal activities of Giaconda mainly involved the set-up of Giaconda including retaining of directors, employment of staff, capital raising, set up of premises, marketing of Giaconda's products to the global market and preparation for an initial public offering.

On the product development side, evaluation of four manufacturing companies has commenced reviewing their manufacturing capacity, the suitability of their facilities for regulatory approvals in the key markets and their cost efficiencies.

Regulatory file preparation has begun on two of Giaconda's first therapies – Myoconda for the treatment of severe Crohn's Disease and Hepaconda for the treatment of chronic Hepatitis C virus. Manufacturing and approval timelines are in the process of finalisation for Australia, the US and the EU. If accomplished, these activities will lead to revenue generation and profitability.

Marketing of Products
During the reporting period, a company and product presentation was made to 24 individual pharmaceutical companies covering a total of 22 countries in our key markets. Interest was expressed in one or more of the Giaconda products by all but two of these companies. As development progresses, these companies will be screened for the best available partner for the Giaconda products in a selected territory.

Capital Raising
Giaconda raised $1,750,000 from 31 shareholders through the issue of 5,000,000 ordinary fully paid shares. These funds are being used to run the company and develop the products until the IPO.

Transfer of Intellectual Property
The following items of intellectual property were assigned by Prof. Thomas Borody to Giaconda:

- Myoconda, a triple antibiotic therapy patent to treat severe Crohn's Disease where standard therapy has not been effective.
- Hepaconda HCV, a dual therapy patent to treat Hepatitis C virus, especially genotype one, where standard therapy has not been effective.
- Heliconda, a triple therapy patent to treat *Helicobacter pylori* infection where standard therapy has failed. Also covers NASH, PBC, PSC and Hyperlipidaemia.
- Ibaconda, a dual therapy patent to treat constipation predominant Irritable Bowel Syndrome where other therapies have failed.
- Picoconda, a bowel preparation designed to reduce the poor taste of present bowel preparation products and provide a clear view of the bowel mucosa during colonoscopy.

These will form the basis of the initial development and licensing activities of the company. Additional intellectual property will be available from Prof. Thomas Borody when these products are commercialised.

Employment of Personnel
Giaconda employed four individuals; the Chief Executive Officer (Patrick McLean), the Chief Operating Officer (Rosa Surace), the Chief Medical Officer (Prof. Thomas Borody) and an Executive Assistant (Rachel Blakey).

Significant Changes in State of Affairs

A meeting of the members was held to pass a resolution to change Giaconda to a public company, adopt a new constitution compliant with the listing rules and make the associated name change.

Information on Directors and Secretary

David Lance passed away in April of this year. The board of Giaconda would like to note the considerable contribution that David made to Giaconda and significant service he provided.

	Background
T. J. Borody Director and Chief Medical Officer	Prof. Thomas Borody, M BBS, MD, PhD, FRACP, FACG, FACP, 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 Traveling 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. Prof. 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 120 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, Prof. Borody was awarded his PhD from the University of Newcastle. Prof. Thomas Borody is not presently a member of any board committee.
D.H. Lance	David Lance, OAM, BEc (Syd), Unic honoris causa (UTS). David Lance was an economist with over 40 years experience in stock broking, education and corporate finance. He was the founder of Technology Transactions Limited and managed a specialist corporate advisory firm in the technology sector. He was an Executive with Ford Australia and Managing Partner of a stock broking firm. He held a number of public company board positions. David was Foundation Deputy Chancellor of The University of Technology, Sydney, and the Chairman of Insearch Ltd, the University's commercial company. David was awarded a medal in the Order of Australia for his services to education and the commercialisation of Australian technology. He was granted the degree of Doctor of the University (*honoris causa*), and was an Adjunct Professor at the University of Technology, Sydney. David passed away on 14 April 2005. David was a member of the remuneration and nomination committee.
C.R. Bilkey Chairman	Chris Bilkey, Dip Biochem, holds a Diploma of Biochemistry from the Bendigo Institute of Technology and was until recently Vice President of Pharmacia for the Asia Pacific region and has been in the pharmaceutical industry for over 24 years with experience in a broad range of sales and marketing, operational, and corporate strategic roles. He was previously Sales and Marketing Director of Pharmacia, responsible for business development opportunities as well as sales and marketing planning and the operation's strategic plans. Chris led the merging of Pharmacia and Upjohn Companies in Australia after which he was then appointed the Australasian President of Pharmacia and Upjohn. Chris participated in the Executive Group for Pharmacia's Asia Pacific region. Chris is presently Managing Director of Bellwether Pharma. Chris is the chairman of the nomination committee and a member of the remuneration committee.

