

Directors' Report

Your Directors present their report on Giaconda Limited (Giaconda or the Company) for the financial year ended 30 June 2009 together with the financial report and the auditors' report.

Principal Activities

The principal activities during the year focused on raising funds to continue to develop Giaconda's lead product Myoconda[®] and maintenance of the company's intellectual property portfolio.

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 in its key markets of the USA, Europe and Australia.

Directors

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

Prof. Thomas Borody	Director and Chief Medical Officer
Patrick McLean	Acting Chairman and Chief Executive Officer (appointed Acting Chairman on 20 October 2008)
Trevor Moore	Director
Prof. Emeritus Tony Moon	Director (resigned on 19 January 2009)
Richard Woods	Director and Chairman (resigned On 20 October 2008)
Chris Bilkey	Director (appointed on 19 January 2009)

All Directors except Richard Woods, Tony Moon and Chris Bilkey have been in office from the 1 July 2008 to the date of this report.

Review of Operations

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

During the twelve months, Giaconda's principal activities have involved attempting to raise funds to support the commercialisation of Giaconda's lead product Myoconda[®] through further development for the next clinical trial of Myoconda[®].

Giaconda has been able to continue to financially operate through loans from Patrick McLean (CEO and Acting Chair) and Prof. Thomas Borody (CMO and Director) and from Sydney Capital Partners.

Maintenance of Intellectual Property

The following product pipeline of company owned intellectual property was maintained throughout the twelve month period:

- **Myoconda[®]**, a triple antibiotic therapy to treat moderate to severe Crohn's Disease where infection of *Mycobacterium avium ssp. paratuberculosis* is present and standard therapy has not been effective.
 - Patents granted in United States, Australia, New Zealand, South Africa, Israel and Philippines
 - Patents pending in Argentina, Canada, Europe, Japan, Norway and Philippines (divisional application)
- **Hepaconda[®]**, a dual therapy to treat Hepatitis C virus, especially genotype one, where standard therapy has not been effective.
 - Patents granted in Australia and New Zealand
 - Patents pending in Canada, Europe, Japan and United States
- **Heliconda[®]**, a triple therapy to treat resistant *Helicobacter pylori* infection where standard therapy has failed.
 - Patents granted in United States, Australia, Europe and Canada
- **Ibaconda[®]**, a dual therapy to treat constipation predominant Irritable Bowel Syndrome where other therapies have failed.
 - Patents granted in United States, Europe, Australia and South Africa
 - Patent pending in Canada

- **Picoconda**^{®1}, 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.
 - Patents granted in United States, Australia and New Zealand
 - Patents pending in Canada and Europe

These are the basis of the initial development and licensing activities of Giaconda. Giaconda was offered the opportunity, under its first right of refusal, to acquire additional intellectual property from Professor Borody and the Centre for Digestives. Giaconda declined the offer but the offer to Prof. Borody and CDD was not completed thus the additional intellectual property is still available to Giaconda.

Progress on the Product Pipeline

Myoconda[®]

In the twelve months Giaconda[®] has been focusing on its lead product Myoconda[®]. The CEO continues to discuss and negotiate Licence Agreements with pharmaceutical companies in the key territories of North America, Europe and Australia.

Picoconda[®]

Planning of the second Phase II clinical study on the use of Picoconda[®] as a capsule lavage for colonoscopies continued based upon the excellent results of the first Phase II study completed by the Centre for Digestive Diseases and published in 2006. Additional formulation development is in progress.

Ibaconda[®]

Planning of the first Phase II clinical study on the use of Ibaconda for the treatment of constipation predominant irritable bowel syndrome (C-IBS) continued during the period. This study is now anticipated to begin in 2010 at The Centre for Digestive Diseases subject to available funds. A scientific poster on the combination was presented at the Digestive Disease Week conference in June, 2009.

Hepaconda[®]

The Phase IIa trial for Hepaconda[®], Giaconda's product for Hepatitis C was halted after initial patient response showed almost immediate normalisation of two out of three liver enzyme tests. The therapy is being reformulated to improve on these results.

Heliconda[®]

A second Phase II trial protocol was approved by the CDD Human Research Ethics Committee and will be initiated once funding is in place.

Personnel

Giaconda employs one individual; the Chief Executive Officer (Patrick McLean). Professor Tom Borody is contracted as Chief Medical Officer through the Centre for Digestive Diseases.

Other Corporate Changes

Richard Woods, the Chairman of the Board resigned on 20 October 2008 for personal reasons

Prof. Em. Tony Moon resigned as Director on 19 January 2009 due to health reasons

Chris Bilkey was appointed to the Board on 19 January 2009

Patrick L. McLean assumed the role of Acting Chairman on 20 October 2008

Operating Results

The loss of the company for the financial year after providing for income tax amounted to \$ 1,092,712.

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.

¹ Picoconda[™] was developed in conjunction with Mr Nic Shortis, whose company, Pharmatel Research and Development Pty Limited (ACN 104 997 328) retains a 50% interest in the patent. All other patents are owned solely by Giaconda

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 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

In September 2009, a total of \$280,000 was loaned by the Directors and individuals related to the Directors under individual Loan Agreements. 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.

