

22 September 2006

The Companies Section
The Australian Stock Exchange Limited
530 Collins Street
MELBOURNE VIC 3000

Dear Sir/Madam

Re: 2006 Annual Report and Notice of Annual General Meeting

Please find attached the Annual Report of Circadian Technologies Limited for the year ended 30 June 2006 together with the Notice of Annual General Meeting. The AGM will be held at 9.00 am on Friday, 27 October 2006 at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria.

The Annual Report and Notice of Annual General Meeting will be despatched today to the shareholders of Circadian Technologies Limited.

Yours sincerely

Natalie Korchev
Company Secretary

CIRCADIAN TECHNOLOGIES LIMITED

ABN 32 006 340 567

NOTICE OF ANNUAL GENERAL MEETING Friday 27 October 2006

Notice is given that the Annual General Meeting of the shareholders of Circadian Technologies Limited ('Company' or 'Circadian') will be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria on Friday, 27 October 2006 at 9.00 a.m.

ORDINARY BUSINESS

1. Financial statements and reports

To receive and consider:

- the financial report;
- the directors' report; and
- the auditor's report

for the financial year ended 30 June 2006.

2. Remuneration report (Resolution 1)

To consider and, if thought fit, pass the following as an ordinary resolution:

That the remuneration report as set out in the Annual Report for the financial year ended 30 June 2006 be adopted.

Note: the vote on this resolution is advisory only and does not bind the Company or its directors.

3. Re-election of Dr John Stocker as a director (Resolution 2)

To consider and, if thought fit, pass the following as an ordinary resolution:

That Dr John Stocker, a director retiring by rotation in accordance with article 57 of the Company's constitution, and being eligible, be re-elected as a director of the Company.

4. Re-election of Mr Graeme Kaufman as a director (Resolution 3)

To consider and, if thought fit, pass the following as an ordinary resolution:

That Mr Graeme Kaufman, a director retiring by rotation in accordance with article 57 of the Company's constitution, and being eligible, be re-elected as a director of the Company.

OTHER BUSINESS

To transact any other business which may legally be brought before the meeting.

PROXY NOTES

- A member entitled to attend and vote at the meeting has a right to appoint a proxy.
- The proxy need not be a member of the Company.
- A member who is entitled to cast two or more votes may appoint up to two proxies and, in the case of such an appointment, may specify the proportion or number of votes each proxy is appointed to exercise.
- If a member appoints two proxies and the appointment does not specify the proportion or number of the member's votes which each proxy may exercise, each proxy may exercise half of the votes.

- The proxy form included in this Notice of Annual General Meeting must be signed by the member or the member's attorney. Proxies given by corporations must be signed under the hand of a duly authorised officer or attorney.
- To be valid, the form appointing the proxy and the power of attorney or other authority (if any) under which it is signed (or a certified copy of it) must be lodged with the Share Registry - Computershare Investor Services Pty Limited at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067, using the reply paid envelope supplied or by facsimile to +61 3 9473-2555 as soon as possible and in any event not later than 48 hours prior to the time appointed for the Annual General Meeting.
- A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Company's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.
- If a shareholder appoints the chairperson of the meeting as the shareholder's proxy and does not specify how the chairperson is to vote on an item of business, the chairperson will vote, as proxy for that shareholder, in favour of the item on a poll.
- Members should refer to the Explanatory Memorandum, which accompanies and forms part of this Notice of Annual General Meeting, for information regarding voting restrictions.

DETERMINATION OF VOTING ENTITLEMENTS

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)* for the purposes of the meeting, persons holding shares at 25 October 2006 at 7.00 pm will be treated as shareholders. This means that if you are not the registered holder of a relevant share at that time you will not be entitled to attend and vote in respect of that share at the Annual General Meeting.

Dated 22 September 2006

By Order of the Board



Natalie Korchev
Company Secretary

CIRCADIAN TECHNOLOGIES LIMITED

ABN 32 006 340 567

EXPLANATORY MEMORANDUM

PURPOSE OF INFORMATION

The purpose of this Explanatory Memorandum (which is included in and forms part of the Notice of Annual General Meeting dated 22 September 2006) is to provide members with an explanation of the business of the meeting and of the resolutions to be proposed and considered at the Annual General Meeting (AGM) to be held on Friday, 27 October 2006 at 9.00 am at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, and to assist members to determine how they wish to vote on each resolution.

FINANCIAL STATEMENTS AND REPORTS

Pursuant to the *Corporations Act 2001 (Cth)*, the directors of a public company that is required to hold an annual general meeting must table the financial statements and reports of the Company (including the directors' report and auditor's report) for the previous year before the members at that annual general meeting.

Shareholders have been provided with all relevant information concerning the Company's financial statements, directors' report and auditor's report in the Annual Report of the Company for the year ended 30 June 2006. A copy of the Annual Report has been forwarded to each shareholder other than those shareholders who have previously notified the Company that they elect not to receive the Annual Report, whether in paper form or electronically. Any shareholder who has made this election and now wishes to receive a paper or electronic copy of the Annual Report should contact the Company's office by phone on +61 3 9826 0399 to arrange receipt. The Annual Report can also be viewed, printed and downloaded from the Company's website www.circadian.com.au. A copy of the financial statements, the directors' report and the auditor's report will also be tabled at the meeting.

Shareholders should note that the sole purpose of tabling the financial statements and the reports of the Company at the Annual General Meeting is to provide the shareholders with the opportunity to be able to ask questions or discuss matters arising from the financial statements or the reports at the meeting. It is not the purpose of the meeting that the financial statements or the reports be accepted, rejected or modified in any way. Further, as it is not required by the Corporations Act, no resolution to adopt, receive or consider the Company's financial statements or the reports (other than the remuneration report) will be put to the shareholders at the meeting.

Members will be given a reasonable opportunity at the meeting to ask questions and make comments on the financial statements and the reports. The Company's auditor will be available to receive questions and comments from shareholders about the preparation and content of the auditor's report and the conduct of the audit.

REMUNERATION REPORT (Resolution 1)

The directors' report for the year ended 30 June 2006 contains a remuneration report, which sets out the policy for remuneration of the directors, the company secretary and senior managers.

The Corporations Act requires that a resolution be put to the vote that the remuneration report be adopted.

The Corporations Act expressly provides that the vote is advisory only and does not bind the directors or the Company.

Shareholders attending the AGM will be given a reasonable opportunity to ask questions about, or make comments on, the remuneration report.

The full remuneration report is included in the Company's 2006 Annual Report which is available on the Company's website www.circadian.com.au.

RE-ELECTION OF DIRECTORS (Resolutions 2 and 3)

Introduction

Article 57 of the Company's constitution requires that at each Annual General Meeting one-third of the directors must retire from office, or if their number is not a multiple of 3, then the number nearest to but not exceeding one-third of the directors must retire from office. Therefore, two of the six directors must retire by rotation. Dr John Stocker and Mr Graeme Kaufman are the directors who have been longest in office and must retire by rotation at the Company's 2006 Annual General Meeting. Dr Stocker and Mr Kaufman are eligible for re-election and they seek re-appointment as directors.

Biography of Dr John Stocker

Dr John Stocker was appointed a non-executive director of Circadian in May 1996 and is the chairman of the Company's science committee and a member of the remuneration committee. He was the Commonwealth Government Chief Scientist and was Chief Executive of CSIRO. Dr Stocker is a director of Telstra Corporation Limited, Sigma Pharmaceuticals Ltd, Nufarm Limited and up until recently was also a director of Cambridge Antibody Technology Consolidated Entity Plc. He is also a Principal of Foursight Associates Pty Ltd.

Biography of Mr Graeme Kaufman

Mr Graeme Kaufman joined Circadian in July 2001 as Projects and Licensing manager and was appointed executive director of Circadian on 29 January 2002. Mr Kaufman has had over 30 years experience with CSL Limited. Whilst at CSL Limited he held various positions including General Manager, Biosciences Division (1994 to 1999), Finance Director (1987 to 1994) and Manufacturing Manager (1984 to 1987). Mr Kaufman is also managing director of Syngene Limited (42% owned by Circadian) and CancerProbe Pty Ltd (60% owned by Circadian) and a director of Vegenics Limited (50% owned by Circadian). He also held a non-executive directorship with listed company Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) from July 2003 to April 2005.



All correspondence to:
 Computershare Investor Services Pty Limited
 GPO Box 242 Melbourne
 Victoria 3001 Australia
 Enquiries (within Australia) 1300 850 505
 (outside Australia) 61 3 9415 4000
 Facsimile 61 3 9473 2555
 www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)



000001
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 SAM
 MR JOHN SMITH 1
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030



Securityholder Reference Number (SRN)



I 1234567890 I N D

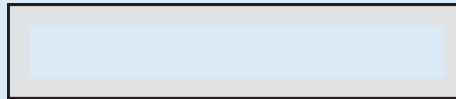
Appointment of Proxy

I/We being a member/s of Circadian Technologies Limited and entitled to attend and vote hereby appoint



the Chairman
 of the Meeting
 (mark with an 'X')

OR



If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Circadian Technologies Limited to be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 on Friday 27th October 2006 at 9.00am and at any adjournment of that meeting.

Voting directions to your proxy - please mark to indicate your directions

- Resolution 1 Adoption of the remuneration report
(the vote on this item is advisory only and does not bind the company or its directors)
- Resolution 2 Re-election of Dr John Stocker as a director
- Resolution 3 Re-election of Mr Graeme Kaufman as a director

| For | Against | Abstain* |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

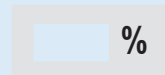
Appointing a second Proxy

I/We wish to appoint a second proxy



Mark with an 'X' if you wish to appoint a second proxy.

AND



%

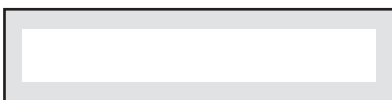
OR



State the percentage of your voting rights or the number of securities for this Proxy Form.

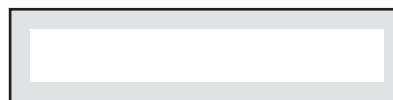
PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1



Individual/Sole Director and Sole Company Secretary

Securityholder 2



Director

Securityholder 3



Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date

/ /



How to complete this Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (c) return both forms together in the same envelope.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at www.computershare.com.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 9.00am on Friday 27th October 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:

| | |
|-----------|---|
| IN PERSON | Share Registry - Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 Australia |
| BY MAIL | Share Registry - Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001 Australia |
| BY FAX | 61 3 9473 2555 |

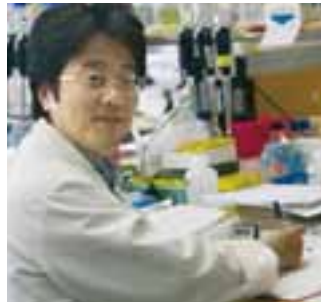


The mission

The current revolution in life sciences promises breathtaking advances in health care and medicine that cure what was previously incurable.

Furthermore, computer technologies are being developed that create efficiencies and economies which previously were not thought possible.

Circadian's mission is to contribute to these breathtaking advances for the benefit of its shareholders and society.



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Corporate Information

| | |
|--|---|
| Directors | <p>Dominique Fisher, BA (Hons), MAICD (Chairman)</p> <p>Leon Serry, FCIS, CPA (Managing Director)</p> <p>Graeme Kaufman, MBA, BSc</p> <p>Dr John Stocker, AO, MB, BS, BMedSc, PhD, FTS, FRACP</p> <p>James MacKenzie, BBus, FCA, FAICD</p> <p>Donald Clarke, LLB (Hons)</p> |
| Secretary | Natalie Korchev, BCom, ACA |
| Registered Office | <p>Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria 3000</p> <p>Telephone: (03) 8608 2000</p> |
| Principal Administrative Office | <p>Level 1, 10 Wallace Avenue, Toorak, Victoria 3142</p> <p>Telephone: (03) 9826 0399</p> |
| Banker | Commonwealth Bank of Australia, Melbourne, Victoria |
| Auditors | Ernst & Young, 8 Exhibition Street, Melbourne, Victoria 3000 |
| Solicitors | Minter Ellison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria 3000 |
| Share Register | <p>Computershare Investor Services Pty Ltd, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067</p> <p>Telephone: (03) 9415 5000</p> |
| Stock Exchange Listing | <p>Circadian Technologies Limited's shares are quoted on the Australian Stock Exchange Limited:</p> <p>ASX code: CIR</p> |
| Website | www.circadian.com.au |

Directors' Report



DOMINIQUE FISHER



LEON SERRY



GRAEME KAUFMAN



DR JOHN STOCKER



JAMES MACKENZIE



DONALD CLARKE



NATALIE KORCHEV
(Company Secretary)

The Board of Directors ("Board") of Circadian Technologies Limited ("Circadian", "Company" or "Group") has pleasure in submitting its report in respect of the financial year ended 30 June 2006.

DIRECTORS

The names and qualifications of the Directors of the Company in office at the date of this report are as follows:

Dominique Fisher, BA (Hons), MAICD (Non-Executive Chairman)

Leon Serry, FCIS, CPA (Managing Director)

Graeme R Kaufman, MBA, BSc (Executive Director)

Dr John Stocker, AO, MB, BS, BMedSc, PhD, FTS, FRACP (Non-Executive Director)

James A C MacKenzie, BBus, FCA, FAICD (Non-Executive Director)

Donald Clarke, LLB (Hons) (Non-Executive Director)

All Directors held their position as a Director of the Company throughout the entire financial year and up to the date of this report, with the exception of Dominique Fisher and Donald Clarke who were appointed on 1 September 2005 and Sir Peter Derham who retired as Chairman of the Board on 6 October 2005 after 21 years of service.

The experience and special responsibilities of the Directors in office during the financial year are as follows:

Dominique Fisher

Dominique Fisher was appointed a non-executive director of Circadian in September 2005. She became Chairman of the Board in the subsequent month and is a member of the Company's audit committee. She has extensive business experience in the corporate area including the commercialisation of new technologies. She is Principal and Executive Director of EC Strategies Pty Ltd, which advises local and overseas companies on electronic commerce strategies and major commercial transactions. Ms Fisher was recently appointed to the ICT Advisory Board, advising the Federal Government on key issues affecting the development of the Information and Communications Technology sector. Ms Fisher is Chairman of Sky Technologies Pty Ltd, Executive Chairman of WebAlive Pty Ltd, a director of the Prostate Cancer Foundation, a director of Malaysian property developer, Jayaland Corp P/L and has recently been appointed to the Australia Council as Chairman of the Dance Board. She was also a Director of Insurance Australia Group Limited (IAG) from 2000 to 2004 and until recently was a director of the Malthouse Theatre.

Leon Serry

Leon Serry, who is the founding Managing Director of the Company, is a Fellow of the Chartered Institute of Secretaries (FCIS) and holds CPA status. Mr Serry was employed by Nicholas Proprietary Limited and was Company Secretary of the Leighton Family Group of Companies. He was Company Secretary of Paterson Reid & Bruce Limited during the 1970s, being appointed to that position through Ralli Brothers Bankers Limited of the UK. Mr Serry has been successful in a wide range of commercial activities. He is also Chairman of Vegenics Limited (50% owned by Circadian). Other than holding an executive directorship with Circadian Technologies, Mr Serry has not held any other listed public directorships in the past three years.

Graeme R Kaufman

Graeme Kaufman joined Circadian in July 2001 as Projects and Licensing Manager and was appointed Executive Director of Circadian on 29 January 2002. Mr Kaufman has had over 30 years experience with CSL Limited. While at CSL he held various positions including General Manager, Biosciences Division (1994 to 1999), Finance Director (1987 to 1994) and Manufacturing Manager (1984 to 1987). Mr Kaufman is also Managing Director of Syngene Limited (42% owned by Circadian) and CancerProbe Pty Ltd (60% owned by Circadian) and Director of Vegenics Limited (50% owned by Circadian). In addition to his directorship with Circadian Technologies, Mr Kaufman also held a non-executive directorship with listed company Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) from July 2003 to April 2005.

Dr John Stocker

Dr John Stocker was appointed a non-executive director of Circadian in May 1996 and is the Chairman of the Company's science committee and a member of the remuneration committee. He was the Commonwealth Government Chief Scientist and was Chief Executive of CSIRO. Dr Stocker is a Principal of Foursight Associates Pty Ltd and holds or held directorships in the following listed companies during the past three years:

Telstra Corporation Limited (Director since 1996)
Nufarm Limited (Director since 1998)
Sigma Pharmaceuticals Ltd (Director since December 2005)
Cambridge Antibody Technology Consolidated Entity Plc (March 1995 to June 2006)

James A C MacKenzie

James MacKenzie, a non-executive director of Circadian since July 2002, is Chairman of the group's audit committee and is a member of the remuneration committee. Mr MacKenzie has previously held the positions of Managing Director, Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia and the Transport Accident Commission. A Chartered Accountant by profession, Mr MacKenzie was also a Partner in the Melbourne and Hong Kong offices of an international accounting firm now part of Deloitte, and he remains involved with Deloitte as a consultant. He is currently Chairman of Mirvac Group and

the Victorian Transport Accident Commission and is a Director of the Victorian WorkCover Authority. Mr MacKenzie also currently holds or held directorships in the following listed companies during the past three years:

Mirvac Group (Director since January 2005, Chairman since November 2005)
Zenyth Therapeutics Ltd (Director since April 2005)
Strategic Pooled Development Ltd (Director since November 2005)
Bravura Solutions Ltd (Director since April 2006)
James Fielding Group (Director from May 2001 to January 2005)
MedAire Inc (Director from May 2004 to July 2005)
Child Care Centres of Australia Ltd (Director from August 2002 to July 2004)

Donald Clarke

Don Clarke was appointed a non-executive director of Circadian in September 2005 and has been appointed Chairman of the remuneration committee. He has been a partner with the law firm Minter Ellison since 1988, having joined that firm in 1980. His principal areas of practice include capital raisings, corporate restructures, business acquisitions and funding for business expansions and new ventures. Mr Clarke has a broad commercial practice, involving predominantly ASX listed companies, across a diverse range of industries and business sectors, including manufacturing, transport, biotechnology, information technology and communications.

Sir Peter J Derham

Sir Peter Derham, AC, KStJ, BSc, FAIM, FPIA, FAICD, retired as Chairman of the Company on 6 October 2005 after 21 years of service. Sir Peter is a former Managing Director of Nylex Corporation Limited, former President of St. John Ambulance Australia (Victoria), former Chairman of the CSIRO Advisory Council, Rothschild Australia Limited, the Australian Tourist Commission and See Australia Limited. He is currently Appeal Chairman of the Shrine of Remembrance, a Patron of the Australian Childhood Foundation, a Patron of the Alfred Hospital and is a Director of Red Hill Wines Pty Ltd. For the past three years, the only listed public directorship held by Sir Peter was that of Chairman of Circadian Technologies Limited.

COMPANY SECRETARY**Natalie Korchev, B.Com, ACA**

Natalie Korchev has been the company secretary of Circadian Technologies Limited for six years. Prior to holding this position she was a senior audit manager with an international accounting firm now part of Ernst & Young. She has been a Chartered Accountant for 15 years. Ms Korchev is also company secretary for Syngene Limited (42% owned by Circadian), CancerProbe Pty Ltd (60% owned by Circadian), Vegenics Limited (50% owned by Circadian) and was company secretary of Antisense Therapeutics Limited from November 2000 up until June 2006.

DIRECTORS' INTERESTS

At the date of this report, the interests of each director of the Company in the issued share capital, share options and performance rights of the Company are as follows:

| | Number of Shares held directly | Number of Shares held indirectly | Number of Options over ordinary shares | Number of Performance Rights over ordinary shares |
|------------------|--------------------------------|----------------------------------|--|---|
| Dominique Fisher | – | 10,000 | – | – |
| Leon Serry | 62,668 | 2,037,332 | 500,000 | 128,110 |
| Graeme Kaufman | 28,500 | – | 250,000 | 68,652 |
| John Stocker | 282,334 | – | – | – |
| James MacKenzie | – | – | – | – |
| Don Clarke | – | 60,000 | – | – |

UNISSUED SHARES

At the date of this report, details of Circadian Technologies Limited's unissued ordinary shares or interests under option and performance rights are as follows:

Options:

| | |
|-------------------------------|-----------------|
| Number of shares under option | 800,000 |
| Exercise prices | \$2.62 – \$3.12 |
| Expiry date | 25/09/08 |

Performance rights:

| | |
|---|----------|
| Number of shares under performance rights | 257,337 |
| Exercise price | \$Nil |
| Vesting date | 30/06/08 |
| Expiry date | 30/06/15 |

Refer to the section in this report headed Remuneration Report for details on the terms and conditions of the options granted under the Employee Share Option Plan and the performance rights granted under the Performance Rights Plan. Note that the number of performance rights that will vest is dependent on whether performance tests/hurdles will be met.

DIRECTOR'S INTERESTS IN CONTRACTS

As at 30 June 2006 and as at the date of this report, no director has an interest in any contract or proposed contract with Circadian or its controlled entities other than as disclosed in the Company's annual report.