	Background
R.A.W. Woods Director	Richard Woods, BCom, LLB (UNSW), GMQ (AGSM) is the principal of Wade Investment group which 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. Richard is the chairman of the audit committee and a member of the nomination and remuneration committee.
P.L. McLean Director and CEO	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 21 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. Patrick is not presently a member of any board committee. In the past three years, Patrick has been a Director of Axcan Pharma S.A.
A. R. Moon Director	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 University Graduate school, as well as acting Deputy Vice Chancellor and acting Pro Vice Chancellor. 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 Professor of Physics at UTS. Tony is a member of the audit committee.
T. Moore Director	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. Trevor is a the chairman of the remuneration committee and a member of the nomination and audit committees.

	Background
D.B. Fischl Company Secretary	David Fischl, BCom , LLB (UNSW). David was admitted as a Solicitor in January 2000. David is an Associate at Hicksons in Sydney and practices Commercial and Corporate Law. David became the secretary of Giaconda in July 2004. David is currently completing a Graduate Diploma of Applied Corporate Governance though Chartered Secretaries of Australia. David is the secretary of the remuneration, nomination and audit committees.

Corporate Governance

Each of the directors brings a skill set needed to support the management of the company in starting up and running an effective and efficient organisation. These include 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 providing legal expertise relative to executing agreements with suppliers and public company governance and in establishing academic relationships that foster scientific development.

The Directors of Giaconda support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. A review of the company's corporate governance practice requirements was undertaken during the year. As a result of this review, additional new practices were and are to be established.

None of the Directors, except Patrick McLean have held directorships in other listed entities in the last three years.

Meetings of Directors

The number of meetings of Giaconda's board of directors held during the period ended 30 June 2004, and the number attended by directors and the secretary were:

Name	Directors' Meetings		Committee Meetings	
	Number of meetings held during period of office	Number Attended	Number of meetings held during period of office	Number attended
Chris Bilkey	12	11	3	3
Thomas Borody	12	12	0	0
David Lance	8	8	3	3
Richard Woods	9	8	8	8
Patrick McLean	8	8	1	1
Tony Moon	7	5	3	3
Trevor Moore	7	7	7	7
David Fischl	12	12	6	5

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 or for dividends.

Grantee	Options Granted	Options Vested	Exercise Price	Expiry Date	Conditions on Vesting
Patrick McLean	1,200,000	500,000	$0.50	3 May 2010	Yes
Rosa Surace	750,000	350,000	$0.50	11 May 2010	Yes
James Hare	200,000	50,000	$0.50	5 years after listing	Yes
Mark Allen	200,000	0	$0.50	5 years after listing	Yes

Environmental Issues

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

Indemnities

During the financial year, Giaconda paid a premium 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.

After Balance Date Events

The Company ended a mandate it had with eG Capital for its IPO process on July 15, 2005 and agreed with Findlay & Co that they underwrite the offer.

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 year.

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

Patrick L. McLean
Director and Chief Executive Officer

Dated: 28 July 2005

BKR
WALKER WAYLAND

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 PTY LIMITED

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2005 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 28th day of July 2005

TTyler

T F Tyler
Partner

Partners: AS Roger, HC Thomas, RS Woods, SE Arnold, TF Tyler
Consultants: JE Walker, PM Greenwood, TR Little, PJ Longhurst
Independent member of BKR International and the BKR Walker Wayland National Association Inc

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 $	2004 $
Revenues from ordinary activities	2	65,401	113
Administration expense		(30,811)	(5,971)
Borrowing costs expense		(2,193)	(1,264)
Depreciation and amortisation		(4,710)	-
Legal expenses		(338,718)	-
Operational expenses		(346,866)	-
Rent		(30,624)	-
Travel		(93,841)	-
Other expenses		(123,625)	
Loss from ordinary activities before income tax expense	3	(905,987)	(7,122)
Income tax expense relating to ordinary activities	4	-	-
Loss from ordinary activities after income tax expense attributable to members of the Company		(905,987)	(7,122)
Total changes in equity other than those resulting from transactions with owners as owners	17	(905,987)	(7,122)
Basic earnings per share (cents per share)	6	(1.7)	
Diluted earnings per share (cents per share)	6	(1.7)	