Information on the Board

Director	Qualifications, Experience and Background	Directors' Interests
Executive Directors		
P.L. McLean	<p>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.</p> <p><i>Executive Position:</i> Chief Executive Officer.</p> <p><i>Special Responsibilities:</i> Acting Chairman, Chair of the Nomination Committee and a member of the Remuneration Committee.</p> <p><i>Giaconda Directorship:</i> Patrick joined the Board on 16 November 2004 and was re-elected by the members on 30 October 2006 at the 2006 AGM. He was appointed Acting Chairman on 20 October 2008.</p> <p><i>Directorship in other listed entities:</i> Nil</p>	<p>492,714 ordinary shares</p> <p>1,250,000 share options</p>
T. J. Borody	<p>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.</p> <p>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.</p> <p>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.</p> <p>Tom is Chief Medical Officer, under a Services Agreement between the Centre for Digestive Diseases and Giaconda Limited.</p> <p><i>Executive Position:</i> Chief Medical Officer.</p> <p><i>Special Responsibilities:</i> Nil</p>	<p>49,400,000 ordinary shares</p> <p>1,220,000 ordinary shares - B&F Superannuation Fund</p>

<p><i>Giaconda Directorship:</i> 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.</p> <p><i>Directorship in other listed entities:</i> Nil</p>		
Independent Non-Executive Directors		
C Bilkey	<p>Chris Bilkey was Vice President of Pharmacia for the Asia Pacific region and was active 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 the identification and pursuit of business development opportunities as well as the creation and implementation of all sales and marketing plans and the operation's strategic plans. Chris played a leading role in facilitating the merging of Pharmacia and Upjohn Companies in Australia. He was then appointed the Australasian President of Pharmacia and Upjohn, delivering over-budget sales and earnings in the region for both 1998 and 1999 and establishing key commercial, research and development, and government alliances. Chris has participated in the Executive Group for Pharmacia's Asia Pacific region.</p> <p><i>Special Responsibilities:</i> Chris is a member of the Remuneration, Audit, Risk & Compliance and Nomination Committees.</p> <p><i>Giaconda Directorship:</i> Chris became a Director on 19 January 2009.</p> <p><i>Directorship in other listed entities:</i> Nil</p>	259,609 ordinary shares
T. Moore	<p>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.</p> <p><i>Special Responsibilities:</i> Trevor is Chair of the Remuneration and Audit, Risk & Compliance Committees and a member of the Nomination Committee.</p> <p><i>Giaconda Directorship:</i> Trevor became a Director on 14 December 2004 and was re-elected by the members on 15 October 2007 at the 2007 AGM.</p> <p><i>Directorship in other listed entities:</i> Nil</p>	253,609 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 reports are included in the table above.

Information on Company Secretary

Name	Qualifications, Experience and Background
Vincent Sweeney	Vincent 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. 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 four directors with a two directors being non-executive independent directors; Mr Trevor Moore and Mr Chris Bilkey and two Executive Directors; Professor Tom Borody and Mr Patrick McLean.

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, and the CEO being the Acting Chairman 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 2009, 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
Tom Borody	11	11	-	-	-	-	-	-
Patrick McLean	11	11	-	-	1	1	1	1
Tony Moon	9	9	1	1	1	1	1	1
Trevor Moore	11	11	2	2	1	1	1	1
Richard Woods	3	3	1	1	-	-	1	1
Chris Bilkey	1	1	1	1	-	-	-	-

A Number of eligible meetings held in FY09

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:

Trevor Moore, Chair, Independent Non-Executive Director

Chris Bilkey, 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.

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:

Patrick L. McLean, Chair, Executive Director and Acting Chairman

Chris Bilkey, Independent Non-Executive Director

Trevor Moore, Independent Non-Executive Director

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

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, Independent Non-Executive Director

Chris Bilkey, Independent Non-Executive Director

Patrick L. McLean, Executive Director and Acting Chairman

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.

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 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 where 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. 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 FY09.

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.

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)

FY09 Remuneration

- the fixed pay remuneration is \$260,000 per annum (FY08 \$ 258,934) plus compulsory superannuation. (\$110,000 comprises a living away from home allowance that ceased 30 March 2009).
- No additional short-term incentive pay would be paid to Patrick in FY09. No additional long-term incentive pay would be paid to Patrick in FY09.
- The amount may be packaged in any manner agreed between Giaconda and Patrick.
- To conserve cash, Patrick agreed to place his total income into a Contingent Liability payable only if and when the Company achieves a licensing / assignment deal of \$5 million or the Board believes the company can pay this liability. See Notes to the Financial Statement.

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. Both of these amounts have been put into a Contingent Liability similar to Patrick McLean's. See Notes to the Financial Statement.

Non-Executive Directors

The Non-Executive Directors' maximum aggregate remuneration is \$240,000 per annum as per Giaconda's Constitution and remained the same for FY09. The Non-Executive Directors' salary will remain at \$48,000 per annum for Non-Executive Directors and \$96,000 per annum for the Non-Executive Chair for FY10. The Non-Executive Directors have agreed to accept \$47,331 per annum and \$95,331 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 2009 Annual General Meeting.