DIVIDENDS

No cash dividends have been paid, declared or recommended since the beginning of the financial year by the Company.

PRINCIPAL ACTIVITIES OF THE CONSOLIDATED ENTITY

The principal activities of the Company include the management and funding of pharmaceutical research and development projects with Australian and New Zealand universities and scientific institutes to the stage where the Company seeks collaborative and/or licensing arrangements with major international pharmaceutical companies. These activities also include investment in leading edge Australian technology. The Company is committed to the innovation, management and commercialisation of its projects and technology investments.

OPERATING AND FINANCIAL REVIEW

RESULTS

- The consolidated loss of the Group for the year was \$6,472,467 after an income tax expense of \$340,093 (2005: profit of \$21,729,492 after an income tax benefit of \$17,548).
- The net tangible asset backing per share as at 30 June 2006 was \$1.41.
- Consolidated cash reserves as at 30 June 2006 amounted to \$14,607,460.
- The combined market value of Circadian's shareholdings in listed investments as at 30 June 2006 was \$42,734,606 (2005: \$48,819,559). An unrealised gain after tax of \$18,053,984 has been recognised in the unrealised gains reserve account during the year. This reflects the increase in the respective share prices of holdings in Zenyth Therapeutics Limited and Avexa Limited during the current financial year and the difference between the cost of Circadian's other listed holdings (except for investment in associate) and their market values at year end. Subsequent to year end the market value of listed investments increased by \$14,698,986 to \$57,433,592 which is not reflected in the 30 June 2006 financial statements.
- Basic earnings per share: loss of 16.13 cents (2005: profit of 54.16 cents).
- All research and development costs have been expensed during the year.

The results for the current year and the corresponding reporting period are pursuant to the Australian equivalents of International Financial Reporting Standards as explained in note 2 to the financial statements.

The current year result reflects the equity accounting of the results of Antisense Therapeutics as it was determined effective from 1 January 2006 that the consolidated entity's holding in this Company met the definition of an associate in accordance with accounting standards. The equity accounted loss reflected in the consolidated entity's results amounts to \$1,529,102. The current year results also reflect the increased activity in research and development with an increase in research and development costs of \$380,293, an increase in patent fees of \$257,419 and the costs incurred of \$538,689 (including due diligence costs) in forming a research collaboration with the Ludwig Institute for Cancer Research (LICR), based in New York, and Licentia Limited (Licentia), a commercial arm of the University of Helsinki. During the year a write-down of \$544,987 in a loan to another associate (reflecting research and development expenses) has also been recognised, and in accordance with the requirements of AIFRS the expensing of share based payments of \$152,260. The Review of Operations Report contains further details regarding the consolidated entity's research and development activities and the formation of Vegenics Limited for the collaboration with LICR and Licentia.

The movements in the respective share prices of holdings in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) (Zenyth) and Avexa Limited (Avexa) from 30 June 2005 to 30 June 2006 (which resulted in an increase in value of \$3,013,390) is not reflected in the current period income statement, as was previously the case, due to the new AIFRS requirements effective 1 July 2005 under AASB 139 *Financial Instruments: Recognition and Measurement*. The total increase in value of these holdings of \$3,013,390 has been accounted for through the net unrealised gains reserve account (in the prior year the total unrealised loss on these investments of \$4,585,349 was included in the income statement). As described in Note 2 to the financial statements, effective 1 July 2005 the Group's holdings in non-current listed entities are recorded at their fair values with movements in these values after tax reflected in the net unrealised gains reserve. Also refer to Significant Events After Balance Date below with respect to the Group's holding in Zenyth.

The consolidated profit for the 2005 financial year included the gain on the disposal of the Group's interest in Axon Instruments Inc (Axon) amounting to \$26,452,624, which was acquired by the US Company Molecular Devices Corporation (Molecular Devices) in a merger transaction and the realised gain of \$3,490,252 on the subsequent sale of shares in Molecular Devices received as part consideration for the sale of the Axon shares. These gains were offset by a foreign exchange loss of \$1.1 million due to the strengthening of the Australian dollar against the US dollar during the prior year. Last year's result also reflects a decrease of \$868,434 in the value of an investment in listed options. During the 2006 financial year there were no disposals of non-current listed holdings.

SHAREHOLDER RETURNS

The following is a summary of shareholder returns for the last four financial years:

| | 2006 | 2005 | 2004 | 2003 |
|--|---------|-------|-------|--------|
| Basic earnings per share (cents per share) | (16.13) | 54.16 | 14.44 | (8.49) |
| Capital return per share (cents per share) | – | 38.00 | – | – |
| Dividends per share (cents per share) | – | 27.00 | – | – |

Circadian's share price at 30 June 2006 was \$1.05 (2005: \$1.18) and at the date of this report was \$1.31.

REVIEW OF OPERATIONS

The Review of Operations Report, which forms part of this Directors' Report, provides information regarding the consolidated entity's key corporate activities and the progress achieved during the 30 June 2006 financial year on the consolidated entity's interests in research and development projects and an update on its listed technology holdings.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except as otherwise set out in this report, the directors are unaware of any significant changes in the state of affairs or principal activities of the consolidated entity that occurred during the period under review.

SIGNIFICANT EVENTS AFTER BALANCE DATE

- (i) Prior to 30 June 2006, the directors of Circadian intended to dispose of the Group's holding in the ordinary shares of Zenyth Therapeutics Limited (Zenyth). On 17 July 2006, Zenyth and CSL Limited (CSL) "announced a proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders (Share Scheme). The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited (Avexa) ('Special Distribution'). If the Special Distribution is approved by Zenyth shareholders, and if the Share Scheme becomes effective, Zenyth shareholders will also receive approximately one Avexa share for every six Zenyth shares they hold at the record date. This represents additional value of four cents per Zenyth share, as at the date of this announcement."

As advised in Zenyth's 17 July 2006 announcement, "The Share Scheme will require the approval of Zenyth's shareholders and the approval of the Supreme Court of Victoria." "Zenyth will also seek shareholder approval to undertake the Special Distribution. This approval will be sought at a general meeting to be held on the same day as the meeting to consider and vote on the Share Scheme." "The meetings to approve the Share Scheme, Option Scheme and the Special Distribution are expected to be held in early to mid October 2006." In the absence of a more attractive/superior offer being made by another party, Circadian intends to vote in favour of the proposed offer at the general meeting of shareholders of Zenyth.

Subject to the proposed Share Scheme being effected, the Group would receive on the sale of its investment in Zenyth cash proceeds of approximately \$23.2 million and Avexa shares worth \$1.1 million (assuming that the share price of Avexa on the day of settlement is 22.5 cents – this is the closing bid price on 25 August 2006). Based on the original cost of the investment, this would give rise to a profit before tax of approximately \$7.4 million. Based on the carrying value of the Zenyth investment at 30 June 2006, the profit before tax would be approximately \$11 million.

- (ii) Vegenics Limited is an entity which was incorporated by Circadian Technologies Limited on 10 January 2006 for the purpose of forming a collaboration between Circadian, the Ludwig Institute for Cancer Research (LICR) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On the satisfaction of the conditions precedent of the Shareholders Agreement relating to Vegenics between Circadian, LICR and Licentia, shares were to be applied for in Vegenics by each of these entities.

On 29 June 2006 the conditions precedent were satisfied in full giving rise to a commitment by Circadian for an investment of \$4 million for the issue of 24,999,995 ordinary shares in Vegenics payable in July 2006. These share application monies were paid in July 2006.

- (iii) At the date of this report, the market value of the consolidated entity's shareholdings in listed investments increased by \$14,698,986 to \$57,433,592. The increase in market value of these investments since year end is not reflected in the financial report.

CORPORATE OBJECTIVES AND LIKELY DEVELOPMENTS

The Board of Directors intends to continue with the Company's direct involvement in research projects with universities and scientific institutes throughout Australia and New Zealand and its investment in leading edge Australian technology.

The various activities in which Circadian is involved are both creative and innovative and the Company will continue to pursue its objective of investment in projects or companies, which have large or potentially large growth markets. Also the Company will actively review other opportunities to invest and provide management expertise to creative and innovative Australian technology companies.

Some of the risks inherent in the development of a product to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of the necessary drug regulatory authority approvals and difficulties caused by the rapid advancements in technology. Also a particular compound may fail the clinical development process through lack of efficacy or safety. Companies such as Circadian are dependent on the success of their research projects and technology investments. Investment in research projects and technology-related companies cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Thus investment in these areas must be regarded as speculative taking into account these considerations.

The Company intends to continue to be actively involved in university and scientific institute based research projects and act as a conduit between research institutions and the pharmaceutical industry. The progress made in the Company's research projects and technology investments during the year demonstrate Circadian's commitment to this task.

In the opinion of the directors, it would prejudice the interests of the Company to provide additional information, except as reported in this Annual Report, relating to likely developments in the operations of the Company.

ENVIRONMENTAL REGULATIONS

The Company is not subject to significant environmental regulations.

INDEMNIFICATION AND INSURANCE

During the financial year ended 30 June 2006, the Company indemnified its directors, the company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the Company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the Company indemnified the directors, the company secretary and executive officers against any liability incurred by them in their capacity as directors, company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the Company. No monetary restriction was placed on this indemnity.

The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2006. Under the Company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the Corporations Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Company.

COMPENSATION POLICY

Compensation of directors and senior executives ('key management personnel') of the Company is established by the Remuneration Committee which is authorised to determine the compensation of directors and senior executives taking into account market factors and a review of performance. The Remuneration Committee may seek independent compensation advice. For executive directors and officers, compensation packages generally comprise salary and superannuation. Executives are also provided with longer-term incentives through the Company's option and performance rights schemes, to allow the executives to participate in the growth of the Company as a result of their efforts.

The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the managing director, who in turn evaluates the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

REMUNERATION REPORT (continued)

REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the managing director and all other key management personnel. The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team.

COMPENSATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

NON-EXECUTIVE DIRECTOR COMPENSATION

Objective

The Board seeks to set aggregate compensation at a level which provides the Company with the ability to attract and retain directors of the highest calibre, while incurring a cost which is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors will be determined from time to time by a general meeting. An amount (not exceeding the amount approved at the General Meeting) is determined by the Board and then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting on 6 October 2005 when shareholders approved the aggregate maximum sum to be paid or provided as compensation to the non-executive directors as a whole (therefore excluding the Managing Director and the Executive Director) for their services as \$500,000 per annum. Currently, non-executive directors are compensated to an aggregate of \$225,000 per annum.

The manner in which the aggregate compensation is apportioned amongst non-executive directors is reviewed periodically.

Each director receives a fee for being a director of the Company. Non-executive directors are not compensated by way of issue of securities in the Company.

The Board is responsible for reviewing its own performance. Board performance is monitored on an informal basis throughout the year and a formal evaluation is performed annually following the end of the fiscal year. An evaluation was conducted during the year of the Board's performance.

The compensation of non-executive directors for the year ending 30 June 2006 is detailed in Table 1 of this report.

EXECUTIVE COMPENSATION

Objective

The Company aims to fairly and responsibly compensate executives with a level and mix of compensation commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company performance;
- link reward with the strategic goals of the Company;
- align the interest of executives with those of shareholders; and
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make-up of executive compensation, the Remuneration Committee engaged an external consultant in the prior financial year to provide independent advice both in the form of a written report detailing market levels of compensation for comparable executive roles as well as the participation of an independent consultant in the Committee meetings from which the Committee made its recommendations to the Board.

Compensation consists of the following key elements, the relative proportions of which are market based:

- Fixed Compensation
- Long-Term Incentive

The non-executive directors are responsible for evaluating the performance of the Managing Director, who in turn evaluates the performance of all other executives. The evaluation process is intended to assess the Company's business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

The performance of the Managing Director and senior executives is monitored on an informal basis throughout the year with the objective of performing a formal evaluation annually. The last remuneration committee meeting, at which an evaluation of the Managing Director's and senior executives' performance was conducted, was in April/May 2005.

As noted above, the Remuneration Committee has access to external advice independent of management.

Table 1 of this report details the compensation of directors and executives of the Company for the year ending 30 June 2006.

Fixed Compensation

Objective

The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market. Leon Serry, Graeme Kaufman and Robert Klupacs (senior executive) have between them a total of about 80 years experience in the pharmaceutical/biotechnology industry.

Structure

Executives' fixed compensation comprises salary and superannuation and as stated earlier is reviewed every 12 to 18 months by the Remuneration Committee.

Variable Pay – Long Term Incentive (LTI)**Objective**

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth.

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of options and performance rights.

Options:

Share options are granted to executive directors and certain employees.

In valuing transactions settled by way of issue of options, no account is taken of any performance conditions, other than market conditions linked to the price of the shares of Circadian Technologies Limited. The exercise prices are generally set at substantially higher prices than the Company's share price at grant date.

The contractual life of each option granted is five years. There are no cash settlement alternatives.

The options which were issued in the 2004 financial year have four vesting dates, for various proportions of the total issued options, during the life of the options. The options issued in 2004 were "well out of the money" at the grant date and as at 30 June 2006.

There were no options granted to executive directors and employees during the current year.

Performance rights:

A Performance Rights Plan (Plan) was established during the current financial year to provide annual grants of performance rights to certain executives of the Group. The first grant of performance rights was made in November 2005 to three of the Group's executives.

The Group uses a relative Total Shareholder Return (TSR) as the performance hurdle in granting performance rights to its key management personnel. The use of a relative TSR based hurdle is currently market best practice as its objective is to align comparative shareholder return and reward for the Company's key management personnel.

The performance rights to be offered under each annual cycle of the Plan will have a notional value at the time of the offers of 25% of the remuneration package (i.e. salary plus superannuation) of each executive.

The actual number of performance rights to be offered annually to executives is calculated as 25% of the remuneration package of each executive divided by the average daily volume weighted sale price of Circadian shares over the five trading days immediately preceding each annual grant date.

There is no issue price for the performance rights granted and there is no exercise price applicable.

The number of performance rights that Participants in the Plan will be able to exercise will be determined according to Circadian's TSR relative to a comparator group of companies over the three-year period that applies for each annual grant of performance rights.

TSR measures the return provided to shareholders by share price appreciation plus reinvested dividends/entitlements over the performance period, expressed as a percentage of the investment.

The comparator group for each annual offer of performance rights will be determined at the time of each annual grant, and at the discretion of the Board will be defined as the 50 ASX-listed companies ranked both above and below Circadian by market capitalisation, excluding listed property trusts and similar entities. Accordingly, the comparator group will comprise, if possible, 100 ASX listed companies.

No performance rights in an annual grant will become exercisable (or 'vest') unless Circadian's TSR over the relevant performance period is equal to or above the TSR of the company that is at the median of the comparator group of companies, ranked by their individual TSR performance, at which point 50% of the performance rights will vest.

All of the performance rights in an annual grant will vest if Circadian's TSR over the relevant performance period is equal to or greater than the TSR of the Company at the 75th percentile of the comparator group of companies, ranked by their TSR performance.

The number of performance rights in an annual grant that vest will increase by 2% for each one percentile increase in Circadian's TSR performance between the median and the 75th percentile over the relevant performance period.

Vested performance rights may be exercised at any time on or before the expiry of 10 years from the date the performance rights are granted, subject to compliance with the Company's share trading policy (i.e. seven years after the performance test is satisfied). There are no cash settlement alternatives.

As mentioned earlier, one grant of performance rights has been made to date, in November 2005. As performance of the Company's TSR is over a three-year period, which commenced on 1 July 2005, the first assessment of whether the performance hurdles have been met will occur shortly after 30 June 2008. The assessment of whether performance hurdles for each grant have been met will be performed by the independent consulting firm which recommended these performance rights as an LTI.

REMUNERATION REPORT (continued)**Table 1: Compensation of Key Management Personnel for the year ended 30 June 2006 (Consolidated)**

| | | Short-Term | Post Employment | Long-Term | Share-based Payment | Total | Total Performance Related | |
|---|-------------|------------------|-----------------|-----------------|---------------------|--|---------------------------|-------|
| | | Salary & Fees | Other Benefits | Super-annuation | Long service leave | Options & Performance Rights* [^] | | |
| Directors: | | \$ | \$ | \$ | \$ | \$ | % | |
| L Serry | 2006 | 582,084 | – | 52,388 | 10,962 | 93,296 | 738,730 | 12.63 |
| | 2005 | 582,084 | – | 52,388 | 10,962 | 90,157 | 735,591 | 12.26 |
| G Kaufman | 2006 | 309,953 | – | 27,896 | – | 46,910 | 384,759 | 12.19 |
| | 2005 | 250,435 | – | 22,539 | – | 45,079 | 318,053 | 14.17 |
| J Stocker | 2006 | 65,000 | – | 5,850 | – | – | 70,850 | – |
| | 2005 | 62,538 | – | 5,628 | – | – | 68,166 | – |
| J MacKenzie | 2006 | 46,000 | – | 4,140 | – | – | 50,140 | – |
| | 2005 | 43,538 | – | 3,918 | – | – | 47,456 | – |
| D Fisher ¹ | 2006 | 53,932 | – | 4,854 | – | – | 58,786 | – |
| | 2005 | – | – | – | – | – | – | – |
| D Clarke ¹ | 2006 | 38,333 | – | 3,450 | – | – | 41,783 | – |
| | 2005 | – | – | – | – | – | – | – |
| P Derham ² | 2006 | 23,871 | – | – | – | – | 23,871 | – |
| | 2005 | 63,077 | – | – | – | – | 63,077 | – |
| I Davis ³ | 2006 | – | – | – | – | – | – | – |
| | 2005 | 35,223 | 1,625 | 3,170 | – | – | 40,018 | – |
| Executives: | | | | | | | | |
| N Korchev | 2006 | 171,921 | – | 15,473 | – | 4,300 | 191,694 | 2.24 |
| | 2005 | 168,801 | – | 15,192 | – | 4,508 | 188,501 | 2.39 |
| R Klupacs ⁴ | 2006 | 237,159 | 12,295 | 21,881 | – | 3,454 | 274,789 | 1.26 |
| | 2005 | – | – | – | – | – | – | – |
| Total Compensation: Directors and Executives | | | | | | | | |
| | 2006 | 1,528,253 | 12,295 | 135,932 | 10,962 | 147,960 | 1,835,402 | |
| | 2005 | 1,205,696 | 1,625 | 102,835 | 10,962 | 139,744 | 1,460,862 | |

1. Appointed 1 September 2005

2. Retired 6 October 2005 after 21 years of service

3. Resigned 26 April 2005 after 20 years of service

4. Employment commenced 15 August 2005

* No options have been exercised by the executive directors and other executives in the last six years.

[^] The value of the options attributed to compensation of certain key management personnel for the current financial year represent the amortised cost of options that were granted in the 2004 financial year, and has been determined by allocating the fair value of the options equally over their respective vesting periods.

The value of the performance rights attributed to compensation of certain key management personnel for the current year has been determined based on amortising the value of total performance rights issued on a straight line basis from grant date to vesting date.

Refer to note 21 of the financial report for details on the valuation of options and performance rights.

Table 2: Options and performance rights granted as part of remuneration (Consolidated)

| | Grant date | Grant number | Fair value per option/right at grant date | Total fair value of options/rights granted during the year | Fair value of options/rights included in remuneration during the year | Value of options/rights exercised during the year | Value of options/rights lapsed during the year | % compensation consisting of options/rights during the year |
|----------------------|------------|--------------|---|--|---|---|--|---|
| Directors: | | | | | | | | |
| L. Serry | | | | | | | | |
| – Options | 25/9/03 | 500,000 | \$0.68 – \$0.78 | – | \$85,990 | – | – | 11.64% |
| – Performance rights | 2/11/05 | 128,110 | \$0.23 | \$29,465 | <u>\$7,306</u> | – | – | <u>0.99%</u> |
| | | | | | \$93,296 | | | 12.63% |
| G. Kaufman | | | | | | | | |
| – Options | 25/9/03 | 250,000 | \$0.68 – \$0.78 | – | \$42,995 | – | – | 11.17% |
| – Performance rights | 2/11/05 | 68,652 | \$0.23 | \$15,790 | <u>\$3,915</u> | – | – | <u>1.02%</u> |
| | | | | | \$46,910 | | | 12.19% |
| Executives: | | | | | | | | |
| N. Korchev | | | | | | | | |
| – Options | 25/9/03 | 25,000 | \$0.68 – \$0.78 | – | \$4,300 | – | – | 2.24% |
| R. Klupacs | | | | | | | | |
| – Performance rights | 2/11/05 | 60,575 | \$0.23 | \$13,932 | \$3,454 | – | – | 1.26% |

During the current financial year, performance rights were granted as equity compensation benefits under the long-term incentive plan to certain executives as disclosed in table 2 above. No performance rights have been granted to the non-executive directors of the Board of Directors under this scheme. There is no issue price for the performance rights granted and there is no exercise price applicable. Each performance right when exercised will result in each of the participants acquiring one fully paid ordinary share in the Company.