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	2005 $	2004 $
CURRENT ASSETS			
Cash assets	7	343,936	89,660
Receivables	8	31,396	6,000
Other	9	361,424	60,000
TOTAL CURRENT ASSETS		736,756	155,660
NON-CURRENT ASSETS			
Property, plant and equipment	10	38,066	-
Intangible assets	11	423,095	-
TOTAL NON-CURRENT ASSETS		461,161	-
TOTAL ASSETS		1,197,917	155,660
CURRENT LIABILITIES			
Payables	12	148,834	3,130
Interest bearing liabilities	13	3,160	142,151
Provisions	14	14,478	-
Other	15	-	17,500
TOTAL CURRENT LIABILITIES		166,472	162,781
NON-CURRENT LIABILITIES			
Interest bearing liabilities	13	10,653	-
TOTAL NON-CURRENT LIABILITIES		10,653	-
TOTAL LIABILITIES		177,125	162,781
NET ASSETS (LIABILITIES)		1,020,792	(7,121)
EQUITY			
Contributed equity	16	1,933,901	1
Accumulated losses	17	(913,109)	(7,122)
TOTAL EQUITY (DEFICIENCY)		1,020,792	(7,121)

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 $	2004 $
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from operations		17,455	-
Payments to suppliers and employees		(1,130,345)	(68,841)
Interest received		47,946	113
Borrowing costs		(2,193)	(1,264)
Net cash used in operating activities	21b	(1,067,137)	(69,992)
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(27,131)	-
Payments for intellectual property		(23,095)	-
Net cash used in investing activities		(50,226)	-
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares or shares to be issued		1,516,401	17,501
Proceeds from borrowings		-	142,151
Repayment of borrowings		(144,762)	-
Net cash provided by financing activities		1,397,639	159,652
Net increase in cash held		254,276	89,660
Cash at beginning of year		89,660	-
Cash at end of year	21a	343,936	89,660

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report is for the entity Giaconda Limited as an individual entity. Giaconda Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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.

a. **Ongoing Viability of the Company**

The Company is at a stage of its development where the cash flows generated from its operations do not yet cover the operating costs that are incurred. The directors have reviewed the Company's financial position and its ability to continue operations and are of the opinion that, based on the Company's proposed capital raising activities, the Company remains a viable operation.

Any inability to obtain these additional cash flows may have a material adverse effect on the Company's ability to continue as a going concern.

b. **Income Tax**

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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 tax legislation and the anticipation that the Company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

c. **Property, Plant and Equipment**

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

Property

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the economic entity to have an independent valuation every three years, with annual appraisals being made by the directors.

The revaluation of freehold land and buildings has not taken account of the potential capital gains tax on assets acquired after the introduction of capital gains tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

c. **Property, Plant and Equipment**

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amount.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over its useful life to the Company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge. 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 asset are:

Class of Fixed Asset	Depreciation Rate
Office furniture & equipment	20% to 25%
Computer equipment	25%
Apartment furniture	20% to 25%

d. **Intangibles**

Patents, trademarks and intellectual property assigned are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised. The purchase price of intellectual property assigned was valued with reference to research and development costs incurred by the previous owner.

e. **Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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.

Contributions are made by the Company to an employee superannuation fund and are charged as expenses when incurred.

f. **Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

g. **Impact of Adoption of Australian Equivalents to International Financial Reporting Standards**

The directors of the Company are preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for financial reporting periods commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Company's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2005.

The directors have assessed the significance of the expected changes and are preparing for their implementation. The directors are of the opinion that the key material differences in the Company's accounting policies on conversion to AIFRS and the financial effect of these differences where known are as follows. Users of the financial statements should, however, note that the amounts disclosed could change if there are any amendments to the current AIFRS by standard-setters, or interpretation of the AIFRS requirements changes due to the continuing transition work of the directors.

— *Impairment of assets*

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that is largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairment of assets being recognised more often.

The Company has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. The impact of the change is estimated to be $nil.

— *Share-based payments*

Under AASB 2: Share-based Payments, the Company is required to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the Company. The standard requires the fair value of equity instruments granted to be based on the price that would be paid in an arm's length transaction between knowledgeable, willing parties. This change in accounting policy will result in transactions using a share-based payment will be recognised in the financial statements by the Company for the first time.

The Company has assessed the transactions entered into with share-based payments as at 1 July 2005. The impact of the change is estimated to be an increase in the operating loss of $177,700 and the recognition of an options reserve of $177,700.