FY09 Remuneration of Directors and Executives

	Name	Director's Fee Entitlement	Director's Fee Paid in Cash ²	Director's Fee Paid in Shares ³ Number Value \$	Executive's Fee	Super-annuation	Short-term Incentive Pay (achieved from Incentive Opportunity)	Long-term Incentive Pay - Options Issued ⁴ Number Value \$	Total
Non-Executive Directors									
Independent	Trevor Moore	\$48,000	\$669	\$47,331 ⁵	-	\$112.50	-	-	\$48,112.50
Independent	Tony Moon	\$24,000	\$669	\$23,331 ⁶	-	\$112.50	-	-	\$24,112.50
Independent	Richard Woods	\$31,968	\$669	\$31,299 ⁷	-	\$112.50	-	-	\$32,080.50
Independent	Chris Bilkey	\$24,000	0	\$24,000 ⁸	-	-	-	-	\$24,000
Executive Directors									
CEO	Patrick McLean	-	-	-	\$232,500 ⁹	\$13,500	-	-	\$246,000
CMO	Tom Borody	\$60,000 ⁹	-	-	\$170,000 ¹⁰	-	-	-	\$230,000

² For settlement of current year and prior years Directors Fees entitlements.

³ For settlement of current year and prior years Directors Fees entitlements, and issued in accordance with the Employee Share Plan.

⁴ The value of the options has been calculated pursuant to AASB 2 – Share Based Payments.

⁵ The shares have yet to be issued.

⁶ The shares have yet to be issued.

⁷ The shares have yet to be issued.

⁸ The shares have yet to be issued.

⁹ The total package is recorded as a contingent liability. See Notes to the Financial Statements.

⁹ \$60,000 is recorded as a contingent liability. See Notes to the Financial Statements.

¹⁰ \$170,000 is recorded as a contingent liability. See Notes to the Financial Statements.

Officers Who Were Previously Partners of the Audit Firm

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

Indemnities

During the twelve months, Giaconda paid a premium in the sum of \$28,052.20 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.

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 205 G(1) of the *Corporations Act 2001* (Cth), at the date of this report are as follows:

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)
Antony Wettstein	60,000	60,000	\$0.50	13 Jan 2011	No

On 20 March 2009, options were granted to a Lender under a Loan Facility Agreement dated 20 March 2009, to take up ordinary shares at an exercise price of \$0.025 each in lieu of repayment of the loan. The options hold no voting or dividend rights. The options are transferable to any party nominated by the Lender at the Lender's election. The options expire 40 months from the date of the agreement. As at the date of this report, no options had been exercised.

Auditors' Independence Declaration

The auditors' independence declaration for the year ended 30 June 2009 has been received and can be found on page 12.

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) 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.
- (b) 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.
- (c) All non-audit services are provided by a related entity of the external auditor, 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 to a related entity of the external auditors during the year ended 30 June 2009:

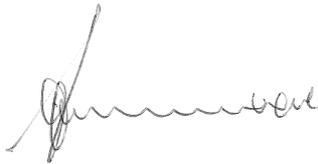
	\$
Taxation services	385
Accounting services provided including compilation of monthly management reports	22,090
Other	-
	<hr/>
	22,475

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 Acting Chairman



Trevor Moore
Director

Dated: 30th day of September 2009

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**AUDITORS' 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 2009 there have been:

- (i) no contraventions of the auditors' 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.

Walker Wayland NSW



Walker Wayland NSW
Chartered Accountants

T F Tyler
Partner

Dated this 30th day of September 2009

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INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$	2008 \$
INCOME			
Revenue from ordinary activities	3	6,690	82,563
EXPENSES			
Personnel		(35,033)	(74,305)
Finance and legal		(130,158)	(206,538)
Administration		(275,988)	(287,207)
Research and development		(38,056)	(12,700)
Licensing		-	(48,446)
		(479,235)	(629,196)
Loss from continuing operations before income tax benefit(expense)	4	(472,545)	(546,633)
Income tax benefit (expense) relating to continuing operations	5	257,906	(2,219,264)
Loss from continuing operations after income tax benefit (expense) attributable to members of the Company		(214,639)	(2,765,897)
Loss from discontinuing operations	2	(878,073)	(55,518)
Net loss attributable to members of the company		(1,092,712)	(2,821,415)
Basic earnings per share			
Overall operations	8	(0.01)	(0.03)
Continuing operations		(0.00)	(0.03)
Discontinuing operations		(0.01)	(0.00)
Diluted earnings per share			
Overall operations	8	(0.01)	(0.03)
Continuing operations		(0.00)	(0.03)
Discontinuing operations		(0.01)	(0.00)

BALANCE SHEET AS AT 30 JUNE 2009

	Note	2009 \$	2008 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	33,965	281,243
Trade and other receivables	10	11,904	10,565
Other current assets	11	-	20,374
Assets held for sale	2	1,500,000	-
TOTAL CURRENT ASSETS		1,545,869	312,183
NON-CURRENT ASSETS			
Property, plant and equipment	12	-	24,676
Intangible assets	13	390,372	2,755,356
Deferred tax assets	16	-	-
TOTAL NON-CURRENT ASSETS		390,372	2,780,032
TOTAL ASSETS		1,936,241	3,092,215
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	79,012	140,876
Financial liabilities	15	447,167	203,236
Provisions	17	21,695	9,118
TOTAL CURRENT LIABILITIES		547,874	353,230
NON-CURRENT LIABILITIES			
Deferred tax liabilities	16	606,938	864,844
TOTAL NON-CURRENT LIABILITIES		606,938	864,844
TOTAL LIABILITIES		1,154,812	1,218,074
NET ASSETS		781,429	1,874,141
EQUITY			
Contributed equity	18	7,352,395	7,352,395
Accumulated losses		(6,570,966)	(5,478,254)
TOTAL EQUITY		781,429	1,874,141

The accompanying notes form part of these financial statements.

CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	\$	\$	\$	\$
	Contributed Equity	Accumulated Losses	Options Reserve	Total
Balance at 01.07.07	7,260,509	(2,656,839)	305,826	4,909,496
Shares issued during the year (net of equity raising costs)	91,886	-	-	91,886
Options reserve on recognition of options at granting date	-	-	(305,826)	(305,826)
Losses attributable to members of parent entity	-	(2,821,415)	-	(2,821,415)
Sub-total	91,886	(2,821,415)	(305,826)	(3,035,355)
Balance at 30.06.2008	7,352,395	(5,478,254)	-	1,874,141
Losses attributable to members of parent entity	-	(1,092,712)	-	(1,092,712)
Sub-total	-	(1,092,712)	-	(1,092,712)
Balance at 30.06.2009	7,352,395	(6,570,966)	-	781,429

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		5,280	38,846
Payments to suppliers and employees		(448,645)	(1,043,037)
Interest received		1,410	43,716
Borrowing costs / lease charges		-	(547)
Net cash used in operating activities	22b	(441,955)	(961,022)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	7,320
Payments for intangible assets		(49,254)	(714,516)
Net cash used in investing activities		(49,254)	(707,196)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares or shares to be issued		-	91,886
Proceeds from borrowings		243,931	200,000
Repayment of interest bearing liabilities		-	(3,904)
Net cash from financing activities		243,931	287,982
NET DECREASE IN CASH HELD			
Cash at beginning of year		281,243	1,661,479
CASH AT END OF YEAR	22a	33,965	281,243

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: BASIS OF PREPARATION

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Ongoing Viability

The financial statements have been prepared on a going concern basis.

At balance date the Company had an excess of current assets over current liabilities, however cash reserves at the end of the year are insufficient to support the short and long term operations of the Company.

The ability of the Company to continue as a going concern depends upon its ability to raise additional equity funding or receive the support of its existing shareholders. Any inability to raise equity funding or receive support from its existing shareholders may have a material adverse effect on the Company's ability to continue as a going concern.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the 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 asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is 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%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: BASIS OF PREPARATION (CONTINUED)

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

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

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

(d) 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 is transferred to entities in the consolidated group, 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 the shorter of their estimated useful lives or the lease term.

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.

(e) Financial Instruments**Recognition**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss 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 subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

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

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the group's 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 derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items, are also documented.

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.

Impairment

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(f) Intangibles**Patents and trade marks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks 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.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(g) 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.

Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

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.

(h) 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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(i) Revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

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

(j) Goods and Services Tax (GST)

Revenues, 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.

(k) Foreign Currency Transactions and Balances**Functional and presentation currency**

The functional currency of the Company is measured using the primary economic environment in which the Company operates. The financial statements are presented in Australian dollars which is the functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

(l) 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 judgments 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 group assesses impairment at each reporting date by evaluating conditions specific to the group 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(m) New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Company. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.
- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Company as a policy of capitalising qualifying borrowing costs has been maintained by the Company.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. The changes are not expected to materially affect the Company.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Company.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

The Company does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 2: ASSETS HELD FOR SALE

The directors have resolved that the most likely method of attaining value for the shareholders will be the disposal of the intellectual property relating to Myoconda by way of a sale. The Company expects the sale of this asset to be finalised prior to 30 June 2010.

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires assets that are classified as held for sale to be carried at the lower of carrying amount and fair value less costs to sell. As a result, the Company has recognised an impairment loss of \$848,895 in re-stating the assets to their expected recoverable value at 30 June 2009.

Financial information relating to the discontinued operations is set out below.

Giaconda Limited – Summary of assets held for sale with associated liabilities as at 30 June 2009

	Note	2009 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		-
Trade and other receivables		-
Other current assets		-
Assets held for sale		-
TOTAL CURRENT ASSETS		-
NON-CURRENT ASSETS		
Property, plant and equipment		-
Intangible assets	13	1,500,000
Deferred tax assets		-
TOTAL NON-CURRENT ASSETS		1,500,000
TOTAL ASSETS		1,500,000
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		-
Financial liabilities		-
Provisions		-
TOTAL CURRENT LIABILITIES		-
NON-CURRENT LIABILITIES		
Deferred tax liabilities		-
TOTAL NON-CURRENT LIABILITIES		-
TOTAL LIABILITIES		-
NET ASSETS		1,500,000

Giaconda Limited – The financial performance of the discontinuing operations which is included in the income statement is as follows:

	2009 \$	2008 \$
INCOME		
Revenue from ordinary activities	-	-
EXPENSES		
Personnel	-	-
Finance and legal	-	-
Administration	(862,551)	(25,463)
Research and development	(15,522)	(21,424)
Licensing	-	(8,631)
	(878,073)	(55,518)
Loss from discontinuing operations	(878,073)	(55,518)