As stated earlier, there were no options granted to key management personnel during the current financial year. Since the end of the financial year, there were no options or performance rights granted or shares issued to key management personnel.

SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS AND PERFORMANCE RIGHTS (CONSOLIDATED)

There were no options or performance rights exercised by the relevant executives during the current financial year as the options were “well out of the money” and the performance rights had not vested as at 30 June 2006.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Directors' Meetings | Meetings of Committees | | |
|-------------------------------------|---------------------|------------------------|--------------|----------|
| | | Audit | Remuneration | Science |
| Number of meetings held: | 13 | 4 | – | 4 |
| Number of meetings attended: | | | | |
| Dominique Fisher | 11 [11] | 3 [3] | – | – |
| Leon Serry | 13 | – | – | 4 |
| Graeme Kaufman | 12 [13] | – | – | 4 |
| John Stocker | 13 | – | – | 4 |
| James MacKenzie | 13 | 4 | – | – |
| Don Clarke | 9 [11] | 3 [3] | – | – |
| Peter Derham | 3 [3] | 1 [1] | – | – |

Where a director did not attend all meetings of the Board or relevant Committee, the number of meetings for which the director was eligible to attend is shown in brackets.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit Committee, Remuneration Committee and Science Committee of the board of directors.

Members acting on the committees of the board during the year were:

| Audit | Remuneration | Science* |
|----------------------------------|--|----------------------|
| J MacKenzie (Chairman) | D Clarke (Chairman) (appointed 12/9/05) | J Stocker (Chairman) |
| D Fisher (appointed 12/9/05) | J Stocker | L Serry |
| D Clarke (appointed 30/11/05) | J MacKenzie | G Kaufman |
| P J Derham (retired 6/10/05) | P J Derham (retired 6/10/05) | R Klupacs |

* The Science Committee was established on 2 August 2005 and members acting on this committee were appointed on the same day.

AUDITOR INDEPENDENCE

The directors received the following declaration from the auditor of Circadian Technologies Limited.



AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF CIRCADIAN TECHNOLOGIES LIMITED

In relation to our audit of the financial report of Circadian Technologies Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Denis Thorn, Partner, 25 August 2006

NON-AUDIT SERVICES

The following non-audit services were provided by the consolidated entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|-------------------------|----------|
| Tax compliance services | \$ 8,090 |
| Accounting advice | \$ 9,270 |

This report has been signed in accordance with a Resolution of the Directors made on 25 August 2006.

For and on behalf of the Board:

Leon Serry
Director

Dominique Fisher
Director

Melbourne
25 August 2006

Corporate Governance Statement

The Board of Directors of Circadian Technologies Limited is responsible for the corporate governance of the economic entity and guides and monitors the business and affairs of the Company on behalf of its shareholders.

The format of the Corporate Governance Statement is based on the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. In accordance with the Council's recommendations, the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Circadian Technologies Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

| | |
|---------------|--|
| Principle 1. | Lay solid foundations for management and oversight |
| Principle 2. | Structure the board to add value |
| Principle 3. | Promote ethical and responsible decision making |
| Principle 4. | Safeguard integrity in financial reporting |
| Principle 5. | Make timely and balanced disclosure |
| Principle 6. | Respect the rights of shareholders |
| Principle 7. | Recognise and manage risk |
| Principle 8. | Encourage enhanced performance |
| Principle 9. | Remunerate fairly and responsibly |
| Principle 10. | Recognise the legitimate interests of stakeholders |

Circadian's corporate governance practices were in place throughout the year ended 30 June 2006 and were fully compliant with the Council's best practice recommendations except for:

- the recommendation regarding the establishment of a nomination committee. The reason for not establishing this committee is explained in the section of this report headed Structure of the Board.
- the Company's Audit Committee comprised three members up until the time of resignation of Ian Davis in April 2005. In September 2005, Dominique Fisher was appointed a member of the Audit Committee to fill this vacancy. Further details are provided in the section of this report headed Audit Committee. Sir Peter Derham retired as a director at the Company's last AGM on 6 October 2005. The vacated Audit Committee position was filled by Don Clarke in November 2005, before the next scheduled audit committee meeting took place.

For further information on corporate governance policies adopted by Circadian Technologies Limited, refer to its website: www.circadian.com.au/governance.htm.

STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of director held by each director in office at the date of this report are included in the Directors' Report under the section headed Directors. Directors of Circadian Technologies Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

In the context of director independence, to be considered independent, a non-executive director may not have a direct or indirect material relationship with the Company. The Board has determined that a material relationship is one which impairs or inhibits, or has the potential to impair or inhibit, a director's exercise of judgement on behalf of the Company and its shareholders.

From a quantitative perspective, an item is considered to be quantitatively immaterial if it is equal to or less than 5% of the relevant base amount. It is considered to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the relevant base amount.

In accordance with the definition of independence above, and the materiality thresholds described, the following directors of Circadian Technologies Limited are considered to be independent:

| Name | Position |
|-------------|----------------------------------|
| D Fisher | Chairman, Non-Executive Director |
| J Stocker | Non-Executive Director |
| J MacKenzie | Non-Executive Director |
| D Clarke | Non-Executive Director |

The Board has procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

| Name | Term in Office |
|-------------|----------------|
| D Fisher | 1 year |
| L Serry | 22 years |
| G Kaufman | 4 years |
| J Stocker | 10 years |
| J MacKenzie | 4 years |
| D Clarke | 1 year |

To ensure the board is well equipped to discharge its responsibilities it has guidelines for the nomination and selection of directors and for the operation of the board. As the Circadian board is not a large board, a formal nomination committee has not been established as no real efficiencies would be gained from the existence of such a committee. The charter of the nomination committee has been incorporated into the board charter and as such the board of directors considers all matters that would be relevant for a nomination committee. For additional details please refer to the Company's Board Charter on its website.

AUDIT COMMITTEE

The Audit Committee operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective control framework exists within the entity. This includes ensuring that there are internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations.

The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit Committee.

The Audit Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial statements. All members of the Audit Committee are non-executive directors. The members of the Audit Committee during the year were James MacKenzie, Dominique Fisher (appointed September 2005), Don Clarke (appointed November 2005) and Sir Peter Derham (retired 6 October 2005).

From the time of resignation of Ian Davis in April 2005 to the time of appointment of Dominique Fisher to the Audit Committee in September 2005, Circadian's Audit Committee comprised two members (both independent, non-executive directors), however the ASX Corporate Governance Council recommendations state that there be a minimum of three members on an Audit Committee, which is also a requirement of the ASX Listing Rules for listed entities who were in the top 300 of the S&P All Ordinaries Index at 1 July 2004 (which included Circadian, however at 1 July 2005 Circadian was not included in this index). The only other independent non-executive director of Circadian was precluded from becoming a member of the Audit Committee due to his commitments on other Boards of Directors at that time. The Company advised the Australian Stock Exchange of the situation at that time and that the Company was working on remedying it as soon as practicable. The ASX advised that they had other companies in this situation and that they fully understood Circadian's position.

The Audit Committee is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory review. The Audit Committee Charter can be found on the Company's website.

Qualifications of audit committee members

James MacKenzie, who is also Chairman of the Audit Committee, is the Chairman of Mirvac Group and the Victorian Transport Accident Commission and is a Director of the Victorian WorkCover Authority. He has previously held the positions of Managing Director, Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia and the Transport Accident Commission. A Chartered Accountant by profession, Mr MacKenzie was a partner of an international accounting firm now part of Deloitte.

Dominique Fisher has extensive business experience in the corporate area including the commercialisation of new technologies. She is Principal and Executive Director of EC Strategies Pty Ltd, which advises local and overseas companies on electronic commerce strategies and major commercial transactions. She is a former director of Insurance Australia Group (IAG) and was a member of its Risk Management and Compliance Committee from 2000 to 2004.

Don Clarke has been a partner with the law firm Minter Ellison since 1988, having joined that firm in 1980. His principal areas of practice include capital raisings, corporate restructures, business acquisitions and funding for business expansions and new ventures.

Sir Peter Derham, who retired on 6 October 2005, has extensive experience as a Chairman and a Managing Director, being a former Managing Director of Nylex Corporation Limited, former President of St John Ambulance Australia (Victoria), former Chairman of the CSIRO Advisory Council and Rothschild Australia Limited.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report under the section headed Directors' Meetings.

PERFORMANCE

Policies and procedures in place with respect to monitoring the performance of the board are set out in the Directors' Report under the section headed Remuneration Report.

REMUNERATION COMMITTEE

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant market conditions. To assist in achieving this objective the Remuneration Committee remunerates directors and executives having regard to their performance and the performance of the Company. The expected outcomes of the remuneration policies and practices are to enable the Company to motivate, retain and attract directors and executives who will create value for shareholders.

Details relating to policy for performance evaluation and the amount of remuneration (monetary and non-monetary) paid to each director and to the non-director executives (Circadian had two non-director executives during the year) are set out in the Directors' Report under the section headed Remuneration Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The members of the Remuneration Committee during the year were Dr John Stocker, James MacKenzie, Sir Peter Derham (retired 6 October 2005) and Don Clarke (appointed to the Committee in September 2005). Details relating to performance evaluation are set out in the section of the Directors' Report headed Remuneration Report. For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to the Directors' Report under the section headed Directors' Meetings.

SCIENCE COMMITTEE

A Science Committee was established by the board in August 2005.

The Science Committee's role is to review/perform due diligence of prospective new projects from a scientific and commercial perspective. The members of this committee are Dr John Stocker (Chairman), Leon Serry, Graeme Kaufman and Robert Klupacs (a senior executive of the Company).

The combined skills of this committee provide a mix of relevant experience in the areas of scientific research and development, patents and commercial experience. For details on the number of meetings of the Science Committee during the period since its inception to 30 June 2006 and the attendees at those meetings, refer to the Directors' Report under the section headed Directors' Meetings.

Review of Operations Report

During the year ended 30 June 2006, Circadian and its subsidiary companies ("the Company" or "Circadian") further progressed its research projects in the areas of neuroscience and cancer.

On 1 May 2006, Circadian announced a major cancer development collaboration with the New York based Ludwig Institute for Cancer Research (Ludwig) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) with the formation of a new company, Vegenics Limited (Vegenics), to develop and commercialise the intellectual property and technology of Ludwig and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On 4 July 2006, Circadian made an initial equity injection of \$4 million into Vegenics, which is 50% owned by Circadian and 50% owned by Ludwig and Licentia. Vegenics will initially focus on developing peptide and antibody antagonists to two forms of VEGF (VEGF-C and VEGF-D) as anti-tumour agents. It is currently the intention of Vegenics to raise a minimum of \$16m additional new equity within 12 months, by way of an ASX listing or private equity raising at a market capitalisation in excess of \$50m.

VEGENICS LIMITED (Circadian interest 50%)

Research scientists from the Angiogenesis Laboratory at the Ludwig Institute for Cancer Research (Melbourne). This laboratory made key discoveries relating to Vegenics Limited (left to right):

Dr Maria Macheda, Mr Keith Weymouth, Ms Nicole Harris, Dr Steven Stacker, Ms Rae Farnsworth, Dr Teruhiko Sato, Dr Marc Achen and Ms Racheal Inder (seated).



Ludwig and Licentia have developed an extensive VEGF patent portfolio, comprising more than 50 granted patents in USA, Europe, Japan and Australia and over 400 pending patent applications worldwide. Ludwig and Licentia have agreed to share with Vegenics any licensing or royalty income they receive from existing third party licences under the IP estate.

The licence and shareholder agreements between the parties were subject to patent and legal due diligence by Circadian, satisfactory completion of which was announced on 30 June 2006.

On 8 September 2005, the Company announced a new cancer vaccine project based on research at Monash University and the University of Melbourne. The project is centred on the development of novel immunising agents with potential application in the development of vaccines against cancer. Circadian has committed \$1.2m in research funding over two years to demonstrate in laboratory models that the improved immune response will result in better treatment outcomes.

In March 2006, Circadian completed an agreement with Monash University for a new research project based on a novel technology for the development of stable peptides as therapeutic agents. The project builds on work carried out by a team at Monash University which has developed a method of replacing internal molecular linkages known as disulphide bonds with more stable carbon bonds, in a highly specific fashion. The technology may have applications in stabilising peptides used in a range of therapeutic indications. Circadian has committed \$250,000 in research funding over 12 months with an option to extend funding at the same level for a further 12 months.

On 15 June 2006, we announced an extension to our collaboration with the University of Sydney on GABA_A antagonists for potential memory enhancement, with an additional commitment of \$254,773 in research funding over 12 months.

During the year we contributed further equity to two of our listed investee companies. On 10 April 2006, through its wholly owned subsidiary Polychip Pharmaceuticals Pty Ltd, Circadian participated in a share placement by Antisense Therapeutics Limited with an additional investment of \$1m. In May 2006, Fibre Optics (Aust) Pty Ltd, a wholly owned subsidiary of Circadian, contributed \$1.15m to Avexa Limited by way of a non-renounceable rights issue.

PROJECTS AND TECHNOLOGY HOLDINGS

The following is an update on the Company's interests in research and development projects and listed technology holdings for the year ended 30 June 2006.

LISTED TECHNOLOGY HOLDINGS

KEY HIGHLIGHTS

Circadian's interests in listed technology holdings are detailed below. The key operational highlights of these listed holdings during the period under review are excerpts from the respective listed company's Australian Stock Exchange announcements. To form a view on the operations and performance of these listed companies, the ASX announcements issued by these companies should be read in full together with information available on their respective websites.

METABOLIC PHARMACEUTICALS LIMITED

Advanced Obesity Drug & Other New Drug Development Projects

Circadian Holding 30 June 2006 –

Market Value: \$18.5 million; **Original cost:** \$10K

Shareholders: Circadian: 16.9%; Monash University: 7.6%; Others: 75.5%

Company Background

In November 1998, Metabolic Pharmaceuticals Limited (Metabolic) was listed on the Australian Stock Exchange. Metabolic was formed and listed by Circadian with Monash University and Circadian as the major shareholders with the mission of developing therapies for metabolic diseases that have high market potential such as obesity and adult onset diabetes. Since that date Metabolic has also conducted other early stage research projects. Metabolic acquired 100% of the obesity project, previously jointly owned by Circadian (through its wholly owned subsidiary Polychip Pharmaceuticals Pty Ltd) and Monash University.

Circadian shareholders received an entitlement to subscribe for 1 option for every 1 share held in Circadian on the payment of 1 cent, which were exercisable at 20 cents prior to 31 July 2003.

AOD9604 Obesity Drug

The following are excerpts from Metabolic's 2005 Annual Report:

"Obesity is a condition now suffered by more than 20% of the adult population in developed countries, or more than 300 million adults worldwide. In addition, more than 50% of adults in developed countries are overweight and are potential candidates for pharmaceutical intervention. Obesity is the western world's most common health problem."

"Currently, the two most popular obesity drugs act to suppress food intake, either by affecting the brain to reduce appetite or by affecting the gut to reduce absorption of dietary fat. Both are accompanied by significant side effects."

"AOD9604 passed the initial single-dose safety phase of clinical development (Phase 1 human clinical trial) in 2001 in non-obese subjects. In 2002 and 2003, short term trials in obese male subjects established that the drug is active on fat metabolism after both intravenous and oral administration.

During 2004, the Company completed the first weight loss trial on AOD9604."

"The primary aim of the trial was to measure weight loss and fat loss after 12 weeks of daily oral dosing in 300 obese males and females, compared to placebo.

The results of the trial provided evidence that AOD9604 has competitive efficacy on both weight and waistline, and based on the results so far, shows excellent tolerability as an obesity therapy. In addition, beneficial trends were seen in cholesterol profiles and in the risk of developing type 2 diabetes, the two major health risks associated with obesity. Although the primary end point (weight loss at 3 months) at the 1 mg dose was just outside statistical significance, the secondary end point (rate of weight loss over 3 months) was highly significant and strongly supported by numerous other significant comparisons and trends within the overall data set.

As the lowest dose (1 mg) used in the trial was the most effective, a further Phase 2 human clinical trial is needed to confirm the findings and to assess whether a daily dose slightly lower than 1 mg may be the most effective. This study will explore doses of 0.25, 0.5 and 1 mg compared to placebo and will extend the total treatment period to 24 weeks. This study is expected to begin in late 2005, and dosing is expected to be completed in late 2006.

Update

The following are excerpts from Metabolic's ASX announcements as released on the dates indicated. These excerpts should be read in conjunction with their respective announcements.

On 18 October 2005, Metabolic announced "the start of the recruitment process for subjects in the low dose Phase 2B human clinical trial of obesity drug AOD9604." "Sixteen clinical trial sites in Australia will participate in the study enrolling 480 obese men and women ... Ethics approvals have been obtained at two sites and the approval process is well advanced at each other site. Recruitment has started at one of the sites and it is anticipated that screening of candidates for enrolment into the study will begin within a few weeks." "Given the staggered and time consuming nature of the recruitment process, the last subject is expected to complete the study in early 2007."

Metabolic provided a further update on 10 May 2006, advising that "The low dose, Phase 2B trial for Metabolic's obesity drug, known as the OPTIONS Study, is proceeding ahead of schedule with full recruitment achieved in April 2006. 536 subjects were enrolled into the study, which is designed to confirm the drug's efficacy at 1 mg and assess efficacy at lower doses than previously tested (0.5 mg and 0.25 mg). Metabolic expects to announce the results of this obesity trial in March 2007."

Pain Drug ACV1

The following are excerpts from Metabolic's 2005 Annual Report:

"A survey conducted in the USA estimated that four out of 10 adults experience pain daily and nine out of 10 experience pain monthly. Drugs used for the management of pain form a large segment of the pharmaceutical market. Neuropathic ("nerve") pain is the most difficult form of pain to treat."

"Metabolic acquired an exclusive worldwide license to the ACV1 technology from the inventors, in late 2003. ACV1 is a 16 amino acid peptide compound discovered in the venom of the Australian marine cone snail, *Conus victoriae*, one of a class of cone snails which prey on shellfish. Cone snails have evolved a rich cocktail of peptides in their venom, which act together by a variety of mechanisms in the nervous system to quickly immobilise or kill their prey. These peptides are known as conotoxins – small, disulphide-rich peptides that each potently and specifically target channels or receptors in the nervous system."

"ACV1 has been tested in several well-established animal pain models and shows efficacy in relieving the characteristic pain symptoms of neuropathy, allodynia and hyperalgesia, following subcutaneous (s.c.) or intramuscular (i.m.) dosing. In addition, evidence suggests that ACV1 accelerates the recovery of injured nerves and tissues."

Update

On 16 November 2005, Metabolic announced "successful results of the Phase 1 single and multiple dose human clinical trial of its innovative pain drug, ACV1, which will move into Phase 2A human trials in 2006 in

METABOLIC PHARMACEUTICALS LIMITED (Circadian interest 16.9%)

Associate Professor Bruce Livett, principal inventor of Metabolic's pain drug, ACV1.



patients suffering from neuropathic pain. This Phase 1 study was the first time ACV1 has been administered to humans. The aim, when delivered by subcutaneous injection to healthy male volunteers, was to assess: safety and tolerability (which was the primary endpoint); pharmacokinetics of the drug (the appearance and disappearance of the drug in the body, particularly in the blood); and pharmacodynamics of the drug (the physiological effects of the drug in the body)."

On 10 May 2006, Metabolic confirmed that "Preparation for the Phase 2A program for Metabolic's pain drug is currently in progress. It is anticipated that two trials exploring different neuropathic pain conditions will run in tandem. ... The studies will be conducted in Australia and the first trial design is expected to be announced on commencement in Q306."

Other Projects

Metabolic is conducting preclinical research in several other disease areas, including the potential use of AOD9604 in treatment of osteoporosis and the use of Neural Regeneration Peptide (NRP) to prevent or reverse nerve damage.

Metabolic's public announcements, which can be found on www.asx.com.au (ASX code: MBP) and www.metabolic.com.au and its 30 June 2006 annual report, once released, should be read in conjunction with this report.

ANTISENSE THERAPEUTICS LIMITED

Gene Directed Therapeutics

Circadian Holding 30 June 2006 –

Market Value: \$3.3 million; **Original cost:** \$2.8 million

Shareholders: Circadian: 22.1%; Syngene: 11.7%; Others: 66.2%

Company Background

In December 2001, Circadian listed Antisense Therapeutics Limited (ATL) on the Australian Stock Exchange. Circadian and Syngene shareholders received an entitlement to subscribe for one option, at one cent, to take up one unissued share in ATL at 20 cents on or before 1 February 2007 for every Circadian and Syngene share held as at the record date (namely 8 January 2002). Also, Circadian owns 42.4% of the issued capital of Syngene Limited and has been allotted 9,796,000 ATL options at a cost of 1 cent each. Circadian has also purchased 10,129,480 ATL options in on-market and off-market transactions since ATL's listing.

