



GIACONDA LIMITED

A.B.N. 68 108 088 517

FINANCIAL REPORT

SIX MONTHS ENDED

31 DECEMBER 2007

Giaconda Limited

A.B.N. 68 108 088 517

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Giaconda Limited

A.B.N. 68 108 088 517

Directors' Report

Your directors present their report on Giaconda Limited (Giaconda) for the six months ended 31 December 2007.

Directors

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

Prof. Thomas Borody	Director and Chief Medical Officer
Patrick McLean	Director and Chief Executive Officer
Trevor Moore	Director
Prof. Emeritus Tony Moon	Director
Richard Woods	Director, and Chairman

All Directors have been in office from the 1 July 2007 to the date of this report.

Operating Results

The operating loss of the company for the six months after providing for income tax amounted to \$506,699 (December 2006: loss \$553,193).

Review of Operations during July to December 2007

During the six months, Giaconda's principal activities involved the commercialisation of Giaconda's lead product Myoconda[®] through licensing discussions with global pharmaceutical companies and further development for the next clinical trial of Myoconda[®].

Maintenance of Intellectual Property

The following product pipeline of company owned intellectual property was maintained throughout the six 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 and Europe
 - The Patent was granted during the period in 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

Directors' Report

Review of Operations during July to December 2007 (continued)

- **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 has first right of refusal to additional intellectual property from Professor Borody and the Centre for Digestive Diseases.

Progress on the Product Pipeline

Myoconda[®]

In the six months Giaconda[®] has been focusing on its lead product Myoconda[®].

- The company has received approval for a Phase II / III IND submission on Myoconda[®] to the FDA
- Based upon this IND a pilot PK study was completed using product manufactured under cGMP conditions by a Clinical Research Organization in Canada.
- A Heads of Agreement was signed with a GMP manufacturer to manufacture commercial quantities of Myoconda[®] upon registration
- The results of the Australian clinical Phase III study on anti-MAP therapy were published demonstrating the highest ever published remission rates for the treatment of Crohn's Disease
- Giaconda[®] announced a collaboration agreement with Prague Clinical Services in the Czech Republic to run the next clinical trial in Europe. Based upon this trial it is anticipated that regulatory submission of Myoconda will be made directly upon completion of the study..
- 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 was initiated based upon the excellent results of the first Phase II study completed by the Centre for Digestive Diseases and published in 2006..

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) was initiated during the period. This study is anticipated to begin in 2008 at The Centre for Digestive Diseases.

Hepaconda[®]

The Phase IIa trial for Hepaconda[®], Giaconda's product for Hepatitis C continued at the Centre for Digestive Diseases (CDD) and was noted by Thomson Scientific's quarterly publication "The Ones To Watch"[™] as one of "The Five Most Promising Drugs Entering Phase II Trials". Hepaconda[®] was the only gastrointestinal therapy noted in the report which covers new drug approvals and promising candidates entering Phase II and Phase III clinical trials.

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

Directors' Report

Review of Operations during July to December 2007 (continued)

***Heliconda*[®]**

A second Phase II trial was put into the planning process during the period based upon the excellent results of the first Phase II trial that demonstrated over 90% eradication of resistant *H. pylori* infection.

Employment of Personnel

Giaconda employs one individual; the Chief Executive Officer (Patrick McLean). The Chief Administrative Officer & Company Secretary (Kirrilli Parker) left the company on 14 September, 2007. Professor Tom Borody is contracted as Chief Medical Officer through the Centre for Digestive Diseases.

Other Corporate Changes

The company announced that it would move its offices from Suite 1307 Level 13, 370 Pitt Street, Sydney, NSW 2000 to Ground Level 44 East Street, Five Dock, NSW 2046 on 16 August 2007.

Mr. David Fischl was appointed Company Secretary 31 August 2007 to replace Kirrilli Parker.

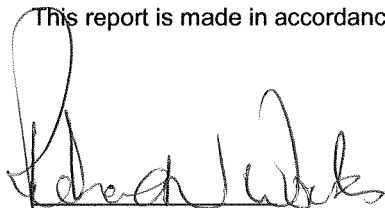
A total of 750,000 options for the purchase of Giaconda Limited shares by Ms. Rosa Surace expired on 3 July 2007.

A total of 55,674,000 shares were released from escrow on 27 September 2007 along with 1,400,000 unlisted options.

Auditor's Declaration

The auditor's declaration under section 307C of the Corporations Act 2007 is set out on page 5 for the half-year ended 31 December 2007.