— *Income tax*

The Company currently adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax, or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach, under which temporary differences are identified for each asset and liability, rather than the effect of timing and permanent differences between taxable income and accounting profit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

g. **Impact of Adoption of Australian Equivalents to International Financial Reporting Standards**

— *Intangibles*

Under AASB 138: Intangible Assets, costs associated with research are required to be expensed in the period in which they are incurred, and that only development costs that satisfy the required criteria can be capitalised.

Costs associated with acquired patents and trademarks are required to be tested for impairment in accordance with AASB 136. This will result in a change in the current accounting policy, which amortises acquired patents and trademarks over the period in which their benefits are expected to be realised.

On transition, there is no financial effect on the financial statements, as no research costs were capitalised at 1 July 2004 or 30 June 2005 and acquired patents and trademarks had not been amortised at 30 June 2005.

	Note	2005 $	2004 $
NOTE 2: REVENUE			
Operating activities			
— grants received		17,455	-
— Interest received		47,946	113
Total Revenue		65,401	113
Interest from financial institutions		47,946	113

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense has been determined after:

Expenses			
Borrowing costs		2,193	1,264
Depreciation of property, plant and equipment		2,669	-
Amortisation of leased plant and equipment		2,041	-
Remuneration of auditor			
— audit or review		6,000	
— other services		3,420	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
NOTE 4: INCOME TAX EXPENSE	$	$
The prima facie tax payable on loss from ordinary activities is reconciled to the income tax expense as follows:		
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2004: 30%)	(271,796)	(2,137)
Income tax losses carried forward not recognised as a benefit	271,796	2,137
Income tax expense	-	-

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS

a. **Remuneration of Directors**

Remuneration received or receivable by all directors of the Company:

	2005	2004
— from the Company or any related party in connection with the management of the Company	-	-
— from the Company in connection with the management of a related party	-	-

The names of directors who have held office during the financial year:

Mr David Harry Lance (deceased 14/04/05)

Dr Thomas Julius Borody

Mr Christopher Robert Bilkey

Mr Richard Andrew Wade Woods (appointed 30/09/04)

Mr Patrick Laughlin McLean (appointed 16/11/04)

Mr Trevor Moore (appointed 14/12/04)

Mr Anthony Ronald Moon (appointed 14/12/04)

b. **Retirement Benefits**

Amounts paid to a superannuation plan for the provision of retirement benefits by:

	2005	2004
— the Company or any related party for directors of the company	-	-
— the Company for directors of any related party	-	-

c. **Shareholdings**

Number of Shares Held by Directors or their Related Parties

	Balance 1.7.2004	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.2005
Parent Entity Directors					
Dr T J Borody	1	-	-	49,399,999	49,400,000
Mr C R Bilkey	-	-	-	2,000,000	2,000,000
Mr R Woods	-	-	-	580,000	580,000
Total	1	-	-	51,979,999	51,980,000

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

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 6: EARNINGS PER SHARE

		2005 $
a.	Reconciliation of Earnings to Net Loss	
	Net Loss	(905,987)
	Adjustments	-
	Earnings used in the calculation of EPS	(905,987)
	Adjustments	-
	Earnings used in the calculation of dilutive EPS	(905,987)
b.	Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	52,260,274
	Weighted average number of options outstanding	292,603
	Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	52,552,877

c. Classification of Securities

The following securities have been classified as potential ordinary shares and are included in determination of dilutive EPS:

— options outstanding

NOTE 7: CASH ASSETS

	2005 $	2004 $
Cash on hand	2	100
Cash at bank	343,029	72,058
Cash held in trust	905	17,500
	343,936	89,660

NOTE 8: RECEIVABLES

Trade and other debtors	31,396	6,000

NOTE 9: OTHER ASSETS

Prepayments	361,424	60,000

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 10: PROPERTY, PLANT AND EQUIPMENT	2005 $	2004 $
Office furniture at cost	8,812	-
Less accumulated depreciation	(896)	-
	7,916	-
Computer equipment at cost	3,390	-
Less accumulated depreciation	(376)	-
	3,014	-
Office equipment at cost	7,823	-
Less accumulated depreciation	(833)	-
	6,990	-
Apartment furniture at cost	7,106	-
Less accumulated depreciation	(564)	-
	6,542	-
Leased assets at cost	15,645	-
Less accumulated amortisation	(2,041)	-
	13,604	-
Total property, plant and equipment	38,066	-