The following extracts from the Antisense Therapeutics' 2005 Annual Report summarise the technology, partnerships and research pipeline of Antisense:

"Antisense drugs are synthetic RNA-like and DNA-like compounds designed for use as medicines, which block disease processes by targeting messenger RNA with extraordinary precision. Unlike conventional small molecule medicines, the discovery of which requires time-consuming and laborious trial-and-error, antisense medicines are rationally designed by directly exploiting the huge body of genetic information now available from the human genome project.

Antisense drugs have the potential to treat a wide range of conditions and diseases including autoimmune, infectious, inflammatory, dermatological, metabolic and cardiovascular diseases as well as cancer.”

“A fundamental element of the Antisense Therapeutics strategy is its access to state of the art antisense technology, both in respect of know-how and intellectual property to accelerate drug discovery and development derived from its strategic partnership with Isis Pharmaceuticals, Inc. ...The collaboration agreement with Isis provides Antisense Therapeutics with access to Isis's antisense drug discovery technology to commercialise antisense drugs including exclusive licenses to ATL1101 for Psoriasis and ATL1102 for Multiple Sclerosis. Isis has large scale antisense manufacturing capabilities and significant manufacturing capacity, and has already manufactured batches of bulk drug product for Antisense Therapeutics and will be available to manufacture further quantities for use in clinical trials.”

Multiple Sclerosis (ATL1102)

The following are excerpts from Antisense Therapeutics' 2005 Annual Report:

“Multiple Sclerosis (MS) is a life-long, chronic disease that progressively destroys the central nervous system (CNS). It affects approximately 400,000 people in North America and the current market for MS drugs is estimated at more than US\$4 billion. It is a disease that affects more women than men, with onset typically occurring between 20 and 40 years of age ... worldwide MS may affect more than one million people.”



ANTISENSE THERAPEUTICS LIMITED (Circadian interest 22.1%)

Research Director, Dr Christopher Wraight (left) and Managing Director, Mr Mark Diamond (right) in Antisense Therapeutic Limited's laboratory at the Murdoch Childrens Research Institute.

“ATL1102 is a second-generation antisense inhibitor of CD49d, a sub-unit of VLA-4 (Very Late Antigen-4). In MS, white blood cells (leukocytes) are believed to inappropriately migrate from the blood into the CNS. The inhibition of VLA-4 may prevent white blood cells from entering the CNS to stop the progression of MS. ATL1102 is designed to block the over production of VLA-4.”

“On 10 March 2005, Antisense Therapeutics announced that in light of the safety issues associated with the Multiple Sclerosis drug Tysabri® [*being the MS drug which has been developed by US Company Biogen Idec and its partner Elan Corporation*], it had voluntarily halted its Phase IIa trial of ATL1102 in MS patients and would convene an advisory group of relevant experts to consider the potential development paths for ATL1102 in this disease, including the possible restart of the Phase IIa program.”

Update

On 12 January 2006, Antisense Therapeutics reported that “the Ethics Committee of the University of Essen in Germany has approved the Company's application to restart the Phase IIa trial of its antisense compound, ATL1102, for patients with relapsing remitting multiple sclerosis. The University of Essen is the primary trial site for the Phase IIa clinical trial. The Company now has the requisite approval and regulatory documentation in place to restart the Phase IIa trial at this centre.”

“Patient enrolment and dosing are expected to commence at the University of Essen in February/March 2006. The other 8 trial centres will, in turn, be initiated in the coming months. The treatment and patient monitoring stages of the 80-patient trial are expected to be completed by the end of 2006 assuming patient recruitment proceeds at the anticipated rate.”

Biogen IDEC has developed Tysabri®, a monoclonal antibody drug also targeting VLA-4. This drug was earlier withdrawn from the market following possible adverse side-effects. On 7 June 2006, Antisense reported that the US Food and Drug Administration “approves the reintroduction of Tysabri® for the treatment of relapsing forms of multiple sclerosis”. Antisense Therapeutics went on to say that this “supports the potential of Antisense Therapeutics' Phase IIa drug ATL1102 for Multiple Sclerosis”.

On 21 June 2006, Antisense Therapeutics reported that “dosing has commenced in the Phase IIa clinical trial of ATL1102 in patients with relapsing remitting Multiple Sclerosis (MS). The study, a multi-centre, randomized, double-blinded, placebo-controlled clinical trial in approximately 80 patients with relapsing-remitting MS, is being conducted at 9 clinical trial sites across Germany. The trial will assess the activity and safety of the drug in MS patients.”

Other Research Projects

During the year Antisense Therapeutics also further progressed other research projects: ATL1102 for asthma and ATL1103 for growth and sight disorders. For further details refer to Antisense Therapeutics' April 2006 Company Update, where Antisense announced:

"Antisense Therapeutics Limited's antisense compound, ATL1103 which is designed to block expression of the human growth hormone receptor (GHR), has successfully demonstrated its intended therapeutic action in a primate study by suppressing the blood levels of a key hormone – the insulin-like growth factor-I or IGF-I. Suppression of blood IGF-I levels is an important clinical indicator of benefit in the treatment of acromegaly and the vision disorders diabetic retinopathy and wet age related macular degeneration."

Antisense Therapeutics' public announcements, which can be found on www.asx.com.au (ASX code: ANP) and www.antisense.com.au, and its annual report for 30 June 2006 once released, should be read in conjunction with this report.

OPTISCAN IMAGING LIMITED

Early Cancer Detection

Circadian Holding 30 June 2006 –

Market Value: \$2.9 million; **Book Value:** \$366K

Shareholders: Circadian: 6.4%; Others: 93.6%

Company Background

In 1994, Fibre Optics (Aust) Pty Ltd (a wholly owned subsidiary of Circadian) acquired a 25% interest in Optiscan Imaging Limited (Optiscan). Optiscan acquired the early cancer detection project and patents from Circadian, Axon Instruments Inc and the inventors who had previously developed and managed the project. In August 1997, Circadian listed Optiscan on the Australian Stock Exchange at which time its interest was diluted to 15.35%. Circadian shareholders received an entitlement to subscribe for 1 option in Optiscan for every 4 shares held in Circadian on the payment of 1 cent, exercisable at 20 cents prior to 31 March 2002.

Optiscan has licensed its technology to six major confocal microscope manufacturers. These licenses do not permit use of the technology for the medical endomicroscopes, which remain the core focus of Optiscan's research and development.

The following information about Optiscan's main products in development and its licensing agreements have been derived from various public announcements made by Optiscan:

Flexible Endo-microscope

In February 2002, Optiscan "signed an important collaborative development and commercialisation agreement with Asahi Optical Co Ltd of Japan (better known as Pentax), the world's second largest manufacturer of medical endoscopes" (8 February 2002, ASX announcement). "Pentax recognised that Optiscan's unique confocal microscope technology coupled with their endoscopes would provide a quantum leap in the field of colonoscopy." (AGM 13 November 2002, Managing Director's address)

"Optiscan's technology enables a miniature microscope to be built into an endoscope, enabling immediate cellular level examination, without biopsy. It is believed that this breakthrough capability will provide Pentax with a competitive advantage in global endoscopy markets." (Investor Update February 2002)

"Excellent clinical efficacy data now support the use of the flexible endo-microscope in detection and diagnosis of several of the most important gastrointestinal diseases including: Barrett's Esophagus...Ulcerative Colitis... Helicobacter Pylori...Colon cancer ...and Gastric cancer...Numerical efficacy data from several of the studies have consistently demonstrated high diagnostic accuracy using Optiscan/Pentax flexible endo-microscopes." (15 April 2005, ASX announcement).

Update

Optiscan announced on 6 March 2006 that "Pentax Corporation today announced the sales release of the Pentax ISC 1000 flexible endo-microscope ... The ISC 1000 flexible endo-microscope is a major product initiative for Pentax. It provides doctors with previously unobtainable levels of magnification (1000x) and resolution (0.001mm) enabling them to observe cells and cellular structures in real time during an endoscopic examination."

On 24 May 2006, Optiscan reported "The largest international congress for Gastroenterologists has featured presentations on a growing number of applications for the Optiscan/Pentax flexible endo-microscope. Doctors leading the Pentax international clinical trial program presented exciting data spanning 9 separate disease conditions, including four previously unreported. ... The four new uses for endo-microscopy reported at the congress were diagnosis of gastric intestinal metaplasia, ... diagnosis & monitoring of Celiac's disease, ... non-erosive reflux disease ... [and] collagenous colitis. ... Investigators also presented additional data from ongoing studies with expanded patient populations for the previously established clinical uses.

OPTISCAN IMAGING LIMITED (Circadian interest 6.4%)

Dr Ralf Kiesslich using the endo-microscope, which is now a routine procedure for patients with ulcerative colitis, at the Mainz University Hospital in Germany.



... Presenting doctors have reported consistently high sensitivity, specificity and overall accuracy in all applications. In several of the studies, doctors found significantly more disease using endo-microscopes than by taking conventional biopsies."

Rigid Endoscope

Using its patented technology, Optiscan developed the world's first rigid endo-microscope. Rigid endoscopes have potential use in examining relatively easily accessible regions in the body.

"The miniaturised technology which enabled the flexible endoscope has been incorporated into a range of clinical grade prototype rigid endoscopes. This activity has created a product group with possible applications in gynaecology, orthopaedics, head and neck cancer, urology and keyhole surgery." (AGM 13 November 2002, Managing Director's address)

"Over the last year or so doctors and researchers who have used our prototype rigid instruments in pre-clinical research studies have consistently asked us if an endo-microscope instrument is available for commercial purchase. After careful analysis we have decided to develop and supply such an instrument. It will be called the Optiscan FIVE 1 ... In essence, the instrument will be a repackaging of the miniaturised scanner supplied to Pentax into a small rigid endoscope style probe. Other technical variations to the instrument will be extremely modest and hence low cost and quick to achieve."

(AGM 8 November 2005, Managing Director's address)

Update

On 30 November 2005, Optiscan announced that it had "exhibited the new Optiscan FIVE 1 research instrument for the first time at [the World Drug Discovery and Development Summit in Copenhagen]. It is a major event that brings together senior executives from leading drug development companies around the world and is the ideal platform for the global market introduction of this innovative instrument."

"The Optiscan FIVE 1 is a powerful handheld fluorescence in vivo endo-microscope that offers drug development researchers new capabilities to accelerate their preclinical research."

Optiscan's public announcements, which can be found on www.asx.com.au (ASX code: OIL) and www.optiscan.com and its 30 June 2006 annual report once released, should be read in conjunction with this report.

ZENYTH THERAPEUTICS LIMITED

(formerly Amrad Corporation Limited)

Circadian Holding 30 June 2006 –

Market Value: \$13.3 million; **Original cost:** \$16.8 million

Shareholders: Circadian: 22.6%; Others: 77.4%

Company Background

Zenyth Therapeutics Limited (Zenyth) is a drug discovery and development company based in Melbourne. It was established as Amrad Corporation Limited by the Victorian Government to commercialise local biomedical research, and listed on the ASX in December 1996.

Zenyth's core business is the research and development of medicines to treat human diseases, and its portfolio of R&D compounds has resulted both from in-house research and from collaborations with leading Australian medical research institutes. It has research collaborations with overseas companies including Merck & Co Inc and Cambridge Antibody Technology Plc.

Circadian, Zenyth's largest shareholder, made its initial purchase of 8.4 million shares in May 2000, and over the period to July 2002 increased its holding to 28.3 million shares. The market value of Circadian's holding in Zenyth as at the date of this report is \$23.5 million, compared to the original cost of \$16.8m.

Merger Proposal

On 17 July 2006, CSL Limited (Australia's largest biopharmaceutical company, capitalised at around \$9b) and Zenyth announced a merger proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders.

The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited (representing an additional value of approximately four cents per Zenyth share). The total consideration of 86 cents per Zenyth share values Zenyth at approximately \$108 million and represents a 79% premium to the one month volume weighted average price of 48 cents.

The scheme will require the approval of Zenyth's shareholders and the approval of the Supreme Court of Victoria. The meetings to approve the scheme of arrangement are expected to be held in early to mid October 2006.

Update

Some of the announcements made by Zenyth to the Australian Stock Exchange during the year were:

On 17 August 2005, Zenyth announced that "its partner Merck & Co., Inc has selected an optimized lead therapeutic antibody for full preclinical development as a potential new treatment for asthma and other types of respiratory disease. The antibody targets a subunit of IL-13 receptor over which Amrad holds patents, including a recently granted US patent. Amrad partnered its IL-13 receptor antibody project with Merck in June 2003 in a deal potentially worth US\$112 million, plus royalties on product sales.

The project continues to make excellent progress with Amrad already receiving payments totalling US\$14 million.”

On 22 May 2006, Zenyth announced that “it has received its fourth milestone payment from Merck & Co., Inc. under its agreement to collaborate with Merck on the development of an IL-13 receptor antibody for the treatment of asthma. The payment of US\$2.5 million brings Merck’s total payments to Zenyth since the collaboration began in June 2003 to US\$16.5 million. The deal, which remains one of the largest in Australian biotech history, is potentially worth US\$112 million to Zenyth, plus royalties on potential product sales.”

For further information regarding the progress of Zenyth’s operations, see its public announcements which can be found on www.asx.com.au (ASX code: ZTL) and www.zenyth.com.au and its 30 June 2006 annual report once released.

AVEXA LIMITED

Circadian Holding 30 June 2006 –

Market Value: \$5.4 million; **Original Cost:** \$8.3 million

Shareholders: Circadian: 12.1%; Zenyth: 10.6%; Others: 77.3%

Background

Circadian (through its wholly owned subsidiary Fibre Optics (Aust) Pty Ltd) received 14,132,292 shares in Avexa representing 17.6% of the issued capital of that Company as a result of Amrad Corporation (now Zenyth Therapeutics) demerging and listing its anti-infectives business. In March 2005, Circadian further subscribed to 5,000,000 ordinary shares at 20 cents per share in a \$12 million capital raising by Avexa. In May 2006, Circadian subscribed for an additional 4,783,073 ordinary shares at 24 cents per share in a non-renounceable rights issue by Avexa.

On 18 January 2005, Avexa announced “that it has in-licensed the Phase II HIV drug – SPD754 – from global specialty pharmaceutical company Shire Pharmaceuticals Group plc. ... SPD754, a nucleoside reverse transcriptase inhibitor (NRTI), has already successfully completed a Phase IIa trial in 63 HIV-infected patients.”

Update

Avexa announced on 25 July 2005 that “the international Phase IIb trial of its lead HIV compound – AVX754 – is now underway. The trial is aimed at patients who are failing their current HIV therapy. ... The enrolment target for this study is 60 patients ... Patients will be dosed initially for 21 days, followed by a further period of dosing to 24 weeks. This trial design will provide the company with both early proof-of-concept data and also longer term safety data to support the planned Phase III studies.”

On 8 February 2006, Avexa reported “progress with the ongoing AVX-201 Phase IIb trial and its intentions to ramp up preparations towards Phase III development. The AVX-201 Phase IIb trial is a blinded study of the efficacy of AVX754 in the treatment of drug-resistant HIV infection. Although the study is blinded as to the exact treatment an individual receives, no person enrolled

into the trial to date has experienced any adverse effects attributed to the study treatment. No subjects have been withdrawn from the study, and the first subject has completed 6 months of dosing.”

For further information regarding the progress of Avexa’s operations, see its public announcements which can be found on www.asx.com.au (ASX code: AVX) and www.avexa.com.au and its 30 June 2006 annual report once released.

NEUROSCIENCE RESEARCH PORTFOLIO

ALZHEIMER’S DISEASE PROJECT

Project Owner: Circadian: 100%

Project Background

In November 2002, Circadian concluded agreements to provide funding for a research project to develop a potential new treatment for Alzheimer’s disease. This project, to develop an inhibitor to the p75 nerve growth factor receptor, is based on original work carried out at the Walter & Eliza Hall Institute (WEHI). The technology is exclusively licensed to Circadian in consideration for future royalty and milestone income, with patents having been granted in Australia, the US and Singapore and pending in Europe, Canada and Japan.

A characteristic feature of Alzheimer’s disease is the decline and death of particular nerve cells called cholinergic neurons, leading to lowered levels of the vital chemical they produce, called acetylcholine. The currently approved drugs for treating Alzheimer’s attempt to boost the level of acetylcholine to compensate for this loss.

Research at the WEHI has shown that in animal models, inhibition of the p75 receptor decreases the age-related death of these nerve cells, and also increases their size and output of acetylcholine. It has also been shown to improve memory in these models. The aim of the project is to develop an inhibitor with the potential to be more effective than current approved drugs, which become less effective with age as the nerve cells die.

The University of Melbourne has been contracted to conduct this work on the development of this inhibitor and its delivery to the central nervous system. Circadian is managing the project.

Circadian originally committed \$441,000 funding over three years. In April 2003, Circadian also agreed to provide additional funding for the research work, if required, to meet the requirements of the Biotechnology Innovation Grant Deed (a BIF Grant of \$246,000 was awarded in April 2003). In December 2005, Circadian agreed to provide an additional \$200,000 over 12 months to continue the project.

Update

A number of compounds has been synthesised and tested in the assay system for measuring uptake of compounds into the brain. Further work is being undertaken to establish the feasibility of the uptake of antisense oligonucleotides into the brain. Additional work is being conducted on alternative methods of delivery into the brain.

For the period to 30 June 2006, the Company incurred \$269,676 (2005: \$283,180) for research funding with respect to this project. The Company's remaining funding commitment at year end is \$60,470 (2005: \$36,750).

ANALGESIC PROJECT

Non-Sedating Analgesics

Project Owners: Circadian: 85.7%; Monash University: 14.3%

Project background

The aim of the project is to develop a lead compound which provides a pain killing effect without brain related side effects such as drowsiness, nausea or addiction which can result from taking morphine and codeine, the most commonly prescribed analgesics for strong pain.

A survey conducted by Louis Harris (USA) for Ortho-McNeil Pharmaceuticals found that 48.1 million adult Americans or one in four suffer from chronic pain, defined as pain that persists for at least six months. Of these, 45% or 21.6 million people take prescription pain medication regularly to manage their pain condition. Accordingly, the demand for effective prescription pain relief drugs with low side effect profiles is substantial.

Laboratory tests were carried out on selected compounds at an independent research laboratory with the results indicating analgesic effect without the involvement of the central nervous system. A US patent covering some of the compounds was granted in August 2004.

An international patent application was lodged in early 1999, and entered into national phase in the US during the 2000/2001 financial year.

A provisional patent was also filed in August 2001 relating to test results of one of the further compounds developed in 2000/2001. A patent has been granted in Australia.

Update

We are currently producing additional quantities of several candidate compounds to enable more extensive laboratory testing in models of analgesia, with the aim of assembling a data package for approaching potential partners for the project.

A European patent was granted in January 2006 covering one of the families of analgesic compounds.

The Company did not provide any further funding for research work and independent laboratory testing during the year (2005: \$23,643) and does not have a funding commitment as at year end (2005: \$Nil).

MEMORY ENHANCEMENT PROJECT

Project Owners: Circadian: 60%; University of Sydney: 40%

Project background

In March 2002, Circadian entered into a collaboration agreement with the University of Sydney to fund further work on the memory enhancement project based around designing antagonists to specific receptors (known as GABA-C receptors) in the brain, where a family of compounds with potential

for enhancing memory function has already been identified. This work was based on previous research funded by Circadian and a joint provisional patent covering this work was lodged on 30 November 2001.

The project relates to the development of a method of treating memory disorders using compounds which block the GABA-C receptor, which the investigations at the University of Sydney found may be important in memory processes. A European patent was granted in November 2004 for the "method for enhancing cognitive activity using antagonists to the GABA-C receptor in the brain". The equivalent US patent was previously granted in October 2003.

Recently, a similar compound being developed by another company has shown significant results in memory enhancement in Phase 2 human clinical trials.

Update

A US patent was granted in November 2005 on a family of compounds which have been shown in laboratory models to block GABA-C activity.

In June 2006, Circadian agreed to provide additional funding of \$254,773 to enable the production of additional quantities of the compounds, and for the evaluation of these in laboratory models.

For the period to 30 June 2006, the Company incurred \$21,231 (2005: \$Nil) for research funding with respect to this project, which has been fully expensed. The Company's remaining funding commitment at year end is \$191,082 (2005: \$Nil).

NEURODEGENERATIVE DISEASES PROJECT

Project Owners: Circadian: 50%; Howard Florey Institute: 50%

Project background

In October 2003, Circadian concluded an agreement with the Howard Florey Institute to provide funding for a research project to develop novel compounds for the treatment of neurodegenerative disorders such as stroke, Parkinson's disease and Alzheimer's disease.

The project is owned 50% by Circadian and 50% by the Howard Florey Institute with Circadian providing funding of \$400,000 over a five year period.

Update

Following a review of the project and the current scientific literature, it was decided not to pursue this project further. The balance of the funding previously provided for this project is to be diverted to the Paracetamol project, effective 1 July 2006.