Giaconda Limited – The net cash flows of the discontinuing operations which have been incorporated into the statement of cash flows are as follows:

Net cash used in operating activities	-	-
Net cash used in investing activities	(45,821)	(621,821)
Net cash from financing activities	-	-
Net cash decrease in cash generated by the discontinuing operations	(45,821)	(621,821)

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 3: REVENUE FROM CONTINUING OPERATIONS	2009 \$	2008 \$
Continuing operations		
— Grants received	5,280	38,846
— Interest received from financial institutions	1,410	43,716
Total Revenue	6,690	82,563

NOTE 4: LOSS FROM CONTINUING OPERATIONS

Loss from continuing operations before income tax expense has been determined after debiting (crediting):

Expenses

Depreciation of property, plant and equipment	601	13,018
Amortisation of leased plant and equipment	122	1,918
Amortisation of intangible assets	51,688	33,216
Rental expense on operating leases		
- minimum lease payments	4,787	7,215
Research and development costs	37,590	12,702
Realised foreign exchange movements	(67)	(8,744)
Unrealised foreign exchange movements	7	3,169
Movement in Options Reserve transferred to personnel expenses in income statement (refer note 24)	-	(305,826)

NOTE 5: INCOME TAX BENEFIT (EXPENSE)

a. The components of the tax benefit (expense) comprise:		
Current tax	-	-
Deferred tax (Note 16)	257,906	(2,219,264)
	257,906	(2,219,264)
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% (2008: 30%)	405,185	180,645
Add (less):		
Tax effect of:		
— tax losses not brought to account as a deferred tax asset	(237,240)	(2,333,886)
— tax losses brought to account as a deferred tax asset	-	-
— non-deductible amortisation	(15,943)	1,654
— other non-allowable items	(2)	91,748
— other allowable deductions	105,906	(158,041)
— movement in allowances and provisions	-	(1,384)
	(147,279)	(2,399,909)
Income tax attributable to Company	257,906	(2,219,264)
The applicable weighted average effective tax rates are as follows:	19.1%	368%

The weighted average effective tax rate increased in 2008 as a result of reversing the deferred tax asset for carried forward income tax operating losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Directors**

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

- (i) *Chairperson – Non-Executive Director*
Richard Andrew Wade Woods (resigned 14 October 2008)
- (ii) *Acting Chairperson – Executive Director*
Patrick Laughlin McLean, Chief Executive Officer
- (iii) *Executive Directors*
Professor Thomas Julius Borody, Chief Medical Officer
- (iv) *Non-executive Directors*
Professor Emeritus Anthony Ronald Moon (resigned 19 January 2009)
Trevor Moore
Christopher Robert Bilkey (appointed 20 January 2009)

All of the above persons were also key management persons during the year ended 30 June 2009 unless otherwise stated.

b. **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 6(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

c. 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 2009					
Capacity as Director					
Richard Andrew Wade Woods	27,879****	-	-	-	113
Anthony Ronald Moon	26,696****	-	-	-	113
Trevor Moore	48,000****	-	-	-	113
Christopher Robert Bilkey	21,304****	-	-	-	-
Thomas Julius Borody	60,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	148,934**	-	-	110,000**	-
Thomas Julius Borody	170,000***	-	-	-	-
	502,813	-	-	110,000	339
Financial Year 30 June 2008					
Capacity as Director					
Richard Andrew Wade Woods	96,000*****	-	-	-	450
Anthony Ronald Moon	48,000*****	-	-	-	450
Trevor Moore	48,000*****	-	-	-	450
Thomas Julius Borody	60,000**	-	-	-	-
Capacity as other key management personnel					
Patrick Laughlin McLean	148,934*	-	-	110,000*****	7,875
Thomas Julius Borody	170,000***	-	-	-	-
Kirrilli Parker (resigned 14 September 2007)	24,615	-	-	-	2,250
	595,549	-	-	110,000	11,475

* Of this amount, \$61,354 has been taken up as a contingent liability.

** 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, \$3,750 was paid in cash, the remainder (\$120,129) has been taken up as a contingent liability.

***** Of these amounts, \$5,000 was paid in cash; the remainder was paid in shares in the Employee Share Plan.

***** Of this amount, \$62,354 has been taken up as a contingent liability.

The directors resolved on 15 September 2008 to suspend the issue of shares under the non-executive directors share plan and defer all directors' fees owing now and into the future on the same terms and conditions on which the Chief Medical officer had deferred payment of consulting fees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

d. Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance 1.07.2008	Granted as Compensation	Options Exercised	Net Change* Other
Patrick Laughlin McLean	1,250,000	-	-	-
Total	1,250,000	-	-	-

The Net Change Other reflected above includes those options that are held by former Key Management Personnel.