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



Richard A. Woods

Chairman



Patrick L. McLean

Chief Executive Officer

Dated: 28 day of February 2008

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

We declare that, to the best of our knowledge and belief, during the half-year ended 31 December 2007 there have been:

- (a) no contraventions of the auditors' independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

Walker Wayland NSW



Walker Wayland NSW
Chartered Accountants

T F Tyler
Partner

Level 8, 55 Hunter Street
Sydney NSW 2000

Dated this 11th day of February 2008

Giaconda Limited

A.B.N. 68 108 088 517

INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2007

		31 December	31 December
	Note	2007	2006
		\$	\$
Income		30,960	108,936
Personnel Costs		(176,582)	(321,365)
Finance and Legal		(110,442)	(78,156)
Administration		(190,209)	(157,995)
Research and Development		(58,121)	(43,134)
Licensing		(52,245)	(74,614)
Loss from ordinary activities before income tax benefit (expense)	2	(556,639)	(566,328)
Income tax benefit relating to ordinary activities		49,940	13,135
Loss from ordinary activities after income tax expense benefit (expense) attributable to members of the Company		(506,699)	(553,193)
Total changes in equity other than those resulting from transactions with owners as owners		(506,699)	(553,193)
Overall Operations:			
Basic earnings per share (cents per share)		(0.69)	(0.76)
Diluted earnings per share (cents per share)		(0.68)	(0.73)

The accompanying notes form part of these financial statements.

Giaconda Limited

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BALANCE SHEET AS AT 31 DECEMBER 2007

	31 December	30 June	
	2007	2007	
Note	\$	\$	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	699,561	1,661,479	
Trade and other receivables	23,263	20,536	
Other current assets	58,777	58,113	
Income Tax	135	-	
TOTAL CURRENT ASSETS	781,736	1,740,128	
NON-CURRENT ASSETS			
Property, plant and equipment	28,920	45,272	
Intangible assets	2,522,754	2,099,520	
Deferred tax assets	2,188,882	1,839,185	
TOTAL NON-CURRENT ASSETS	4,740,556	3,983,977	
TOTAL ASSETS	5,522,292	5,724,105	
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	236,465	303,187	
Financial liabilities	4	205,240	3,904
Provisions	14,600	19,515	
TOTAL CURRENT LIABILITIES	456,305	326,606	
NON-CURRENT LIABILITIES			
Financial liabilities	4	-	3,236
Deferred tax liabilities	784,522	484,765	
Provisions	-	-	
TOTAL NON-CURRENT LIABILITIES	784,522	488,001	
TOTAL LIABILITIES	1,240,827	814,607	
NET ASSETS	4,281,465	4,909,498	
EQUITY			
Contributed equity	7,208,045	7,260,509	
Reserves	236,956	305,826	
Accumulated losses	(3,163,536)	(2,656,837)	
TOTAL EQUITY	4,281,465	4,909,498	

The accompanying notes form part of these financial statements.

Giaconda Limited

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CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Share Capital Ordinary \$	Accumulated Losses \$	Options Reserve \$	Total \$
Balance at 1.7.2006	7,055,622	(1,645,584)	187,166	5,597,204
Shares issued during the year (net of equity raising costs)	152,388	-	-	152,388
Losses attributable to members of parent entity	-	(553,193)	-	(553,193)
Sub-total	152,388	(553,193)	-	(400,805)
Balance at 31.12.2006	7,208,010	(2,198,777)	187,166	5,196,399
Balance at 1.7.2007	7,260,509	(2,656,837)	305,826	4,909,498
Shares issued during the year (net of equity raising costs)	(52,464)	-	-	(52,464)
Losses attributable to members of parent entity	-	(506,699)	-	(506,699)
Revaluing of reserves	-	-	(68,870)	(68,870)
Sub-total	(52,464)	(506,699)	(68,870)	(628,033)
Balance at 31.12.2007	7,208,045	(3,163,536)	236,956	4,281,465

The accompanying notes form part of these financial statements.

Giaconda Limited

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CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	31 December 2007	31 December 2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from operations	1,227	3,000
Payments to suppliers and employees	(626,701)	(911,274)
Payment for research and development	(450,560)	(43,134)
Interest received	30,960	105,939
Borrowing costs	-	(15)
Income tax paid	-	(1,419)
Net cash used in operating activities	<u>(1,045,074)</u>	<u>(846,903)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	1,000	-
Payments for property, plant and equipment	-	(2,004)
Payments and investments in intellectual property	(63,479)	(460,992)
Net cash used in investing activities	<u>(62,479)</u>	<u>(462,996)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowing from a related party	200,000	-
Net Proceeds from issue of shares or shares to be issued	(52,464)	152,388
Repayment of borrowings	(1,901)	(1,900)
Net cash provided by financing activities	<u>145,635</u>	<u>150,488</u>
NET INCREASE (DECREASE) IN CASH HELD	(961,918)	(1,159,411)
Cash at beginning of period	<u>1,661,479</u>	<u>4,289,110</u>
CASH AT END OF PERIOD	<u>699,561</u>	<u>3,129,699</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NOTE 1: BASIS OF PREPARATION

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Giaconda Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

Giaconda Limited has prepared the financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). The accounting policies applied are consistent with those applied in the 30 June 2007 annual report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Ongoing Viability

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

The Company is at a stage of its development where the cash flows generated by its sales do not yet cover the operating costs that are being incurred.