For the period to 30 June 2006, the Company provided \$80,000 (2005: \$80,000) for research funding with respect to this project which has been fully expensed. The Company's remaining funding commitment at year end is \$160,000 (2005: \$240,000).

PARACETAMOL PROJECT

Project Owners: Circadian: 50%; Howard Florey Institute: 50%

Project background

In November 2003, Circadian entered into a one-year collaboration agreement with the Howard Florey Institute relating to the potential for modifying the paracetamol molecule.

The aim of this project is to modify the paracetamol molecule to potentially reduce any possible side-effects while maintaining its painkilling properties.

The total cost for the initial stage of this project was \$40,000, and this has been fully expensed.

Update

Two candidate compounds have been synthesised and tested with encouraging results.

Based on these promising results, it has been decided to divert the funding originally provided for the Neurodegenerative Diseases project to enable extension of work on these candidate compounds.

The Company did not provide any further research funding during the financial year.

CANCER RESEARCH PORTFOLIO**CANCER VACCINES PROJECT**

Project Owners: Circadian: 50%; Monash University: 50%

Project background

In September 2005, Cancer Therapeutics Limited (a wholly owned subsidiary of Circadian) concluded agreements to provide funding for a new research project, based on the development of novel immunising agents with potential application in the development of vaccines against cancer.

The project builds on original work carried out at Monash University and the University of Melbourne. Patent applications covering the technology are currently in National Phase in major jurisdictions.

The use of vaccines as a potential therapy for cancer is attracting significant attention in the research community, as they may potentially offer a more effective approach to treatment with fewer side effects than current cytotoxic drugs. The vaccine approach is based on using a protein or peptide antigen to stimulate an immune response to the cancer cells, which may then be eliminated by the body's immune system.

The full potential of this vaccine strategy to date has been limited by issues related to the stability of the antigen after administration, and the ability of the antigen to stimulate the optimal immune response. The scientists at Monash and Melbourne have developed a method of introducing modifications to the antigen which may improve its stability and generate improved immune responses in models of anti-tumour immunity, while maintaining its specificity for the target.

CANCER VACCINES PROJECT (Circadian interest 50%)

The key research scientists involved in the Cancer Vaccines Project carried out at Monash University and the University of Melbourne (left to right):

Associate Professor Mibel Aguilar, Associate Professor Patrick Perlmutter and Dr Anthony Purcell (photo courtesy of Monash University)



Circadian has committed \$1.2m in research funding over two years to demonstrate in laboratory models that the improved immune response will result in better treatment outcomes. Circadian is managing the project, which is based at Monash University.

Update

Work is proceeding according to the project plan to develop and validate new stable and specific mimics of T cell epitopes for tumour immunotherapy.

On 7 July 2006, the Australian Research Council announced the award of a \$671,000 Linkage Grant to Monash University to support the project. The additional funding will be used to accelerate the project and to increase its scope.

For the period to 30 June 2006, the Company incurred \$252,923 for research funding with respect to this project, which has been fully expensed. The Company's remaining funding commitment at year end is \$662,742.

CANCERS OF UNKNOWN PRIMARIES PROJECT

Project Owners: Circadian: 50%; Peter MacCallum Cancer Centre: 50%

Project background

In November 2003, Circadian (through its wholly owned subsidiary Cancer Therapeutics Limited) concluded collaboration agreements with the Peter MacCallum Cancer Centre (Peter MacCallum) whereby Circadian provides the funding and commercialisation/management expertise for a research project aimed at diagnosing cancers of unknown tissue origin. The test involves DNA microarray-based gene expression profiling to assist in the treatment of the tumour with the potential to provide a more accurate diagnosis of the disease. This project is based at the Peter MacCallum Cancer Centre in Melbourne, and Circadian will actively collaborate with the Peter MacCallum on the project.

Circadian originally provided a total of \$500,000 in funding over two years to obtain a worldwide exclusive licence for the project, should Circadian exercise its rights under the agreements. Subsequently, in March 2006, Circadian provided a further \$250,000 and extended the project until March 2008.

CANCERS OF UNKNOWN PRIMARIES PROJECT (Circadian interest 50%)

Research scientists involved in the Cancers of Unknown Primaries Project at the Peter MacCallum Cancer Centre (left to right):

Dr Richard Tothill, Professor David Bowtell and Bianca Locandro

**Update**

Work is continuing on the development and testing of a new PCR-based assay platform suitable for routine use in diagnostic laboratories.

A protocol has been developed to access samples from a third party clinical trial (planned to be conducted in the UK) to assist in the validation of the new PCR-based platform.

For the period to 30 June 2006, the Company provided \$112,500 (2005: \$287,500) for research funding with respect to this project, which has been fully expensed. The Company's remaining funding commitment at year end is \$200,000 (2005: \$62,500).

CANCERPROBE PTY LTD

Cancer Diagnostics/Therapeutics

Shareholders: Circadian: 60%; Inventors and Others: 40%

Background

On 8 December 2000, Fibre Optics (Aust) Pty Ltd, a wholly owned subsidiary of Circadian, together with the inventing scientists, incorporated CancerProbe Pty Ltd (CancerProbe) with Fibre Optics providing \$400,000 for research funding in exchange for a 40% shareholding. In June 2005, Fibre Optics subscribed an additional \$300,000, bringing its shareholding to 60%.

CancerProbe has the rights (patent application) to a potential novel method for rapid identification and detection of cancer-specific antigens. The methodology may have applications as a diagnostic product for a broad range of cancers, including breast, ovarian, colorectal and prostate cancers. A PCT patent application covering the technology has been lodged and is now in National Phase.

The market for cancer tests is substantial and current tests in most cases are unsatisfactory.

Update

Samples of markers expressed in breast cancer cells but not in normal cells have been isolated and sequenced. The current focus of the project is the development of monoclonal antibodies to them for inclusion in an assay system. The project has been awarded a Commercial Ready grant of \$225,381 for development of an ELISA assay based on the identified markers.

OTHER RESEARCH**DICARBA ANALOGUES PROJECT**

Project Owners: Circadian: 50%; Monash University: 50%

Project background

In March 2006, Circadian (through its wholly owned subsidiary, Polychip Pharmaceuticals Pty Ltd) concluded an agreement to provide funding for a new research project based on a novel technology for the development of stable peptides, with potential application across a broad range of therapeutic agents. The project builds on original work carried out at Monash University.

Peptides are small protein molecules, including commonly known substances such as insulin, growth hormone and the conotoxins. Increasingly, peptides are being developed as therapeutic agents, as they are easier and cheaper to manufacture than compounds such as antibodies, while potentially retaining good specificity for the target. However, the use of native peptides as therapeutic agents is limited by issues related to the stability of the peptide after administration. The Monash team has developed a method of replacing internal molecular linkages known as disulphide bonds with more stable carbon bonds, in a highly specific fashion. Initial studies suggest that enhanced stability can be achieved without significant loss of activity.

Circadian has committed \$250,000 in research funding over 12 months with an option to extend funding at the same level for a further 12 months. The focus of the project will be to develop and test several candidate compounds to demonstrate proof of principle across several disease categories.

Circadian will manage the project, which will be based at Monash University.

Update

Following execution of the agreement, three provisional patent applications covering the technology were lodged in February 2006.

Experimental work is in progress to demonstrate the utility of the technology in different classes of potential therapeutic peptide molecules, focusing on showing efficacy and stability in laboratory models.

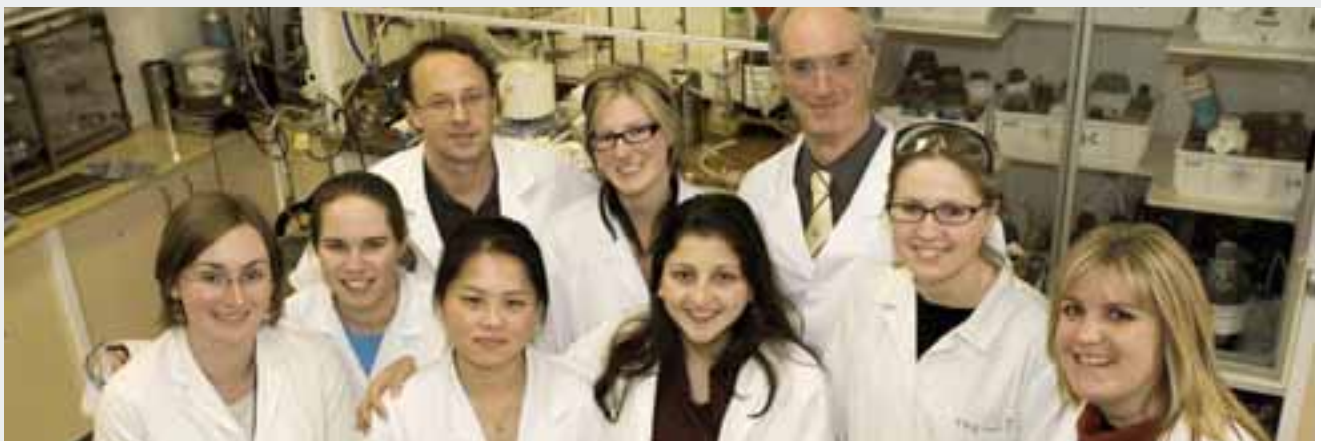
For the period to 30 June 2006, the Company incurred \$198,667 for research funding with respect to this project, which has been fully expensed. The Company's remaining funding commitment at year end is \$28,000.

DICARBA ANALOGUES PROJECT (Circadian interest 50%)

Research scientists involved in the Dicarba Analogues Project at Monash University (left to right):

Back row: Dr Jim Patel, Rebecca Atkins and Professor Roy Jackson

Front row: Amanda Whelan, Bianca van Lierop, Chengxing Guo, Dr Jomana Elaridi, Zuzanna Kosowski and project leader, Dr Andrea Robinson



SYNGENE LIMITED

Gene Diagnostics

Shareholders: Circadian: 42.4%; Castthree Pty Ltd: 20%; Howard Florey Institute: 19.5%; Howard Florey Institute staff and others: 18.1%

Background

On 18 October 1995, Circadian's wholly owned controlled entity, Polychip Pharmaceuticals Pty Limited (Polychip), acquired a 50.2% interest in Syngene Limited (Syngene) for a purchase consideration of \$45,000 and increased it to 53% in May 1996 for an additional \$50,000. In February 2001, Polychip exercised 500,000 options to purchase shares in Syngene for \$50,000. Polychip's interest was diluted to 42.4% as a result of an issue of shares to Castthree Pty Ltd (a subsidiary of Consolidated Press Holdings Limited) on 14 February 2001 for a consideration of \$1.5 million.

Syngene has an exclusive worldwide license from the Howard Florey Institute (HFI), one of the leading medical research institutes in Australia, for technology in the areas of DNA Therapeutics and Diagnostics. The genetic therapeutic approach may offer future treatments in which gene activity can be modified. The market for DNA therapeutics and diagnostics is expected to show future growth especially in light of the completion of the map of the human genome.

As a result of Syngene's projects with HFI, Syngene has exclusive licenses to a patent portfolio in the areas of *in situ* hybridisation, a technology that enables precise location of gene activity in sections of tissue and caters to diagnostic markets.

Syngene has granted non-exclusive worldwide licenses to the HFI patents to six companies, including Roche Diagnostics, Invitrogen and Novocastra Laboratories Ltd.

Update

Negotiations are in progress with other potential licensees with regard to the granting of further non-exclusive licenses to Syngene's technology.

Syngene has a 11.72% holding in Antisense Therapeutics Limited which had a market value of \$1.4 million at 30 June 2006 compared with an original cost of \$505,000.

INHERENT RISKS OF INVESTMENT IN BIOTECHNOLOGY COMPANIES

Some of the risks inherent in the development of a product to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of the necessary drug regulatory authority approvals and difficulties caused by the rapid advancements in technology. Also a particular compound may fail the clinical development process through lack of efficacy or safety. Companies such as Circadian are dependent on the success of their research projects and technology investments. Investment in research projects and technology-related companies cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Thus investment in these areas must be regarded as speculative taking into account these considerations.

This annual report may contain forward-looking statements regarding the potential of the Company's projects and interests and the development and therapeutic potential of the Company's research and development. Any statement describing a goal, expectation, intention or belief of the Company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercialising drugs that are safe and effective for use as human therapeutics and the financing of such activities. There is no guarantee that the Company's research and development projects and interests (where applicable) will receive regulatory approvals or prove to be commercially successful in the future. Actual results of further research could differ from those projected or detailed in this report. As a result, you are cautioned not to rely on forward-looking statements. Consideration should be given to these and other risks concerning the Company's research and development program referred to in this annual report for the period ended 30 June 2006.

Directors' Declaration

In accordance with a resolution of the directors of Circadian Technologies Limited, we state that:

(1) In the opinion of the directors:

(a) the financial report of the company and of the consolidated entity is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

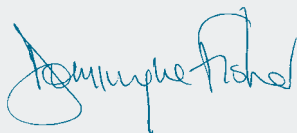
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

For and on behalf of the Board:



Leon Serry
Director



Dominique Fisher
Director

Melbourne
25 August 2006

Balance Sheet

as at 30 June 2006

| | Note | Consolidated | | Parent | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 8 | 14,607,460 | 24,679,406 | 14,248,389 | 24,408,158 |
| Receivables | 9 | 112,241 | 236,960 | 76,967 | 174,125 |
| Prepayments | | 401,660 | 196,847 | 41,438 | 57,711 |
| Intercompany receivables | 26 | – | – | 20,135,688 | – |
| Other financial assets | 10 | 53,718 | 18,720 | – | – |
| | | 15,175,079 | 25,131,933 | 34,502,482 | 24,639,994 |
| Asset classified as held for sale | 11 | 13,284,354 | – | – | – |
| Total Current Assets | | 28,459,433 | 25,131,933 | 34,502,482 | 24,639,994 |
| Non-Current Assets | | | | | |
| Financial investments | 12 | 26,739,165 | 16,959,060 | 1,926,818 | 650,569 |
| Investments in associates | 13 | 2,383,787 | 1,117,024 | – | 544,987 |
| Intercompany receivables | 26 | – | – | 3,444,665 | 19,537,127 |
| Deferred tax asset | 5 | 1,231,854 | 7,194,238 | 5,386,110 | 5,787,279 |
| Plant and equipment | 14 | 44,808 | 38,154 | 44,808 | 38,154 |
| Goodwill | 15 | 149,218 | 226,165 | – | – |
| Total Non-Current Assets | | 30,548,832 | 25,534,641 | 10,802,401 | 26,558,116 |
| TOTAL ASSETS | | 59,008,265 | 50,666,574 | 45,304,883 | 51,198,110 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Payables | 17 | 944,685 | 277,601 | 655,506 | 239,117 |
| Interest bearing borrowing | 18 | – | 5,000,000 | – | 5,000,000 |
| Provisions | 19 | 367,817 | 322,294 | 367,817 | 322,294 |
| Total Current Liabilities | | 1,312,502 | 5,599,895 | 1,023,323 | 5,561,411 |
| Non-Current Liabilities | | | | | |
| Intercompany payables | 26 | – | – | 159,615 | 4,770,016 |
| Deferred tax liability | 5 | 968,883 | – | 9,468 | – |
| Provisions | 19 | 36,304 | 25,156 | 36,304 | 25,156 |
| Total Non-Current Liabilities | | 1,005,187 | 25,156 | 205,387 | 4,795,172 |
| TOTAL LIABILITIES | | 2,317,689 | 5,625,051 | 1,228,710 | 10,356,583 |
| NET ASSETS | | 56,690,576 | 45,041,523 | 44,076,173 | 40,841,527 |
| EQUITY | | | | | |
| Equity attributable to equity holders of the parent | | | | | |
| Contributed equity | 20 | 33,167,977 | 33,167,977 | 33,167,977 | 33,167,977 |
| Retained earnings | 20 | 3,828,295 | 10,001,318 | 9,912,756 | 6,830,370 |
| Reserves | 20 | 19,594,825 | 1,729,815 | 995,440 | 843,180 |
| Parent interests | | 56,591,097 | 44,899,110 | 44,076,173 | 40,841,527 |
| Minority interests | 20 | 99,479 | 142,413 | – | – |
| TOTAL EQUITY | | 56,690,576 | 45,041,523 | 44,076,173 | 40,841,527 |

Income Statement

for the year ended 30 June 2006

| | Note | Consolidated | | Parent | |
|--|-------|------------------------|------------------------|------------------|-------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Finance revenue | | 1,099,054 | 1,500,762 | 2,514,481 | 1,504,404 |
| Investment income | | – | 29,942,876 | – | – |
| Dividends | | – | – | 4,600,000 | 28,000,000 |
| Other revenue | | 67,894 | 112,119 | 22,500 | 17,500 |
| Revenue | 4(a) | 1,166,948 | 31,555,757 | 7,136,981 | 29,521,904 |
| Other income | 4(b) | – | – | 1,820,564 | 2,263,408 |
| Research and development expenses | 25 | (1,080,297) | (700,004) | – | – |
| Patent expenses | | (410,174) | (152,755) | (7,909) | (9,213) |
| Administrative expenses | | (2,635,627) | (2,158,126) | (2,587,626) | (2,128,583) |
| Occupancy expenses | | (112,785) | (112,722) | (112,785) | (112,722) |
| Impairment losses | 4(c) | (729,169) | (5,474,583) | (544,987) | – |
| Impairment of receivables from controlled entities | | – | – | (883,172) | (4,118,097) |
| Share of net profit/(loss) of associates | 13 | (1,655,088) | 76,858 | – | – |
| Foreign exchange losses | 4(a) | (6,629) | (1,092,653) | (5,355) | – |
| Impairment of goodwill | 15 | (76,947) | – | – | – |
| Finance costs | 4(d) | (96,851) | (235,343) | (351,624) | (235,343) |
| Other expenses | 4(e) | (538,689) | – | (538,689) | – |
| Profit/(loss) before income tax | | (6,175,308) | 21,706,429 | 3,925,398 | 25,181,354 |
| Income tax benefit/(expense) | 5 | (340,093) | 17,548 | (843,012) | 1,506,985 |
| Net profit/(loss) for the year | | (6,515,401) | 21,723,977 | 3,082,386 | 26,688,339 |
| Loss attributable to minority interest | | 42,934 | 5,515 | – | – |
| Profit/(loss) attributable to members of the parent | 6 | (6,472,467) | 21,729,492 | 3,082,386 | 26,688,339 |
| | | Cents per share | Cents per share | | |
| Earnings per share: | 6 | | | | |
| – basic for profit/(loss) for the year attributable to ordinary equity holders of the parent | | (16.13) | 54.16 | | |
| – diluted for profit/(loss) for the year attributable to ordinary equity holders of the parent | | (16.06) | 54.16 | | |
| Dividends per share | 7 | – | 27.00 | | |
| Return of capital per share | 20(a) | – | 38.00 | | |

Statement of Changes in Equity

for the year ended 30 June 2006

| | Note | Attributable to equity holders of the parent | | | Minority | Total equity | |
|--|-------|--|--|-------------------|-------------------|-----------------|-------------------|
| | | Issued capital | Retained earnings/ (accumulated losses) | Other reserves | interest | | |
| | | \$ | \$ | \$ | \$ | \$ | |
| CONSOLIDATED | | | | | | | |
| At 1 July 2004 | | 48,396,484 | (894,561) | 1,621,061 | 49,122,984 | – | 49,122,984 |
| Profit/(loss) for the year | | – | 21,729,492 | – | 21,729,492 | (5,515) | 21,723,977 |
| Total recognised income and expense for the year | | – | 21,729,492 | – | 21,729,492 | (5,515) | 21,723,977 |
| Minority interest on date of gaining control of subsidiary | | – | – | – | – | 147,928 | 147,928 |
| Exercise of options | 20(a) | 20,000 | – | – | 20,000 | – | 20,000 |
| Transaction costs arising on share issue | 20(a) | (1,200) | – | – | (1,200) | – | (1,200) |
| Equity dividends | 20(b) | – | (10,833,613) | – | (10,833,613) | – | (10,833,613) |
| Return of capital to shareholders | 20(a) | (15,247,307) | – | – | (15,247,307) | – | (15,247,307) |
| Cost of share-based payment | 20(c) | – | – | 108,754 | 108,754 | – | 108,754 |
| At 30 June 2005 | | 33,167,977 | 10,001,318 | 1,729,815 | 44,899,110 | 142,413 | 45,041,523 |
| At 1 July 2005 | | 33,167,977 | 10,001,318 | 1,729,815 | 44,899,110 | 142,413 | 45,041,523 |
| Net unrealised gains on non-current listed investments on adoption of accounting standard AASB 139 | 20(c) | – | – | 22,910,767 | 22,910,767 | – | 22,910,767 |
| Net unrealised losses on non-current listed investments for the year | 20(c) | – | – | (5,944,969) | (5,944,969) | – | (5,944,969) |
| Net unrealised gain for the year on current asset classified as held for sale | 20(c) | – | – | 1,088,186 | 1,088,186 | – | 1,088,186 |
| Total unrealised fair value adjustments | | – | – | 18,053,984 | 18,053,984 | – | 18,053,984 |
| Net loss on new share issue by associate | 20(c) | – | – | (42,801) | (42,801) | – | (42,801) |
| Reversal of tax liability on investment in associate | 20(c) | – | – | 358,457 | 358,457 | – | 358,457 |
| Net income recognised directly in equity | | – | – | 18,369,640 | 18,369,640 | – | 18,369,640 |
| Profit/(loss) for the year | | – | (6,472,467) | – | (6,472,467) | (42,934) | (6,515,401) |
| Impairment loss on investment in associate on adoption of AASB 139 by associate | 13 | – | (357,446) | – | (357,446) | – | (357,446) |
| Total recognised income and expense for the year | | – | (6,829,913) | 18,369,640 | 11,539,727 | (42,934) | 11,496,793 |
| Cost of share-based payment | 20(c) | – | – | 152,260 | 152,260 | – | 152,260 |
| Transfer from reserves | 20(c) | – | 656,890 | (656,890) | – | – | – |
| At 30 June 2006 | | 33,167,977 | 3,828,295 | 19,594,825 | 56,591,097 | 99,479 | 56,690,576 |