	Balance 30.6.2009	Total Vested 30.6.2009	Total Exercisable 30.6.2009	Total Unexercisable 30.6.2009
Patrick Laughlin McLean	1,250,000	1,250,000	1,250,000	-
Total	1,250,000	1,250,000	1,250,000	-

e. Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.7.2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2009
Richard Andrew Wade Woods	746,287	-	-	-	746,287
Anthony Ronald Moon	259,609	-	-	-	259,609
Trevor Moore	253,609	-	-	-	253,609
Thomas Julius Borody	50,620,000	-	-	-	50,620,000
Patrick Laughlin McLean	707,000	-	-	(214,286)	492,714
Total	52,586,505	-	-	(214,286)	52,372,219

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

NOTE 7: AUDITORS' REMUNERATION

	2009 \$	2008 \$
Remuneration of the auditor for:		
- auditing or reviewing the financial report	17,500	25,000
- accounting services provided by related practice of auditor	24,486	86,583

NOTE 8: EARNINGS PER SHARE

a. Reconciliation of earnings to loss		
Loss	(1,092,712)	(2,821,415)
Earnings used to calculate basic EPS	(1,092,712)	(2,821,415)
Earnings used in the calculation of dilutive EPS	(1,092,712)	(2,821,415)
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	73,498,505	73,498,505
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	73,498,505	73,498,505

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 9: CASH AND CASH EQUIVALENTS		
Cash at bank	33,965	281,243
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	33,965	281,243
NOTE 10: TRADE & OTHER RECEIVABLES		
Other receivables - GST	11,904	10,565
NOTE 11: OTHER CURRENT ASSETS		
Prepayments – general	-	20,374
NOTE 12: PROPERTY, PLANT AND EQUIPMENT		
Computer equipment at cost	-	37,610
Less accumulated depreciation	-	(26,699)
	-	10,911
Office equipment at cost	-	9,812
Less accumulated depreciation	-	(6,193)
	-	3,619
Apartment furniture at cost	-	7,106
Less accumulated depreciation	-	(3,760)
	-	3,346
Leased assets at cost	-	15,645
Less accumulated amortisation	-	(9,911)
	-	5,734
Website at cost	-	9,941
Less accumulated depreciation	-	(8,875)
	-	1,066
Total property, plant and equipment	-	24,676

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

	Computer Equipment	Office Equipment	Apartment Furniture	Leased Assets	Website	Total
Balance at the beginning of year	10,911	3,619	3,346	5,734	1,065	24,675
Additions	-	-	-	-	-	-
Disposals	(10,567)	(3,537)	(3,289)	(5,612)	(947)	(23,952)
Depreciation expense	(344)	(82)	(57)	(122)	(118)	(723)
Carrying value at the end of year	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 13: INTANGIBLE ASSETS	2009 \$	2008 \$
Continuing Operations		
Intellectual property at cost	240,000	240,000
Less accumulated amortisation	(45,719)	(34,231)
	194,281	205,769
Patents and trade marks at cost	271,505	265,424
Less accumulated amortisation	(92,777)	(48,577)
	178,728	216,847
Development costs	17,363	17,363
Less accumulated amortisation	-	-
	17,363	17,363
	390,372	439,979
Discontinuing Operations		
Intellectual property at cost	-	160,000
Less accumulated amortisation	-	(37,655)
	-	122,345
Patents and trade marks at cost	-	164,875
Less accumulated amortisation	-	(20,354)
	-	144,521
Development costs	-	2,048,511
Less accumulated amortisation	-	-
	-	2,048,511
	-	2,315,377
	390,372	2,755,356

Continuing Operations

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	\$	\$	\$	\$
Opening value as at 01 July 2008	205,769	216,847	17,363	439,979
Additions	-	6,081	-	6,081
Amortisation charge	(11,488)	(44,200)	-	(55,688)
Closing value at 30 June 2009	194,281	178,728	17,363	390,372

Discontinuing Operations

	Intellectual Property	Patents and Trade Marks	Development Costs	Total
	\$	\$	\$	\$
Opening value as at 01 July 2008	122,345	144,521	2,048,511	2,315,377
Additions	-	16,143	27,030	43,173
Amortisation charge	(12,540)	(36,435)	-	(48,975)
Impairment losses	-	-	(809,575)	(809,575)
Closing value at 30 June 2009	109,805	124,229	1,265,966	1,500,000

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 14: TRADE & OTHER PAYABLES	2009 \$	2008 \$
Trade payables	64,012	75,274
Sundry payables	-	338
Accrued expenses *	15,000	65,264
	79,012	140,876

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

NOTE 15: FINANCIAL LIABILITIES	Note		
CURRENT			
Borrowing from related parties - non-interest bearing	15a	387,167	200,000
Other borrowings – interest bearing	15b	60,000	-
Lease liability	19	-	3,236
		447,167	203,236

- 15a. The loan from related parties is only repayable should one of the following events occur:
- (i) The Company enters into a licensing agreement for one of its products and the Board of Directors reasonably determines that the repayment of this amount will not impact on the operational viability of the Company.
 - (ii) The Company raises funds whether through debt or equity equal to or exceeding the cumulative amount of \$5,000,000 in any financial year.
 - (iii) There is a change in the ownership of more than 50% of the issued shares of the Company.
 - (iv) The Company becomes insolvent or subject to any form of external administration other than for the purpose of corporate restructuring.
- 15b. A fixed and floating charge over the company's present and future interest in the assets of the company is held by the Lender.