Movements in Carrying Amounts

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

	Office Furniture	Computer Equipment	Office Equipment	Apartment Furniture	Leased Assets	Total
Balance at the beginning of year	-	-	-	-	-	-
Additions	8,812	3,390	7,823	7,106	15,645	42,776
Disposals	-	-	-	-	-	-
Depreciation expense	(896)	(376)	(833)	(564)	(2,041)	(4,710)
Carrying amount at the end of year	7,916	3,014	6,990	6,542	13,604	38,066

NOTE 11: INTANGIBLE ASSETS	2005 $	2004 $
Patents, trademarks and intellectual property assigned at cost	423,095	-
Less accumulated amortisation	-	-
	423,095	-

NOTE 12: PAYABLES		
Trade creditors and accruals	148,834	3,130

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 13: INTEREST BEARING LIABILITIES	Note	2005 $	2004 $
CURRENT			
Unsecured loan from director		-	142,151
Lease liability	22a	3,160	-
		3,160	142,151
NON CURRENT			
Lease liability	22a	10,653	-

NOTE 14: PROVISIONS	Note	2005 $	2004 $
Employee benefits	14a	14,478	-
a. Aggregate employee entitlement liability		14,478	-
b. Number of employees at year end		3	-

Employee Share Option Arrangement

(i) On 4 May 2005, 1,250,000 share options were granted to the Chief Executive Officer under the Giaconda Limited Employee Share Option Scheme 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 Operations Officer under the Giaconda Limited Employee Share Option Scheme 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	350,000	Immediately.
2	135,000	Not before 1 July 2005.
3	135,000	Not before 1 July 2006.
4	130,000	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.

As at 30 June 2005 there is no known market for ordinary shares of Giaconda Limited and as such the market value of an ordinary share is not able to be quoted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 $	2004 $
NOTE 14 PROVISIONS			
Movement in the number of share options held by employees are as follows:			
Opening balance		-	-
Granted during the year		2,000,000	-
Exercised during the year		-	-
Lapsed during the year		-	-
Closing balance		2,000,000	-
NOTE 15 OTHER LIABILITIES			
Funds held in trust		-	17,500
NOTE 16: CONTRIBUTED EQUITY			
60,000,001 (2004: 1) fully paid ordinary shares	16a	1,933,901	1

(a) Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held

At 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

	2005	2004
At the beginning of the reporting period	1	-
Shares issued during the reporting period	2,150,000	1
Transactions costs relating to share issues	(216,100)	-
	1,933,901	1
	No.	No.
At the beginning of the reporting period	1	-
Share issues during the period		
- issue of shares at an issue price of $1.00 each	-	1
- issue of shares at an issue price of 0.7272 cents each	54,999,999	-
- issue of shares at an issue price of $0.35 each	5,000,000	-
At the end of the reporting period	60,000,000	1

(b) Options

(i) For information relating to the Giaconda Limited share option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 14.

(ii) On 23 June 2005, 400,000 options were granted to two individuals involved in the IPO process, to take up ordinary shares at an exercise price of $0.50. The exercise date for the options is not before the date which Giaconda is quoted on the ASX and are subject to vesting conditions. The options hold no voting or dividend rights and are not transferable. The options expire 5 years from the date of grant.

As at 30 June 2005, there were 2,400,000 unissued ordinary shares for which options were outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 17: ACCUMULATED LOSSES	2005 $	2004 $
Accumulated losses at the beginning of the financial year	(7,122)	-
Loss attributable to members of the Company	(905,987)	(7,122)
Accumulated losses at the end of the financial year	(913,109)	(7,122)

NOTE 18: EVENTS SUBSEQUENT TO REPORTING DATE

The directors are proceeding with the preparation of an Initial Public Offer document which is expected to lead to a listing on the Australian Stock Exchange ("ASX") in the near future.

Other than the above, to the directors' knowledge, no events have occurred subsequent to reporting date which have or are likely to have a material effect on the operations of the Company.

NOTE 19: RELATED PARTY TRANSACTIONS	2005 $	2004 $
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		
Management fees paid to Ricdal Consultants Limited	113,100	60,000
Consulting fees paid to Humble Servant Consulting	69,584	-
Directors		
Acquisition of Intellectual Property from Dr Thomas Borody, valued at $400,000, and paid by way of issuing 54,999,999 fully paid ordinary shares.	400,000	-
Short term unsecured loan advanced from Dr Thomas Borody outstanding at year end, with interest charged at the rate of 6.55% p.a	-	142,151
Interest paid or accrued on loan advanced from Dr Thomas Borody	2,193	1,264

NOTE 20: SEGMENT REPORTING

The principal activity of the Company was that of the development and commercialisation of medical products. The Company operates mainly from Sydney, New South Wales, Australia.