Statement of Changes in Equity

for the year ended 30 June 2006 (continued)

| | Note | Total equity | | | Total \$ |
|---|-------|----------------------|--|----------------------|-------------------|
| | | Issued capital \$ | Retained earnings/ (accumulated losses) \$ | Other reserves \$ | |
| PARENT | | | | | |
| At 1 July 2004 | | 48,396,484 | (9,024,356) | 734,426 | 40,106,554 |
| Profit/(loss) for the year | | – | 26,688,339 | – | 26,688,339 |
| Total recognised income and expense for the year | | – | 26,688,339 | – | 26,688,339 |
| Exercise of options | 20(a) | 20,000 | – | – | 20,000 |
| Transaction costs arising on share issue | 20(a) | (1,200) | – | – | (1,200) |
| Equity dividends | 20(b) | – | (10,833,613) | – | (10,833,613) |
| Return of capital to shareholders | 20(a) | (15,247,307) | – | – | (15,247,307) |
| Cost of share-based payment | 20(c) | – | – | 108,754 | 108,754 |
| At 30 June 2005 | | 33,167,977 | 6,830,370 | 843,180 | 40,841,527 |
| At 1 July 2005 | | 33,167,977 | 6,830,370 | 843,180 | 40,841,527 |
| Profit/(loss) for the year | | – | 3,082,386 | – | 3,082,386 |
| Total recognised income and expense for the year | | – | 3,082,386 | – | 3,082,386 |
| Cost of share-based payment | 20(c) | – | – | 152,260 | 152,260 |
| At 30 June 2006 | | 33,167,977 | 9,912,756 | 995,440 | 44,076,173 |

Cash Flow Statement

for the year ended 30 June 2006

| | Note | Consolidated | | Parent | |
|---|------|---------------------|--------------|---------------------|--------------|
| | | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Cash Flows from Operating Activities: | | | | | |
| Interest received | | 1,218,004 | 1,418,672 | 1,202,170 | 1,421,929 |
| Receipt of government grants | | 57,279 | 104,081 | – | – |
| Dividend income | | – | – | 4,600,000 | 28,000,000 |
| Other receipts | | 24,750 | 19,250 | 24,750 | 19,250 |
| Payments to suppliers, employees and for research and development | | (4,156,979) | (2,922,918) | (2,627,708) | (2,022,659) |
| Borrowing costs | | (80,404) | (251,790) | (80,404) | (251,790) |
| Income tax benefits received/(taxes paid) | | 49,238 | (3,664) | – | – |
| Net cash flows from/(used in) operating activities | 8(b) | (2,888,112) | (1,636,369) | 3,118,808 | 27,166,730 |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of plant and equipment | | (16,488) | (9,037) | (16,488) | (9,037) |
| Receipts on behalf of controlled entities | | – | – | – | 30,883,660 |
| Payments on behalf of controlled entities | | – | – | (2,847,680) | (1,824,079) |
| Repayment of loans from controlled entities | | – | – | (4,600,000) | (28,000,000) |
| Purchase of investments | | (2,152,937) | (1,005,000) | – | – |
| Acquisition of controlled entity, net of cash acquired | 8(c) | – | 43,606 | – | – |
| Proceeds from sale of investments | | – | 30,783,076 | – | – |
| Loans to controlled entities | | – | – | (800,000) | – |
| Net cash flows from/(used in) investing activities | | (2,169,425) | 29,812,645 | (8,264,168) | 1,050,544 |
| Cash Flows from Financing Activities: | | | | | |
| Proceeds from issue of shares | | – | 20,000 | – | 20,000 |
| Transaction costs of issue of shares | | – | (1,200) | – | (1,200) |
| Proceeds from/(repayment of) borrowings | | (5,000,000) | 5,000,000 | (5,000,000) | 5,000,000 |
| Payments of unfranked dividends | (i) | (5,388) | (10,782,379) | (5,388) | (10,782,379) |
| Return of capital to shareholders | (ii) | (9,021) | (15,164,394) | (9,021) | (15,164,394) |
| Net cash flows from/(used in) financing activities | | (5,014,409) | (20,927,973) | (5,014,409) | (20,927,973) |
| Net increase (decrease) in cash held | | (10,071,946) | 7,248,303 | (10,159,769) | 7,289,301 |
| Add opening cash brought forward | | 24,679,406 | 17,431,103 | 24,408,158 | 17,118,857 |
| Closing cash carried forward | 8(a) | 14,607,460 | 24,679,406 | 14,248,389 | 24,408,158 |

(i) The payment of unfranked dividends and return of capital during the current year is to those shareholders who were not paid in the previous year due to their addresses being unknown at that time. The dividends and the return of capital to shareholders were declared during the financial year ended 30 June 2005.

Notes to the Financial Statements

for the year ended 30 June 2006

1. CORPORATE INFORMATION

The financial report of Circadian Technologies Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 25 August 2006.

Circadian Technologies Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 3 "Segment Information".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and is presented in Australian dollars. The financial report has also been prepared on a historical cost basis, except for investments classified as available-for-sale, non-current receivables from subsidiaries, holdings in listed options and other listed investments that are not associates, which have been measured at fair value.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 30. Australian Accounting Standards/UG/Exposure Drafts that have recently been issued but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

| Amendment | Affected Standard(s) | Nature of change to accounting policy | Application date of standard* | Application date for Group |
|--------------------|--|--|--|----------------------------|
| 2005-4 | AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1028: <i>Life Insurance Contracts</i> | No change to accounting policy required. Therefore no impact. | 1 January 2006 | 1 July 2006 |
| 2005-6 | AASB 3: <i>Business Combinations</i> | No change to accounting policy required. Therefore no impact. | 1 January 2006 | 1 July 2006 |
| 2005-10 | AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i> | No change to accounting policy required. Therefore no impact. | 1 January 2007 | 1 July 2007 |
| New Standard | AASB 7: <i>Financial Instruments: Disclosures</i> | No change to accounting policy required. Therefore no impact. | 1 January 2007 | 1 July 2007 |
| Exposure Draft 146 | AASB 2: <i>Share Based Payments</i> | Definitions of vesting conditions and clarification of cancellations | Reporting periods on or after 1 January 2007 | 30 June 2007 |
| Exposure Draft 148 | AASB 101: <i>Presentation of Financial Statements</i> | Definitions of vesting conditions and clarification of cancellations | To be determined | To be determined |

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

The following amendments are not applicable to the Group and therefore have no impact.

| AASB Amendment | Affected Standard(s) |
|----------------|--|
| 2005-1 | AASB 139: <i>Financial Instruments: Recognition and Measurement</i> |
| 2005-2 | AASB 1023: <i>General Insurance Contracts</i> |
| 2005-5 | AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> |
| 2005-9 | AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> |
| 2005-12 | AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i> |
| 2005-13 | AAS 25: <i>Financial Reporting by Superannuation Plans</i> |
| 2006-1 | AASB 121: <i>The Effects of Changes in Foreign Exchange Rates</i> |

The following new standards, not yet effective, are not applicable to the Group and therefore have no impact.

| New Standard/ UIG Affected Standard | Affected Standard(s) |
|--|---|
| UIG 4 | Determining Whether an Arrangement Contains a Lease |
| UIG 5 | Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation. |
| UIG 7 | Applying the Restatement Approach under AASB 129: <i>Financial Reporting in Hyperinflationary Economies</i> |
| UIG 8 | Scope of AASB 2 |
| UIG 9 | Reassessment of Embedded Derivatives |

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Circadian Technologies Limited and its subsidiaries ('the Group') as at 30 June each year.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses

resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of profit or loss and net assets in CancerProbe Pty Ltd not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

(d) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred Tax Asset

Unrealised capital gains tax (CGT) loss on certain investments have not been recognised as deferred tax assets as it has been determined that at the date of this report it is not probable that future CGT gains will be realised before the CGT losses are realised.

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill with an indefinite useful life.

The Group determines whether goodwill with indefinite useful lives are impaired at least on an annual basis. The method used to estimate the recoverable amount of goodwill with an indefinite useful life is discussed in note 2(t) below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the model(s) and assumptions as described in note 21.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income

Almost all of the Group's interest income is earned on short-term bank deposits and as such interest income is recognised when the Group's right to receive the payment is established.

(ii) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(f) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. All grants during the years ended 30 June 2006 and 30 June 2005 relate to expense items.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

The Group had no finance leases during the 2006 and 2005 financial years.

(i) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Current receivables

Receivables generally comprise bank interest receivable, receivable from an associated entity and GST credits receivable, and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debt is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(k) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined on the following page are the relevant accounting policies applicable for the years ending 30 June 2006 and 30 June 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of financial assets (continued)

Accounting policies applicable for the year ending 30 June 2006

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) *Available-for-sale investments*

If there is objective evidence that an available-for-sale investment (current and non-current) is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit.

(ii) *Financial assets carried at amortised cost*

Intercompany loans receivable from subsidiaries in the parent's accounts are financial assets carried at amortised cost. If there is objective evidence that an impairment loss on intercompany loans receivable carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit and loss.

The Group first assesses whether objective evidence of impairment exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Accounting policies applicable for the year ending 30 June 2005

For current financial assets, refer to note 2(q) for the impairment accounting policy.

For non-current financial assets, refer to note 2(l), 2(q) and 2(r) for the impairment accounting policy.

(l) Investments in associates

The Group's investments in its associates is accounted for using the equity method of accounting in the consolidated financial statements. The associates are entities in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investments in the associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates. Impairment loss arises where the carrying value of the investment exceeds its fair value. Where the investment in associate is a listed investment, fair value is the quoted market bid price for that asset at balance date. The amount of impairment loss is the difference between fair value and carrying value.

Where the investment is an unquoted investment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Any subsequent reversal of an impairment loss is recognised in profit or loss.

The consolidated income statement reflects the Group's share of the results of operations of the associates and impairment losses, if any.

Where there has been a change recognised directly in the associates' equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(m) Interest in a jointly controlled operation

The Group enters into agreements with universities and research institutes for pharmaceutical research and development projects which are considered "joint venture" arrangements. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity (normally pharmaceutical research) that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interests in jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(n) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(o) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Other taxes (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(p) Plant and equipment

Plant and equipment are measured at cost and are depreciated on a straight-line basis over their useful economic lives as follows:

- Equipment and furniture – 3 to 10 years
- Leasehold improvements – 8 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the administrative expenses line item.

(ii) Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(q) Investments and other financial assets (except listed options)

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either available-for-sale investments, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

(i) Available-for-sale investments

Available-for-sale investments comprise the Group's current and non-current investments in listed companies. After initial recognition, investments which fall within the definition of available-for-sale are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of available-for-sale investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Non-current receivables comprise loans receivable from subsidiaries which are not interest bearing. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Accounting policies applicable for the year ending 30 June 2005

Long term investments held for dividend purposes are classified as non-current assets and are carried at the lower of cost or market valuation. Interests in non-subsidiary, non-associated corporations are included in investments at the lower of cost or recoverable amount. Dividend income is brought to account when declared or, if required, approved by the shareholders. Investments intended to be sold within twelve months of balance date are classified as current.

Short term investments in listed companies are held at the lower of cost and market value and as such any unrealised gains are not recognised in the profit or loss. Unrealised losses are recognised as an expense in determining the net profit/loss for the year.

(r) Investments in subsidiaries

Investments in subsidiaries are carried at cost. If there is objective evidence that an impairment loss has been incurred on investments in subsidiaries, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Any subsequent reversal of an impairment loss is recognised in profit or loss.

(s) Listed options

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for listed options applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policy applicable for the year ending 30 June 2006

In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, the Group's holding of listed options falls within the definition of a derivative. The Group's listed options are measured at fair value and any gains or losses arising from changes in their fair value are taken directly to net profit or loss for the year.

Accounting policy applicable for the year ending 30 June 2005

Listed options are carried at the lower of cost or market valuation (fair value).

(t) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing whether the subsidiary carrying on research and development activities has met its research and development milestones and also by looking at other qualitative aspects of the research and development project.

Impairment losses recognised for the goodwill are not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Research and development costs

Research costs are expensed as incurred.

An intangible asset arising from the development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

(v) Payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005

Payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

(w) Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest-bearing loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Accounting policies applicable for the year ending 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

(x) Employees benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rate paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(y) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently two plans in place to provide these benefits:

- (i) *the Employee Share Option Plan (ESOP), which provides benefits to employees; and*
- (ii) *the Performance Rights Plan, which provides benefits to certain executive officers.*

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer. A binomial model is used for options issued.

In valuing transactions settled by way of issue of options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Circadian Technologies Limited ('market conditions').

The cost of the equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of the equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average numbers of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SEGMENT INFORMATION

The consolidated entity operates predominantly in one industry and one geographical segment, those being the medical technology and healthcare industry and Australia respectively.

The principal activities of the Company include the management and funding of pharmaceutical research and development projects with Australian and New Zealand Universities and scientific institutes to the stage where the Company seeks collaborative and/or licensing arrangements with major international pharmaceutical companies. These activities also include investment in leading edge Australian technology.

The Company is committed to the innovation, management and commercialisation of its projects and technology investments.

| | Consolidated | | Parent | |
|---|------------------|------------|------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 4. REVENUES AND EXPENSES | | | | |
| (a) Revenue | | | | |
| <i>Finance revenue</i> | | | | |
| Interest from: | | | | |
| – Bank | 1,071,422 | 1,473,513 | 1,056,443 | 1,464,655 |
| – Related party – associated company | 27,249 | 27,249 | 27,249 | 27,249 |
| – Related party – wholly owned subsidiaries | – | – | 1,430,789 | 12,500 |
| – Other unrelated persons | 383 | – | – | – |
| | 1,099,054 | 1,500,762 | 2,514,481 | 1,504,404 |
| <i>Investment income</i> | | | | |
| Net gain on sale of investments (i) | – | 29,942,876 | – | – |
| <i>Dividends</i> | | | | |
| Unfranked – wholly owned subsidiaries | – | – | 4,600,000 | 28,000,000 |
| <i>Other revenue</i> | | | | |
| Government grant income | 45,394 | 94,619 | – | – |
| Other revenue items | 22,500 | 17,500 | 22,500 | 17,500 |
| | 67,894 | 112,119 | 22,500 | 17,500 |
| <i>Total revenue</i> | 1,166,948 | 31,555,757 | 7,136,981 | 29,521,904 |

- (i) The net gain on sale of investments of \$29,942,876 comprises the realised gain on the sale of shares in Axon Instruments Inc (\$26,452,624), and the realised gain on the subsequent sale of shares in Molecular Devices Corporation received as part consideration for the sale of the Axon shares (\$3,490,252).

Circadian's original intention was to retain its holding in Molecular Devices shares that it acquired through the Axon merger as a long-term investment in order to participate in the success of the merged entity. However, due to the increased currency risk of the US dollar during the year, the Board unanimously decided to sell its entire holding, thus limiting its foreign exchange exposure.

A total foreign exchange loss of \$1,092,653 was realised on the settlement of the Axon and Molecular Devices sale transactions due to the strengthening of the Australian dollar against the US dollar.

No capital gains tax liability has arisen on the disposal of Circadian's holding in Axon or Molecular Devices shares.

The major portion of the investment in Axon (91%) lost its pre-capital gains tax (CGT) status on 1 July 1999 in accordance with legislation introduced at that time. However the holding was deemed to have a cost base for capital gains tax equivalent to its market value on 1 July 1999, which was higher than the consideration received on the disposal of this portion of the company's holding in Axon.

Further, the capital gains tax (CGT) law was amended in April 2004. This amendment had the effect of providing a reduction in the capital gain or loss made by a company on the disposal of shares in a foreign resident company, where the shareholding company:

- has at least 10% interest in that company;
- has held the shares for a minimum 12 month period; and
- where the foreign company carries on an underlying "active foreign business".

The post-capital gains tax status of the Axon shares (i.e. the 91% which originally had a pre-CGT status), together with the April 2004 capital gains tax (CGT) amendment, has resulted in a carry forward capital loss of \$8,661,631 (at 30%: \$2,598,489) which is after utilising \$29,942,876 (at 30%: \$8,982,863) for the gains realised on the disposal of investments in Axon and Molecular Devices, referred to above.

Due to the complicated nature of the legislation with regard to these capital tax losses, the exact carry forward capital losses will be known when the consolidated entity reports future realised capital gains.

| | Consolidated | | Parent | |
|--|--------------|-------------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| (b) Other income | | | | |
| Reversal of impairment of receivable from controlled entity | – | – | 1,340,664 | – |
| Distributions from controlled entities (note 5) | – | – | 225,127 | 2,263,408 |
| Gain on discount of loans from controlled entities | – | – | 254,773 | – |
| | – | – | 1,820,564 | 2,263,408 |
| (c) Impairment losses | | | | |
| Zenyth Therapeutics Ltd (formerly Amrad Corporation Ltd) and Avexa Ltd (i) | – | (4,585,349) | – | – |
| Listed options | (179,329) | (868,434) | – | – |
| Other listed financial asset | (4,853) | (20,800) | – | – |
| Loan to associate (note 13) | (544,987) | – | (544,987) | – |
| | (729,169) | (5,474,583) | (544,987) | – |

(i) The prior year's result includes an unrealised impairment loss of \$4,585,349 in the combined book values of Circadian's shareholdings in Zenyth Therapeutics Limited (Zenyth) and Avexa Limited (Avexa). In September 2004, Zenyth demerged its anti-infectives drug portfolio into a new corporate entity, Avexa Limited, which was listed on the Australian Stock Exchange, whereupon Zenyth shareholders became entitled to 1 ordinary share in Avexa for every 2 ordinary shares held in Zenyth (at a record date) and Zenyth itself retained a 19.99% interest in the demerged entity. Further, during the prior year Circadian acquired an additional 5 million ordinary shares in Avexa for a consideration of \$1 million through a capital raising by Avexa in March 2005. This impairment loss reflects the decrease in both Zenyth's and Avexa's respective share prices during the prior year.

The respective share prices of Zenyth and Avexa have increased since 30 June 2005 to 30 June 2006 and this movement has been recognised in the net unrealised gains reserve.