NOTE 16: DEFERRED TAX ASSETS AND LIABILITIES	Note	2009 \$	2008 \$
Deferred tax liabilities comprise:			
Capitalised development costs		618,656	897,472
Deferred tax asset offset	16(b)	(11,718)	(32,628)
		606,938	864,844
Deferred tax assets comprise:			
Fair value adjustments		5,209	29,893
Provisions		6,509	2,735
Balance offset with deferred tax liability	16(a)	(11,718)	(32,628)
		-	-

Deferred tax losses not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

- Tax losses: operating losses \$3,080,673

c. Reconciliations			
i. Gross Movements			
The overall movement in the deferred tax account is as follows:			
Opening balance		(864,844)	1,354,420
Charged to income statement		257,906	(2,219,264)
Closing balance		(606,938)	(864,844)
ii. Deferred Tax Liabilities			
The movement in deferred tax liability for each temporary difference during the year is as follows:			
Opening balance		864,844	484,765
Credited to the income statement		(257,906)	380,079
Closing balance		606,938	864,844
iii. Deferred Tax Assets			
The movement in deferred tax assets for each temporary difference during the year is as follows:			
Opening balance		-	1,839,185
Charged to the income statement		-	1,839,185
Closing balance		-	-

These notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 17: PROVISIONS	Note	2009 \$	2008 \$
Employee benefits	17(a)	21,695	9,118
a. Aggregate employee entitlement liability		21,695	9,118
b. Number of employees at year end		1	1

Note 18: CONTRIBUTED EQUITY

73,498,505 (2008: 73,498,505) fully paid ordinary shares	2009 \$	2008 \$
a. Ordinary shares	No.	No.
At the beginning of reporting period	73,498,505	72,914,203
Shares issued during the year		
— issue of shares at \$0.200 each	-	221,250
— issue of shares at \$0.290 each	-	40,000
— issue of shares at \$0.325 each	-	136,152
— issue of shares at \$0.370 each	-	119,594
— issue of shares at \$0.390 each	-	67,306
At reporting date	73,498,505	73,498,505

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 24 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 24 Share-based Payments.
- iii. On 20 March 2009, options were granted to a Lender under a Loan Facility Agreement dated 20 March 2009, to take up ordinary shares at an exercise price of \$0.025 each in lieu of repayment of the loan. The options hold no voting or dividend rights. The options are transferable to any party nominated by the Lender at the Lender's election. The options expire 40 months from the date of the agreement. As at the date of this report, no options had been exercised.

c. **Capital Management**

Management controls the capital of the company in order to maintain a good debt to equity ratio and to ensure that the company can fund its operations and continue as a going concern

The company's debt and capital includes ordinary share capital and financial liabilities.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the company since the prior year.

NOTE 19: CAPITAL AND LEASING COMMITMENTS	2009 \$	2008 \$
a. Finance Lease Commitments Payable		
— not later than 1 year	-	3,362
Minimum lease payments	-	3,362
Less future finance charges	-	(126)
Total Lease Liability	-	3,236

NOTE 20: CONTINGENT LIABILITIES

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;

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: CONTINGENT LIABILITIES	2009 \$	2008 \$
<p>Non-Executive Director Fees</p> <p>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;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	16,438	16,438
<p>Executive Director Fees</p> <p>Professor Thomas Borody, as an executive director of the Company for the period 1 January 2006 to 30 June 2009 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	210,000	150,000
<p>Chief Executive Officer Incentive Payment</p> <p>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;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>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 2008. \$52,800 is in respect of services for the 2007 financial year and was payable in 2008.</p>	188,400	188,400
<p>Chief Executive Officer Living-Away-From-Home-Allowance Payment</p> <p>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;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>The Company cumulatively raises \$5,000,000 in a year.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	222,354	112,354
<p>Centre of Digestive Diseases</p> <p>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;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	510,000	340,000
<p>Estimates of the potential financial effect of contingent liabilities that may become payable:</p> <p>Chief Executive Officer Salary Payment</p> <p>The Chief Executive Officer is paid a salary under his employment contract. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>The Company cumulatively raises \$5,000,000 in a year.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	210,380	61,346

These notes form part of the financial statements

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: CONTINGENT LIABILITIES	2009 \$	2008 \$
<p>Chief Executive Officer Travel Expense Reimbursement</p> <p>The Chief Executive Officer is required to travel overseas as part of his duties. During the year The Chief Executive Officer incurred costs in relation to overseas travel which he has not been reimbursed. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>The Company cumulatively raises \$1,000,000 in a year.</p> <p>In the event that the above is not accomplished, he will release the Company from these obligations.</p>	22,380	22,380
<p>Non-Executive Director Fees</p> <p>Messrs Woods, Moon, Moore and Bilkey, as non-executive directors of the Company for the are entitled to a fee for their services. Messrs Woods, Moon, Moore and Bilkey have agreed to defer payment of this amount until the first to occur of;</p> <p>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</p> <p>There is change in ownership of more than 50% of the issued shares of the Company.</p> <p>In the event that the above is not accomplished, they will release the Company from these obligations.</p>	120,129	-