The ability of the Company to continue as a going concern depends upon the generation of additional cash inflows through incurring additional debt or the receipt of equity funds.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NOTE 2: PROFIT FROM ORDINARY ACTIVITIES	31 December 2007 \$	31 December 2006 \$
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The following revenue and expense items are relevant in explaining the financial performance for the interim period:

- Interest received from third parties	30,960	105,936
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NOTE 3: SEGMENT INFORMATION

Primary Reporting — Business Segments

	Research, Development & Licence	
	31 December 2007 \$	31 December 2006 \$
Segment Revenue	-	3,000
Total segment revenue	-	3,000
Unallocated revenue	30,960	105,936
Total revenue from ordinary activities	30,960	108,936
Segment result	(587,599)	(672,264)
Unallocated expenses net of unallocated revenue	30,960	105,936
Loss before income tax benefit	(556,639)	(566,328)
Income tax benefit	49,940	13,135
Loss after income tax benefit	(506,699)	(553,193)

NOTE 4: FINANCIAL LIABILITIES

		31 December 2007 \$	30 June 2007 \$
<i>Current</i>			
Borrowing from related party - non-interest bearing	4a	200,000	-
Lease liability – interest bearing		5,240	3,904
		205,240	3,904
<i>Non-current</i>			
Lease liability – interest bearing		-	3,236

a. The loan from related party is only repayable should one of the following events occur:

- 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.
- The Company raises funds whether through debt or equity equal to or exceeding the cumulative amount of \$5,000,000 in any financial year.
- There is a change in the ownership of more than 50% of the issued shares of the Company.
- The Company becomes insolvent or subject to any form of external administration other than for the purpose of corporate restructuring.

These notes form part of the financial statements

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2007**

	31 December 2007	30 June 2007
NOTE 5: 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;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	230,000	230,000
Non-Executive Director Fees		
Professor Thomas Borody, as a non-executive director of the Company for the period 15 June 2004 to 31 December 2004 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	16,438	16,438
Executive Director Fees		
Professor Thomas Borody, as an executive director of the Company for the period 1 January 2006 to 31 December 2007 is entitled to a fee for his service. Professor Borody has agreed to defer payment of this amount until the first to occur of;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	120,000	90,000

These notes form part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	31 December 2007	30 June 2007
NOTE 5: CONTINGENT LIABILITIES (CONTINUED)	\$	\$
Chief Executive Officer Incentive Payment		
The Chief Executive Officer has been paid an incentive under his incentive program. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations. It is noted that \$42,000 is in respect of services for the 2005 financial year and was payable in 2006. \$93,600 is in respect of services for the 2006 financial year and was payable in 2007. \$52,800 is in respect of services for the 2007 financial year and will be payable in 2008.	188,400	188,400
Chief Executive Officer Living-Away-From-Home-Allowance Payment		
The Chief Executive Officer is paid a living-away-from-home-allowance under his employment contract. The Chief Executive Officer has agreed to defer payment of this amount until the first to occur of;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	75,000	50,000
Centre of Digestive Diseases		
The Company has engaged the Centre for Digestive Diseases, a related party of Professor Thomas Borody, to provide the service of Chief Medical Officer. The agreement provides for an annual fee to be paid for these services of \$170,000 commencing 1 July 2006. The Centre for Digestive Diseases has agreed to defer payment of this amount until the first to occur of;		
(a) The Company enters into a licensing agreement or assignment agreement for one of its products; and the Board reasonably determines that the payment of these amounts will not impact on the operational viability of the Company; or		
(b) There is change in ownership of more than 50% of the issued shares of the Company.		
In the event that the above is not accomplished, he will release the Company from these obligations.	255,000	170,000

These notes form part of the financial statement

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

NOTE 6: EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial period, a request for information has been received from the Office of State Revenue, New South Wales Treasury. The Company is in the process of preparing a response to the request. At this time a liability to State taxes, if any, arising from this enquiry cannot presently be calculated.

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 period.

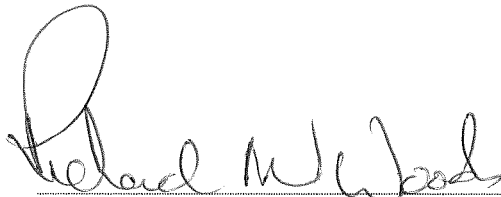
DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on 7 to 14.
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

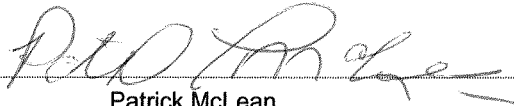
This declaration is made in accordance with a resolution of the Board of Directors.

Director



Richard Woods

Director



Patrick McLean

Dated this *28* day of *February* 2008

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF GIACONDA LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Giaconda Limited which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. The responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Giaconda Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the Independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Giaconda Limited on 11 February 2008, would be in the same terms if provided to the directors as at the date of this auditor's review report.

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

Conclusion

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

- (a) giving a true and fair view of the company's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulation 2001.

Walker Wayland NSW

TF Tyler

**Walker Wayland NSW
Chartered Accountants**

**T F Tyler
Partner**

Dated this 28th day of February 2008