The cumulative unrealised loss before tax on these two investments at 30 June 2006 was \$6,472,594 comprising an unrealised loss of \$9,485,983 included in retained earnings and an unrealised gain of \$3,013,389 accounted for in the net unrealised gains reserve.

| | Consolidated | | Parent | |
|---------------------------------|--------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| (d) Finance costs | | | | |
| Bill facility (i): | | | | |
| – Bank charges | (8,361) | (38,750) | (8,361) | (38,750) |
| – Interest expense | (88,490) | (196,593) | (88,490) | (196,593) |
| | (96,851) | (235,343) | (96,851) | (235,343) |
| Interest expense – subsidiaries | – | – | (254,773) | – |
| | (96,851) | (235,343) | (351,624) | (235,343) |

(i) Finance costs relate to a bill facility of \$5,000,000 secured from the Commonwealth Bank of Australia in October 2004 for a term of twelve months. The bill facility was repaid at the end of the twelve month term in October 2005 (refer to note 18).

| | | | | |
|---|-----------|---|-----------|---|
| (e) Other expenses | | | | |
| Formation of research collaboration (i) | (538,689) | – | (538,689) | – |

4. REVENUES AND EXPENSES (continued)

(e) Other expenses (continued)

- (i) Circadian announced on 1 May 2006 that it had formed a collaboration with the Ludwig Institute for Cancer Research (LICR) and Licentia Ltd, a commercial arm of the University of Helsinki. The collaboration is to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). Licence and Shareholder Agreements became effective on completion of the conditions precedent. The last condition precedent was the completion of patent and legal due diligence to the satisfaction of the Circadian board which occurred on 29 June 2006. A significant portion of the costs incurred relate to due diligence work performed including legal fees, patent attorney fees in respect to the review of the patents (comprising a family of 50 granted patents in the US, Europe, Japan and Australia and over 400 pending patent applications worldwide). Also see notes 24 and 27.

| | Consolidated | | Parent | |
|---|------------------|-----------|------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| (f) Lease payments and other expenses included in the Income Statement | | | | |
| Included in occupancy expenses: | | | | |
| – Operating lease rentals | 87,504 | 76,078 | 87,504 | 76,078 |
| Included in administrative expenses: | | | | |
| – Depreciation of: | | | | |
| Equipment and furniture | 12,491 | 11,966 | 12,491 | 11,966 |
| Leasehold improvements | 1,198 | 9,194 | 1,198 | 9,194 |
| <i>Total depreciation expense</i> | 13,689 | 21,160 | 13,689 | 21,160 |
| – Employee benefits expense: | | | | |
| Salaries and fees | 1,593,324 | 1,267,054 | 1,593,324 | 1,267,054 |
| Workers' compensation costs | 5,440 | 4,579 | 5,440 | 4,579 |
| Superannuation | 150,806 | 116,021 | 150,806 | 116,021 |
| Annual leave expense | 130,284 | 100,517 | 130,284 | 100,517 |
| Long service leave provision | 41,051 | 21,448 | 41,051 | 21,448 |
| Share-based payments expense (note 21) | 152,260 | 108,754 | 152,260 | 108,754 |
| <i>Total employee benefits expense</i> | 2,073,165 | 1,618,373 | 2,073,165 | 1,618,373 |

5. INCOME TAX

The major components of income tax expense are:

Income Statement

| | | | | |
|---|----------------|----------|----------------|-------------|
| Deferred income tax relating to | | | | |
| origination and reversal of temporary differences | 345,922 | (21,212) | 843,012 | (1,506,985) |
| Income (tax benefit received)/taxes paid | (5,829) | 3,664 | – | – |
| Income tax expense/(benefit) reported in the income statement | 340,093 | (17,548) | 843,012 | (1,506,985) |

Statement of Changes in Equity

Deferred income tax related to items charged or credited directly to equity

| | | | | |
|---|------------------|---|---|---|
| Net unrealised gain on listed investments | 6,962,146 | – | – | – |
| Tax benefit on loss of new share issue by associate (note 20(c)) | (18,344) | – | – | – |
| Derecognition of tax liability for associated entity (note 20(c)) | (358,457) | – | – | – |
| Income tax expense reported in equity | 6,585,345 | – | – | – |

| | Consolidated | | Parent | |
|--|--------------------|-------------|--------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| A reconciliation between tax expense/(benefit) and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows: | | | | |
| Accounting profit/(loss) before tax | (6,175,308) | 21,706,429 | 3,925,398 | 25,181,354 |
| At the Group's statutory income tax rate of 30% (2005: 30%) | (1,852,592) | 6,511,929 | 1,177,619 | 7,554,406 |
| Adjustments in respect of tax losses of previous years | (66,139) | (93,770) | (61,120) | (26,777) |
| Unrecognised unrealised & realised tax assets | 2,088,305 | – | 163,496 | – |
| Recognition of realised capital gains tax loss | – | (2,598,489) | – | – |
| (Increase)/decrease in deferred tax assets due to temporary differences | (626,002) | 3,511,581 | 1,189,895 | (1,227,839) |
| Decrease in deferred tax liabilities due to temporary differences | (175,364) | – | (35,685) | – |
| Expenditure not allowable for income tax purposes | 986,755 | 1,406,779 | 764,212 | 1,272,248 |
| Income not assessable for income tax purposes | – | – | (2,355,405) | (9,079,023) |
| Research and development additional deductions allowable | (70,125) | (39,485) | – | – |
| Fair value adjustment on investment in listed options and other listed investment | 55,255 | 266,770 | – | – |
| Non-assessable gains on disposal of investments (a) | – | (8,982,863) | – | – |
| Income tax expense/(benefit) reported in the income statement | 340,093 | (17,548) | 843,012 | (1,506,985) |

- (a) During the previous financial year, the Group (also referred to as Circadian) realised a gain of \$26,452,624 on the disposal of its interest in Axon (net consideration of \$28,385,478 less cost of investment of \$1,932,854) and a gain of \$3,490,252 on the disposal of its holding in Molecular Devices which it acquired from the Axon merger (total gain of \$29,942,876 – at 30%: \$8,982,863).

Circadian's original intention was to retain its holding in Molecular Devices shares that it acquired through the Axon merger as a long-term investment in order to participate in the success of the merged entity. However, due to the increased currency risk of the US dollar during the year, the Board unanimously decided to sell its entire holding, thus limiting its foreign exchange exposure. The consolidated entity realised a gain of \$3,490,252 (net consideration of \$17,395,583) on the disposal of this holding.

A total foreign exchange loss of \$1,092,653 was realised on the settlement of the Axon and Molecular Devices sale transactions due to the strengthening of the Australian dollar against the US dollar.

No capital gains tax liability has arisen on the disposal of Circadian's holding in Axon or Molecular Devices shares.

The major portion of the investment in Axon (91%) lost its pre-capital gains tax (CGT) status on 1 July 1999 in accordance with legislation introduced at that time. However the holding was deemed to have a cost base for capital gains tax equivalent to its market value on 1 July 1999, which was higher than the consideration received on the disposal of this portion of the company's holding in Axon.

Further, the capital gains tax (CGT) law was amended in April 2004. This amendment had the effect of providing a reduction in the capital gain or loss made by a company on the disposal of shares in a foreign resident company, where the shareholding company:

- has at least 10% interest in that company;
- has held the shares for a minimum 12 month period; and
- where the foreign company carries on an underlying "active foreign business".

5. INCOME TAX (continued)

The post-capital gains tax status of the Axon shares (i.e. the 91% which originally had a pre-CGT status), together with the April 2004 capital gains tax (CGT) amendment, has resulted in a carry forward capital tax loss of \$8,661,631 (at 30%: \$2,598,489) which is after utilising \$29,942,876 (at 30%: \$8,982,863) for the gains realised on the disposal of investments in Axon and Molecular Devices, referred to above.

Due to the complicated nature of the legislation with regard to these capital tax losses, the exact carry forward capital losses will be known when the consolidated entity reports future realised capital gains.

| | Balance Sheet | | Income Statement | |
|---|--------------------|-----------|--------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Deferred income tax | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| <i>CONSOLIDATED</i> | | | | |
| <i>Deferred tax liabilities</i> | | | | |
| Revaluations of listed investments to fair value | | | | |
| (unrealised capital gains) | (6,355,599) | – | – | – |
| Other temporary differences on non-current investments | – | 229,745 | – | – |
| Deferred tax assets available for offset against future taxable income: | | | | |
| Realised capital gains tax losses | 2,598,489 | 2,598,489 | – | 2,598,489 |
| Income tax losses | 2,103,798 | 1,216,871 | 886,928 | 934,304 |
| Fair value adjustment of listed options | 289,929 | 236,130 | 53,799 | 260,530 |
| Unrealised impairment losses on listed investments | 466,365 | – | – | – |
| Temporary difference for investment in associate | (62,397) | (102,384) | 39,987 | (98,641) |
| Reversal of temporary differences of listed investment sold (a) | – | – | – | (5,050,821) |
| Interest receivable (future assessable income) | (9,468) | (45,153) | 35,685 | (24,627) |
| | (968,883) | | | |
| <i>Deferred tax assets</i> | | | | |
| Unrealised impairment losses on listed investments | 1,056,093 | 2,932,993 | (1,323,336) | 1,381,845 |
| Other impairment losses | – | – | (87,200) | – |
| Employee provisions | 121,236 | 104,235 | 17,001 | 8,729 |
| Future allowable deductions | 54,525 | 23,312 | 31,214 | 11,404 |
| | 1,231,854 | | | |
| Net deferred tax asset | | 7,194,238 | | |
| Deferred tax income/(expense) | | | (345,922) | 21,212 |

| | Balance Sheet | | Income Statement | |
|---|------------------|------------------|-------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Deferred income tax (continued) | | | | |
| <i>PARENT</i> | | | | |
| <i>Deferred tax liabilities</i> | | | | |
| Interest receivable (future assessable income) | (9,468) | (45,153) | 35,685 | (24,627) |
| | (9,468) | | | |
| <i>Deferred tax assets</i> | | | | |
| Deferred tax assets available for offset against future taxable income: | | | | |
| Realised capital gains tax losses | 2,598,489 | 2,598,489 | – | – |
| Income tax losses | 2,103,798 | 1,196,730 | 474,694 | 279,146 |
| Employee provisions | 121,236 | 104,235 | 17,001 | 8,729 |
| Future allowable deductions | 8,918 | 19,768 | (10,849) | 8,310 |
| Temporary difference on intercompany loans to subsidiaries | 553,669 | 1,913,210 | (1,359,543) | 1,235,427 |
| | 5,386,110 | | | |
| Net deferred tax asset | | <u>5,787,279</u> | | |
| Deferred tax income/(expense) | | | <u>(843,012)</u> | <u>1,506,985</u> |

The Group has tax losses arising in Australia of \$2,103,798 (2005: \$1,216,871) that are available indefinitely for offset against future taxable profits of the tax consolidated group.

Tax consolidation

Circadian Technologies Limited and its 100% owned subsidiaries have formed a tax consolidated group with effect 1 July 2004. Circadian Technologies Limited is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have adopted the "separate taxpayer within group" method to allocate the current and deferred tax amounts to each entity within the group. This method requires adjustments for transactions and events occurring within the tax consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group.

The head entity, which is the parent entity, in assuming the net unused tax losses and unused relevant tax credits, has recognised reductions to investments in subsidiaries and where the amount of tax losses assumed is in excess of the carrying value of the investment, the parent has recognised the difference as a distribution from subsidiary in the income statement.

In preparing the accounts for Circadian Technologies Limited for the current year, the following amounts have been recognised as tax-consolidation contribution adjustments:

| | Parent | |
|--|------------------|-----------|
| | 2006 | 2005 |
| | \$ | \$ |
| Total increase/(reduction) to tax expense of Circadian Technologies Limited | – | – |
| Total increase/(reduction) to investments in subsidiaries | (207,248) | (970,096) |
| Total distributions from subsidiaries recognised in the income statement of Circadian Technologies Limited | 225,127 | 2,263,408 |

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit/loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit/loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | Consolidated | |
|--|------------------|------------------|
| | 2006 | 2005 |
| | \$ | \$ |
| Net profit/(loss) attributable to ordinary equity holders of the parent | (6,472,467) | 21,729,492 |
| | Number of shares | Number of shares |
| Weighted average number of ordinary shares on issue for basic earnings per share | 40,124,498 | 40,122,936 |
| Effect of dilution: | | |
| Share options | – | – |
| Performance rights | 169,208 | – |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 40,293,706 | 40,122,936 |
| Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share | – | – |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this financial report.

| | Consolidated | | Parent | |
|---|--------------|------------|--------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Dividends on ordinary shares: | | | | |
| Unfranked dividend (12 cents per share) – paid 29/10/04 | – | 4,814,939 | – | 4,814,939 |
| Unfranked dividend (15 cents per share) – paid 24/2/05 | – | 6,018,674 | – | 6,018,674 |
| Total dividends paid (i) | – | 10,833,613 | – | 10,833,613 |

- (i) In October 2004, after approval was received from shareholders at a general meeting, Circadian provided its shareholders with a 50 cents per share return comprising of the following:
- a capital return of 38 cents per share
 - an unfranked special dividend of 12 cents per share

The total distribution amounted to \$20.1 million. The unfranked dividend portion amounted to \$4.8 million. Also refer to note 18.

In February 2005, Circadian provided its shareholders with a further 15 cents per share unfranked special dividend amounting to a total of \$6 million.

Franking credit balance

The franking account balance at the end of the financial year at 30% (2005: 30%) is \$11,438 (2005: \$11,438), which represents the amount of franking credits available for the subsequent financial year.

8. CASH AND CASH EQUIVALENTS

(a) Reconciliation of Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

| | Consolidated | | Parent | |
|--------------------------|-------------------|------------|-------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Cash at bank and in hand | 4,932,460 | 559,406 | 4,748,389 | 508,158 |
| Short-term deposits | 9,675,000 | 24,120,000 | 9,500,000 | 23,900,000 |
| | 14,607,460 | 24,679,406 | 14,248,389 | 24,408,158 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short term-deposits are with a major bank and are made for varying periods of between 30 days and 60 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At year end the average rate was 5.83% (2005: 5.60%).

(b) Reconciliation of net profit/(loss) after tax to net cash flows from operations

| | | | | |
|---|--------------------|--------------|------------------|-------------|
| Net profit/(loss) | (6,515,401) | 21,723,977 | 3,082,386 | 26,688,339 |
| <i>Adjustments for:</i> | | | | |
| Depreciation | 13,689 | 21,160 | 13,689 | 21,160 |
| Employee benefits expense | 152,260 | 108,754 | 152,260 | 108,754 |
| Impairment of goodwill | 76,947 | – | – | – |
| Profit on sale of investments | – | (29,942,876) | – | – |
| Share of associates' net (profits) and losses (note 13(c)) | 1,655,088 | (76,858) | – | – |
| Net exchange differences | 6,629 | 1,092,653 | 5,355 | – |
| Interest income from subsidiaries | – | – | (1,430,789) | – |
| Distributions from subsidiaries | – | – | (225,127) | (2,263,408) |
| Reversal of write-down of receivable from subsidiary | – | – | (1,340,664) | – |
| Gain on discount of loans from subsidiaries | – | – | (254,773) | – |
| Write-down of receivables from subsidiaries | – | – | 883,172 | 4,118,097 |
| Interest expense on loans from subsidiaries | – | – | 254,773 | – |
| Increase in provision for diminution of investments in Zenyth Therapeutics Ltd and Avexa Ltd to reflect year end market value | – | 4,585,349 | – | – |
| Fair value adjustment of options to reflect year end market value | 179,329 | 868,434 | – | – |
| Write-down of other investment to reflect year end market value | 4,853 | 20,800 | – | – |
| Write-down of loan to associate | 544,987 | – | 544,987 | – |
| <i>Changes in assets and liabilities:</i> | | | | |
| (Increase)/decrease in prepayments | (204,813) | 60,969 | 16,273 | 69,224 |
| (Increase)/decrease in interest receivable | 118,950 | (82,090) | 118,478 | (82,475) |
| (Increase)/decrease in other receivables | 6,154 | (17,390) | (20,935) | (6,284) |
| (Decrease)/increase in payables | 670,623 | (7,134) | 420,040 | (8,788) |
| (Decrease)/increase in employee provisions | 56,671 | 29,096 | 56,671 | 29,096 |
| (Increase)/decrease in deferred tax assets | 445,994 | (21,213) | 878,697 | (1,506,985) |
| (Decrease)/increase in deferred tax liabilities | (100,072) | – | (35,685) | – |
| Net operating cash flows from/(used in) operating activities | (2,888,112) | (1,636,369) | 3,118,808 | 27,166,730 |

Disclosure of financing facilities

Refer to note 18.

Disclosure of investing activities

Refer to note 12 and note 26.

8. CASH AND CASH EQUIVALENTS (continued)

(c) Acquisition of Controlled Entity

On 1 June 2005, Fibre Optics (Aust) Pty Ltd (Fibre Optics), a wholly owned subsidiary of Circadian, gained effective control of CancerProbe Pty Ltd (CancerProbe) when it increased its interest from 30% to 60% for a consideration of \$300,000. Fibre Optics purchased its original 30% investment for \$400,000 on 8 December 2000 and has been equity accounting the results of CancerProbe since that date up until the date it gained effective control.

| | 2005 \$ |
|--|----------------|
| <i>Consideration</i> | |
| – Cash paid for 30% interest on 1 June 2005 | 300,000 |
| Total consideration | <u>300,000</u> |
| <i>Net assets of CancerProbe at 1 June 2005</i> | |
| – Cash | 343,606 |
| – Receivables | 48,415 |
| – Payables | (22,202) |
| Fair value of net assets of CancerProbe at 1 June 2005 | <u>369,819</u> |
| Economic entity's share in net assets | 101,829 |
| Goodwill on acquisition | 198,171 |
| Total consideration | <u>300,000</u> |
| <i>Net cash effect</i> | |
| Cash balance acquired | 343,606 |
| Cash consideration | (300,000) |
| Inflow of cash from purchase of controlled entity as reflected in the consolidated cash flow statement | <u>43,606</u> |

| | Consolidated | | Parent | |
|---------------------------|----------------|---------|---------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Interest receivable | 31,559 | 150,510 | 31,227 | 149,706 |
| Tax rebate receivable | – | 43,409 | – | – |
| Other receivables (i) | 80,682 | 43,041 | 45,740 | 24,419 |
| Total current receivables | <u>112,241</u> | 236,960 | <u>76,967</u> | 174,125 |

(i) Other receivables are non-interest bearing and have repayment terms between 30 and 60 days.

| | Consolidated | | Parent | |
|---|---------------|--------|--------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 10. OTHER FINANCIAL ASSETS (CURRENT) | | | | |
| Listed shares – at fair value | 13,867 | 18,720 | – | – |
| Listed options – at fair value (note 12(a)) | 39,851 | – | – | – |
| | 53,718 | 18,720 | – | – |

Listed shares (available-for-sale asset) and options are readily saleable with no fixed terms. The market value represents the share (bid) price at year end, and does not include any capital gains tax or selling costs that may be applicable on the disposal of these investments.

The listed options are options over the ordinary shares of Antisense Therapeutics Limited (a listed entity which is an associated company). One option, on its exercise, entitles the holder to purchase one fully paid ordinary share in Antisense Therapeutics Limited. The exercise price per option is 20 cents and the expiry date is 1 February 2007.

11. ASSET CLASSIFIED AS HELD FOR SALE (CURRENT)

Investment at fair value:

| | | | | |
|------------------------------|------------|---|---|---|
| – Listed shares (note 12(a)) | 13,284,354 | – | – | – |
|------------------------------|------------|---|---|---|

Prior to 30 June 2006, the directors of Circadian intended to dispose of the Group's holding in the ordinary shares of Zenyth Therapeutics Limited (Zenyth). On 17 July 2006, Zenyth and CSL Limited (CSL) "announced a proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders ('Share Scheme'). The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited (Avexa) ('Special Distribution'). If the Special Distribution is approved by Zenyth shareholders, and if the Share Scheme becomes effective, Zenyth shareholders will also receive approximately one Avexa share for every six Zenyth shares they hold at the record date. This represents additional value of four cents per Zenyth share, as at the date of this announcement."

As advised in Zenyth's 17 July 2006 announcement, "The Share Scheme will require the approval of Zenyth's shareholders and the approval of the Supreme Court of Victoria." "Zenyth will also seek shareholder approval to undertake the Special Distribution. This approval will be sought at a general meeting to be held on the same day as the meeting to consider and vote on the Share Scheme." "The meetings to approve the Share Scheme, Option Scheme and the Special Distribution are expected to be held in early to mid October 2006."

Also see note 27. In the absence of a more attractive/superior offer being made by another party, Circadian intends to vote in favour of the proposed offer at the general meeting of shareholders of Zenyth.

Immediately before the initial classification of the asset as held for sale, the asset was accounted for as an "available-for-sale" financial asset pursuant to AASB 139 *Financial Instruments: Recognition and Measurement*. At 30 June 2006 the investment in Zenyth is classified at its fair value. There are no selling costs expected on the sale of this investment. For the year ended 30 June 2006, an unrealised gain (fair value adjustment) before tax of \$1,554,552 has been recognised in the net unrealised gains reserve. Total impairment losses of \$5,074,864 were recognised in prior periods through profit and loss.

The fair value represents the share (bid) price at year end, and does not include any capital gains tax that may be applicable on the disposal of this investment. The capital gains tax that may be applicable on the disposal of this investment is included in the deferred tax liability account.