NOTE 21: SEGMENT REPORTING

Primary Reporting — Business Segments

	Development	
	2009 \$	2008 \$
REVENUE		
Segment income	6,690	82,563
RESULT		
Loss from continuing operations before income tax	(472,545)	(546,633)
Income tax benefit (expense)	257,906	(2,219,264)
Loss from continuing operations after income tax	(214,639)	(2,765,897)
Loss from discontinuing operations	(878,073)	(55,518)
Net loss attributable to members of the company	(1,092,712)	(2,821,415)
ASSETS		
Segment assets	1,936,241	3,092,215
LIABILITIES		
Segment liabilities	1,154,812	1,218,074

As a business segment has not been discontinued, separate segment reporting between continuing and discontinuing operations is not required.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 22: CASH FLOW INFORMATION	2009 \$	2008 \$
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	33,965	281,243
	<u>33,965</u>	<u>281,243</u>
b. Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax		
Loss from ordinary activities after income tax	(1,092,712)	(2,821,415)
Non-cash flows in loss from ordinary activities:		
— Depreciation and amortisation of property, plant and equipment	723	13,276
— Disposal of property, plant and equipment	23,952	-
— Amortisation of intangibles	100,664	58,679
— Impairment of intangibles	813,574	-
— Movements in employee provisions	12,577	(10,397)
Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries		
— (Increase) decrease in receivables	(1,339)	9,971
— Decrease in deferred assets	-	1,839,185
— Decrease in prepayments	20,374	37,739
— Decrease in payables	(61,862)	(162,313)
— Increase (decrease) in deferred tax liabilities	(257,906)	380,079
— Decrease in option reserve	-	(305,826)
Cash flows from operations	<u>(441,955)</u>	<u>(961,022)</u>

NOTE 23: EVENTS AFTER THE BALANCE SHEET DATE

In September 2009, a total of \$280,000 was loaned by the Directors and individuals related to the Directors under individual Loan Agreements. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 24: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2009:

- (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 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.

- (iii) 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.

- (iv) 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.

- (iv) 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 24: 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.

	2009		2008	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	1,460,000	0.50	1,760,000	0.50
Granted	-	-	-	-
Forfeited	-	0.50	(300,000)	0.50
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,460,000	0.50	1,460,000	0.50
Exercisable at year-end	1,360,000	0.50	1,360,000	0.50

There were no options exercised during the year ended 30 June 2009 (2008: nil) and no options granted during the year (2008: nil).

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.50 and a weighted average remaining contractual life of 1.07 years. The exercise price is \$0.50 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was \$nil (2008:\$nil).

The value of the Option Reserve has been calculated by using a modified binomial option pricing model applying the following inputs:

Weighted average exercise price	\$0.50
Underlying share price	\$0.28
Expected share price volatility	6%
Risk free interest rate	6.50%

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 Personnel expenses in the income statement is a credit for \$nil (2008: \$305,826), that relates, in full, to the reversal of the share option reserve. This has resulted from the modified binomial option pricing model, using the inputs detailed above, indicating that all options will remain "out of the money", and therefore it has valued the options outstanding at \$nil.

NOTE 25: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2009 \$	2008 \$
Financial Assets			
Cash and cash equivalents	8	33,965	281,243
Loans and receivables	9	11,904	10,565
Available-for-sale financial assets	11	1,500,000	-
		1,545,869	291,808
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	14	79,012	140,876
— Borrowings	15	447,167	203,236
		526,179	344,112

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The RAC meets on a bi-monthly basis and minutes of the RAC are reviewed by the Board.

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25: FINANCIAL RISK MANAGEMENT (CONTINUED)

a. **Financial Risk Management**

The Company's financial instruments consist mainly of deposits with banks, short-term investments, and 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 2009.

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 is liquidity risk.

Interest rate risk

The Company is not exposed to interest rate risk.

Foreign currency risk

The Company is not exposed to foreign currency risk.

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.

NOTE 26: RELATED PARTY TRANSACTIONS

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

Non-interest bearing loans from Professor Thomas Borody and Mr Patrick McLean, directors and shareholders of the company. The terms of the loans are detailed at note 15a.

2009
\$

2008
\$

387,167

200,000

Director related entity

The Company occupies offices located at the Centre for Digestive Diseases, a related entity of Professor Thomas Borody. No rent is being paid for the use of these offices.

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NOTE 28: COMPANY DETAILS

The registered office of the Company is:

Sydney Capital Partners
Suite 2, Level 6, 2 Bulletin Place
Sydney New South Wales 2000

The principal place of business of the Company is:

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

DIRECTORS' DECLARATION

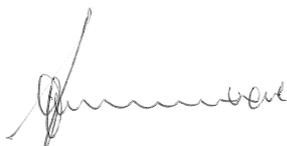
The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 13 to 33 are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company;
2. the Chief Executive Officer declares 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 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
Chief Executive Officer and Acting Chairman



Trevor Moore
Director

Dated on the 30th day of September 2009

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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 2009, 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 auditors' 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.

Independence

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

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
GIACONDA LIMITED**

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 2009 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.

Material Uncertainty Regarding Long Term Ongoing Viability

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the company's cash reserves at balance date were insufficient to support the long term operations of the Company. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the company's long term ongoing viability.

Walker Wayland NSW



Walker Wayland NSW
Chartered Accountants

T F Tyler
Partner

Dated at Sydney on this 30th day of September 2009

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