NOTE 21: CASH FLOW INFORMATION

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:

	2005 $	2004 $
Cash on hand	2	102
Cash at bank	343,029	72,058
Cash held in trust	905	17,500
	343,936	89,660

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 21: CASH FLOW INFORMATION	2005 $	2004 $
b. Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax		
Loss from ordinary activities after income tax	(905,987)	(7,122)
Non-cash flows in profit from ordinary activities:		
— Amortisation	2,041	-
— Depreciation	2,669	-
— Lease charges	778	-
Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries		
— Increase in receivables	(25,396)	(6,000)
— Increase in prepayments	(301,424)	(60,000)
— Increase in payables	145,704	3,130
— Increase in provisions	14,478	-
Cash flows from operations	(1,067,137)	(69,992)

c. **Non-cash Financing and Investing Activities**

During the year the Company acquired an item of office equipment with an aggregate value of $15,645 (2004: Nil) by means of a finance lease. This acquisition is not reflected in the statement of cash flows.

NOTE 22: CAPITAL AND LEASING COMMITMENTS		
a. Finance Lease Commitments Payable		
— not later than 1 year	4,476	-
— later than 1 year but not later than 5 years	12,314	-
Minimum lease payments	16,790	-
Less future finance charges	(2,977)	-
Total Lease Liability	13,813	-
b. Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	28,860	-
— later than 1 year but not later than 5 years	13,228	-
	42,088	-

The lease for the principal place of business is a non-cancellable lease with a one-year term, with rent payable monthly in advance. An option exists to renew the lease at the end of the initial term for an additional term of one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
NOTE 23: CONTINGENT LIABILITIES	$	$
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Non-Executive Directors Fees		
The non-executive directors of the Company are entitled to a fee for their services. The non-executive directors have agreed to defer payment of their director fees until after the Company completes its Initial Public Share offering. In the event that an Initial Public Offer is not completed, they will release the Company from these obligations.	145,973	-
Chief Medical Officer Fees		
The Company has engaged Dr Thomas Borody as Chief Medical Officer. The agreement provides for an annual salary to be paid for these services of $230,000 commencing 1 January 2005. Dr Borody has agreed to defer payment of this salary until the Company enters into a licensing agreement and after development costs for the licensing agreement as determined by the board have been paid out of the proceeds. In the event that a licensing agreement is not accomplished, he will release the Company from these obligations.	114,055	-

NOTE 24: FINANCIAL INSTRUMENTS

a. **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 those 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	
	2005	2004	2005	2004	2005	2004	2005	2004
Financial Assets	%	%	$	$	$	$	$	$
Cash	3.80%	2.15%	343,934	89,558	-	-	-	-
Total Financial Assets			343,934	89,558	-	-	-	-
Financial Liabilities								
Unsecured loan	6.55%	6.55%	-	-	-	142,151	-	-
Lease liability	10.62%	-	-	-	4,476	-	12,314	-
Total Financial Liabilities			-	-	4,476	142,151	12,314	-

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 24: FINANCIAL INSTRUMENTS

b. **Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial report.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

c. **Net Fair Values**

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form other than listed investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the Company intends to hold these assets to maturity.

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 25: COMPANY DETAILS

The registered office of the Company is:

Level 8, 55 Hunter Street
Sydney NSW 2000

The principal place of business is:

Suite 1307, Level 13, 370 Pitt Street
Sydney NSW 2000

The principal activity of the Company is the development and commercialisation of medical products.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 2 to 17 present fairly the Company's financial position as at 30 June 2005 and its performance for the year ended on that date in accordance with Accounting Standards and other mandatory professional reporting requirements;
2. 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 McLean

Director and Chief Executive Officer

Dated this 26th day of July 2005

BKR WALKER WAYLAND

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

Scope

We have audited the financial report of Giaconda Limited for the financial year ended 30 June 2005 as set out on pages 2 to 18. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position and performance as represented by the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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

Audit Opinion

'n our opinion, the financial report of Giaconda Limited is in accordance with:

a. the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2005 and of the performance for the year ended on that date ; and

   ii. complying with Accounting Standards and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements.

BKR Walker Wayland

BKR Walker Wayland
'NSW PARTNERSHIP)
Chartered Accountants
Dated this 28th day of July 2005

T F Tyler
Partner