Subject to the proposed Share Scheme being effected, the Group would receive on the sale of its investment in Zenyth cash proceeds of approximately \$23.2 million and Avexa shares worth \$1.1 million (assuming that the share price of Avexa on the day of settlement is 22.5 cents – this is the closing bid price on 25 August 2006). Based on the original cost of the investment, this would give rise to a profit before tax of approximately \$7.4 million. Based on the carrying value of the Zenyth investment at 30 June 2006, the profit before tax would be approximately \$11 million.

| | Consolidated | | Parent | |
|--|--------------|------------|-----------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 12. FINANCIAL INVESTMENTS (NON-CURRENT) | | | | |
| At fair value: | | | | |
| – Listed shares (a)(i) | 26,739,165 | 14,503,984 | – | – |
| – Listed options (a)(i) | – | 219,180 | – | – |
| At cost: | | | | |
| – Listed shares (a)(i) | – | 2,235,896 | – | – |
| – Unlisted controlled entities (note 26) | – | – | 1,926,818 | 650,569 |
| Total non-current investments | 26,739,165 | 16,959,060 | 1,926,818 | 650,569 |

(a) Details of listed shares and options

| | Ownership Interest | | Fair Value (ii) | | Cost of Investment | |
|--|--------------------|------|-----------------|------------|--------------------|------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | % | % | \$ | \$ | \$ | \$ |
| Listed Investments | | | | | | |
| <i>Non-current investments:</i> | | | | | | |
| Metabolic Pharmaceuticals Ltd | 16.9 | 19.4 | 18,484,890 | 29,042,726 | 10,000 | 5,000 |
| Avexa Limited (iii) | 12.1 | 13.9 | 5,380,957 | 2,774,182 | 8,333,239 | 7,185,301 |
| Optiscan Imaging Ltd | 6.4 | 6.4 | 2,873,318 | 2,011,323 | 366,131 | 366,131 |
| | | | 26,739,165 | 33,828,231 | 8,709,370 | 7,556,432 |
| <i>Other financial asset (current):</i> | | | | | | |
| Antisense Therapeutics Ltd (Options) (note 10) | | | 39,851 | 219,180 | 1,087,614 | 1,087,614 |
| <i>Asset classified as held for sale:</i> | | | | | | |
| Zenith Therapeutics Ltd (iii) (note 11) | 22.6 | 22.6 | 13,284,354 | 11,729,802 | 16,804,666 | 16,804,666 |
| <i>Associate:</i> | | | | | | |
| Antisense Therapeutics Ltd (iv) (note 13) | 22.1 | 20.4 | 2,671,236 | 3,042,346 | 2,864,766 | 1,864,766 |
| Total listed investments | | | 42,734,606 | 48,819,559 | 29,466,416 | 27,313,478 |

Non-current investments in listed shares (which are not associates) are designated and accounted for as "available-for-sale" financial assets pursuant to AASB 139 *Financial Instruments: Recognition and Measurement*.

These non-current investments in listed shares consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

- (i) As stated in note 2, the Group has elected to adopt the exemption from the requirement to restate comparative information for AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* as allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Accordingly the 30 June 2005 comparative reflects the AGAAP policy for non-current holdings in non-subsidiary, non-associated corporations (ie. the Group's listed investments) which are carried at the lower of cost or market valuation (fair value). At 30 June 2005, the shares held in Zenith Therapeutics Limited and Avexa Limited and options held in Antisense Therapeutics Limited were recorded at fair value. All other non-current listed shareholdings were recorded at cost. Also see (iii) below.
- (ii) The fair value represents the share (bid) price at year end, and does not include any capital gains tax or selling costs that may be applicable on the disposal of these investments. The capital gains tax that may be applicable on the disposal of these investments is included in the deferred tax liability account.

13. INVESTMENTS IN ASSOCIATES (continued)**(b) Share of the associates' balance sheet (continued)**

- (i) The difference between the carrying value of the investment in Syngene and the Group's share of Syngene's net assets at 30 June 2005 which amounts to \$357,446 is an impairment loss identified on the restatement of Syngene's net assets to comply with AIFRS and the resultant restatement of the Group's investment in its associated entity Syngene to comply with AIFRS. This impairment is shown as an adjustment to the Group's retained earnings as at 30 June 2005 (see note 20(b)).

(c) Share of the associates' profit or loss:

| | Syngene Ltd | | Antisense Therapeutics Ltd (i) | |
|--|-------------|------------|--------------------------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue | 58,169 | 23,718 | – | – |
| Profit/(loss) before income tax | (5,588) | (44,366) | (589,276) | – |
| Income tax benefit/(expense) | (120,398) | 17,955 | – | – |
| Profit/(loss) after income tax | (125,986) | (26,411) | (589,276) | – |
| Adjustment at 1.1.06 to reflect investment in Antisense Therapeutics pursuant to AASB 128 <i>Investments in Associates</i> | – | – | (939,826) | – |
| Total recognised in income statement | (125,986) | (26,411) | (1,529,102) | – |

- (i) The Group's share of the results of Antisense Therapeutics is for the period 1 January 2006 to 30 June 2006. Also refer to (a)(ii) above.

(d) Contingent liabilities of associates:

There were no contingent liabilities incurred by the associates during the year.

(e) Expenditure commitments of associates:

- (i) An agreement exists between Syngene Limited and the Howard Florey Institute of Experimental Physiology and Medicine (Institute) whereby the Institute grants an income earned to date exclusive licence to Syngene for the technology of and patents held by the Institute in the area of hybridization histochemistry and related fields. Syngene is committed to pay the Institute a licence revenue fee of \$50,000 per year plus a percentage of royalty income earned varying between 6% and 7.5%. The Group's share of Syngene's commitment is \$21,190 per year plus the Group's share of a percentage of royalty income earned.
- (ii) Antisense Therapeutics Limited has an expenditure commitment of \$2,831,448 relating to research and development and is payable within one year. The Group's share of this expenditure commitment is \$625,750.

The lease expenditure commitment for Antisense Therapeutics amounts to \$138,954 which is payable within one year. This commitment relates to the leasing of office premises and laboratory space. The lease in respect to the office premises is for a term of one year with a renewal option for a further one year. The lease relating to laboratory space is for a term of six months ending on 31 December 2006. The Group's share of Antisense Therapeutics' lease expenditure commitment is \$30,709.

| | Consolidated | | Parent | |
|--|--------------|------------|------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 14. PLANT AND EQUIPMENT | | | | |
| Equipment and furniture at cost | | | | |
| Opening balance | 164,628 | 156,112 | 164,628 | 156,112 |
| Additions | 20,343 | 9,038 | 20,343 | 9,038 |
| Disposals | (4,850) | (522) | (4,850) | (522) |
| Closing balance | 180,121 | 164,628 | 180,121 | 164,628 |
| Accumulated depreciation | | | | |
| Opening balance | 129,947 | 118,503 | 129,947 | 118,503 |
| Depreciation for the year | 12,491 | 11,966 | 12,491 | 11,966 |
| Disposals | (4,850) | (522) | (4,850) | (522) |
| Closing balance | 137,588 | 129,947 | 137,588 | 129,947 |
| Net carrying amount | 42,533 | 34,681 | 42,533 | 34,681 |
| Leasehold improvements at cost | | | | |
| Opening balance | 73,697 | 73,697 | 73,697 | 73,697 |
| Additions | – | – | – | – |
| Closing balance | 73,697 | 73,697 | 73,697 | 73,697 |
| Accumulated depreciation | | | | |
| Opening balance | 70,224 | 61,030 | 70,224 | 61,030 |
| Depreciation for the year | 1,198 | 9,194 | 1,198 | 9,194 |
| Closing balance | 71,422 | 70,224 | 71,422 | 70,224 |
| Net carrying amount | 2,275 | 3,473 | 2,275 | 3,473 |
| Total plant and equipment, net | 44,808 | 38,154 | 44,808 | 38,154 |

The useful life of the assets was estimated as follows both for 2005 and 2006:

| | |
|-------------------------|------------|
| Equipment and Furniture | 3–10 years |
| Leasehold Improvements | 8 years |

15. GOODWILL

| | | | | |
|--------------------------------|----------|---------|---|---|
| Deemed gross carrying amount | 226,165 | 226,165 | – | – |
| Impairment of goodwill | (76,947) | – | – | – |
| Net carrying amount at 30 June | 149,218 | 226,165 | – | – |

As from 1 July 2005, goodwill is no longer amortised but is now subject to annual impairment testing (see note 16).

16. IMPAIRMENT TESTING OF GOODWILL WITH AN INDEFINITE LIFE

The recoverable amount of goodwill acquired through a business combination has been determined by assessing whether the subsidiary carrying on research and development activities has met its research and development milestones and also by looking at other qualitative aspects of the research and development project.

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

| | Consolidated | | Parent | |
|-------------------------------|----------------|------------|----------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 17. PAYABLES (CURRENT) | | | | |
| Creditors (unsecured) (i) | 767,486 | 101,490 | 478,307 | 63,006 |
| Payable to shareholders (ii) | 119,738 | 134,147 | 119,738 | 134,147 |
| PAYG tax liability | 57,461 | 41,964 | 57,461 | 41,964 |
| | 944,685 | 277,601 | 655,506 | 239,117 |

(i) Creditors are non-interest bearing and are normally settled on 30 day terms.

(ii) A capital return and two unfranked dividend payments were paid to shareholders totalling 65 cents per share during the 2005 financial year (refer to notes 7 and 20). The balance of \$119,738 (2005: \$134,147) represents amounts payable with respect to these distributions to shareholders with unknown addresses.

18. INTEREST BEARING BORROWING

| | | | | |
|----------------------------------|---|-----------|---|-----------|
| Bill facility, secured (i), (ii) | – | 5,000,000 | – | 5,000,000 |
|----------------------------------|---|-----------|---|-----------|

(i) A bill facility was secured from the Commonwealth Bank of Australia in October 2004 for a term of twelve months at a fixed bill rate of approximately 5.8% per annum, and was secured by a Letter of Set Off by Circadian over Cash Deposit Account for \$5,000,000. The bill facility was repaid at the end of the twelve month term in October 2005.

(ii) The Company obtained this borrowing to partly fund the 38 cents per share capital return paid to shareholders in October 2004 (refer to note 20). The borrowing reflects discussions with the Australian Taxation Office prior to the issuance of the Class Ruling confirming that the return of capital would not be a dividend for income tax purposes.

19. PROVISIONS

Annual leave:

| | | | | |
|-------------------------|------------------|----------|------------------|----------|
| At 1 July | 103,042 | 95,394 | 103,042 | 95,394 |
| Arising during the year | 130,284 | 100,517 | 130,284 | 100,517 |
| Utilised | (114,664) | (92,869) | (114,664) | (92,869) |
| At 30 June | 118,662 | 103,042 | 118,662 | 103,042 |

Long service leave:

| | | | | |
|--------------------------|----------------|---------|----------------|---------|
| At 1 July | 244,408 | 222,960 | 244,408 | 222,960 |
| Arising during the year | 46,002 | 28,195 | 46,002 | 28,195 |
| Utilised | – | – | – | – |
| Discount rate adjustment | (4,951) | (6,747) | (4,951) | (6,747) |
| At 30 June | 285,459 | 244,408 | 285,459 | 244,408 |
| Total provisions | 404,121 | 347,450 | 404,121 | 347,450 |
| Current | 367,817 | 322,294 | 367,817 | 322,294 |
| Non-current | 36,304 | 25,156 | 36,304 | 25,156 |
| | 404,121 | 347,450 | 404,121 | 347,450 |

| | Consolidated | | Parent | |
|--|--------------|--------------|------------|--------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 20. CONTRIBUTED EQUITY AND RESERVES | | | | |
| (a) Ordinary shares | | | | |
| Balance at 1 July | 33,167,977 | 48,396,484 | 33,167,977 | 48,396,484 |
| Issued during the year: | | | | |
| – employee share scheme (i) | – | 20,000 | – | 20,000 |
| – transaction costs | – | (1,200) | – | (1,200) |
| Return of capital to shareholders (ii) | – | (15,247,307) | – | (15,247,307) |
| Issued and fully paid at 30 June | 33,167,977 | 33,167,977 | 33,167,977 | 33,167,977 |
| | No. | No. | No. | No. |
| Movement in ordinary shares on issue: | | | | |
| Balance at 1 July | 40,124,498 | 40,114,498 | 40,124,498 | 40,114,498 |
| Issued during the year (i) | – | 10,000 | – | 10,000 |
| Balance at 30 June | 40,124,498 | 40,124,498 | 40,124,498 | 40,124,498 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

- (i) On 26 August 2004, 10,000 shares were issued to an employee as a result of options exercised to purchase ordinary shares in the Company at an exercise price of \$2.00 per share.
- (ii) In October 2004, after approval was received from shareholders at a general meeting, Circadian provided its shareholders with a 50 cents per share return comprising of the following:
- a capital return of 38 cents per share
 - an unfranked special dividend of 12 cents per share

The total distribution amounted to \$20.1 million.

Circadian obtained a Class Ruling from the Australian Taxation Office indicating that, under this distribution, the return of capital component of 38 cents will not be a dividend for income tax purposes.

Share options and performance rights:

The Company has two share-based payment schemes: the Employee Share Option Plan under which options to subscribe for the Company's shares have been granted to certain employees, and a Performance Rights Plan under which rights to subscribe for the Company's shares have been granted to certain executive officers (refer to note 21).

| | Consolidated | | Parent | |
|---|--------------|--------------|------------|--------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| (b) Retained earnings | | | | |
| Movements in retained earnings were as follows: | | | | |
| Balance at 1 July | 10,001,318 | (894,561) | 6,830,370 | (9,024,356) |
| Impairment loss on investment in associate (note 13(b)) | (357,446) | – | – | – |
| Transfer from contributed capital of associate reserve (c)(iii) | 656,890 | – | – | – |
| Net profit/(loss) for the year | (6,472,467) | 21,729,492 | 3,082,386 | 26,688,339 |
| Unfranked dividends (note 7) | – | (10,833,613) | – | (10,833,613) |
| Balance at 30 June | 3,828,295 | 10,001,318 | 9,912,756 | 6,830,370 |

| | Consolidated | | Parent | |
|--|-------------------|-----------|----------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| 20. CONTRIBUTED EQUITY AND RESERVES (continued) | | | | |
| (c) Reserves | | | | |
| Asset revaluation reserve (i) | 734,407 | 734,407 | 734,407 | 734,407 |
| Option reserve (ii) | 19 | 19 | 19 | 19 |
| Contributed capital of associate reserve (iii) | 609,379 | 656,890 | – | – |
| Net unrealised gains reserve (iv) | 17,990,006 | 229,745 | – | – |
| Employee equity benefits reserve (v) | 261,014 | 108,754 | 261,014 | 108,754 |
| Total reserves | 19,594,825 | 1,729,815 | 995,440 | 843,180 |
| <i>(i) Movement in asset revaluation reserve:</i> | | | | |
| Opening and closing balance | 734,407 | 734,407 | 734,407 | 734,407 |
| <i>(ii) Movement in option reserve:</i> | | | | |
| Opening and closing balance | 19 | 19 | 19 | 19 |
| <i>(iii) Movement in contributed capital of associate reserve:</i> | | | | |
| Opening balance | 656,890 | 656,890 | – | – |
| Transfer to retained earnings | (656,890) | – | – | – |
| Investment which became an associate (note 13): | | | | |
| – Transfer from net unrealised gains reserve | 293,723 | – | – | – |
| – Loss on new share issue by associate | (61,145) | – | – | – |
| – Tax effect | 18,344 | – | – | – |
| – Reversal of total tax liability | * 358,457 | – | – | – |
| Closing balance | 609,379 | 656,890 | – | – |

* With respect to the investment in associate, Antisense Therapeutics Limited, there is a tax asset relating to the income statement/retained earnings of \$458,730 and a tax liability relating to this equity reserve account of \$358,457 which amounts to a net tax asset position of \$100,273. As it has been determined that the net tax asset on this investment does not meet the "probable" of realisation test as at 30 June 2006, it has been derecognised during the current year.

| | Consolidated | | Parent | |
|--|--------------|---------|---------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| <i>(iv) Movement in net unrealised gains reserve:</i> | | | | |
| Opening balance | 229,745 | 229,745 | – | – |
| – Unrealised gains on non-current listed investments on adoption of AASB 139 | 31,860,498 | – | – | – |
| Tax effect on above unrealised gains | (9,558,150) | – | – | – |
| Share of associate's net unrealised gain on adoption of AASB 139 | 608,419 | – | – | – |
| Net unrealised gains on non-current listed investments on adoption of AASB 139 | 22,910,767 | – | – | – |
| – Net unrealised losses on non-current listed investments for the year | (8,749,061) | – | – | – |
| Tax effect on above net unrealised losses | 3,062,369 | – | – | – |
| Share of associate's net unrealised loss | (258,277) | – | – | – |
| Net unrealised losses on non-current listed investments for the year after tax | (5,944,969) | – | – | – |
| – Unrealised gain for the year on current asset classified as held for sale | 1,554,552 | – | – | – |
| Tax effect on above unrealised gain | (466,366) | – | – | – |
| Net unrealised gain for the year on current asset classified as held for sale | 1,088,186 | – | – | – |
| – Transfer to contributed capital of associate reserve (note 13(a)(ii)) | (293,723) | – | – | – |
| Closing balance | 17,990,006 | 229,745 | – | – |
| <i>(v) Movement in employee equity benefits reserve:</i> | | | | |
| Opening balance | 108,754 | – | 108,754 | – |
| Share-based payments | 152,260 | 108,754 | 152,260 | 108,754 |
| Closing balance | 261,014 | 108,754 | 261,014 | 108,754 |

*(vi) Nature and purpose of reserves:***Asset revaluation reserve**

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

Option reserve

This reserve is used to record the consideration received for options granted to executives and employees as part of their remuneration.

Contributed capital of associate reserve

This reserve is used to record the Group's equity accounting of share issues by its associated entities.

Net unrealised gains reserve

This reserve records fair value changes on listed investments and the Group's equity share of its associate's listed investment.

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to executives and employees as part of their remuneration. Refer to note 21 for further details on the equity benefit plans.

| | Consolidated | | Parent | |
|--|--------------|------|--------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |

20. CONTRIBUTED EQUITY AND RESERVES (continued)

(d) Minority interests

At balance date, the minority interests in the economic entity comprised:

| | | | | |
|-----------------------------|---------------|-----------|---|---|
| Share of contributed equity | 280,084 | 280,084 | – | – |
| Share of accumulated losses | (180,605) | (137,671) | – | – |
| | 99,479 | 142,413 | – | – |

Refer to note 8(c) for further details.

21. SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

Share options are granted to executive directors and certain employees.

In valuing transactions settled by way of issue of options, no account is taken of any performance conditions, other than market conditions linked to the price of the shares of Circadian Technologies Limited. The exercise prices are generally set at substantially higher prices than the Company's share price at grant date.

The contractual life of each option granted is five years. There are no cash settlement alternatives.

The options which were issued in the 2004 financial year have four vesting dates, for various proportions of the total issued options, during the life of the options. The options issued in 2004 were "well out of the money" at their respective grant dates and as at 30 June 2006.

There were no options granted to executive directors and employees during the current year.

Performance Rights

A Performance Rights Plan (Plan) was established during the current financial year to provide annual grants of performance rights to certain executives of the Group. The first grant of performance rights was made in November 2005 to three of the Group's executives.

The performance rights to be offered under each annual cycle of the Plan will have a notional value at the time of the offers of 25% of the remuneration package (i.e. salary plus superannuation) of each executive. The actual number of performance rights to be offered annually to executives is calculated as 25% of the remuneration package of each executive divided by the average daily volume weighted sale price of Circadian shares over the 5 trading days immediately preceding each annual grant date.

There is no issue price for the performance rights granted and there is no exercise price applicable.

The number of performance rights that Participants in the Plan will be able to exercise will be determined according to Circadian's Total Shareholder Return (TSR) performance relative to a comparator group of companies over the 3-year performance period that applies for each annual grant of performance rights.

TSR measures the return provided to shareholders by share price appreciation plus reinvested dividends/entitlements over the performance period, expressed as a percentage of the investment.

The comparator group for each annual offer of performance rights will be determined at the time of each annual grant, and at the discretion of the Board will be defined as the 50 ASX-listed companies ranked both above and below Circadian by market capitalisation, excluding listed property trusts and similar entities. Accordingly, the comparator group will comprise, if possible, 100 ASX listed companies.

No performance rights in an annual grant will become exercisable (or 'vest') unless Circadian's TSR over the relevant performance period is equal to or above the TSR of the company that is at the median of the comparator group of companies, ranked by their individual TSR performance, at which point 50% of the performance rights will vest.

All of the performance rights in an annual grant will vest if Circadian's TSR over the relevant performance period is equal to or greater than the TSR of the company at the 75th percentile of the comparator group of companies, ranked by their TSR performance.

The number of performance rights in an annual grant that vest will increase by 2% for each 1 percentile increase in Circadian's TSR performance between the median and the 75th percentile over the relevant performance period.

Vested performance rights may be exercised at any time on or before the expiry of ten years from the date the performance rights are granted, subject to compliance with the Company's share trading policy (i.e. 7 years after the performance test is satisfied).

There are no cash settlement alternatives.

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4(f).

Standard option pricing models are not appropriate or relevant valuation methods to value the Circadian performance rights. Accordingly, an independent valuation was performed by Leadenhall VRG Pty Ltd of the performance rights as at their grant date.

(a) Options over Ordinary Shares

The following table illustrates the number of and movements in share options during the year:

| 2006 Date of Issue | 25/9/03 | 19/9/01 | 14/8/01 | 30/7/01 |
|--|---------|----------|----------|-----------|
| On issue at beginning of year | 800,000 | 40,000 | 90,000 | 735,000 |
| Issued during the year | – | – | – | – |
| Exercised during the year | – | – | – | – |
| Expired during the year | – | (40,000) | (90,000) | (735,000) |
| Outstanding at balance date | 800,000 | – | – | – |
| Exercised subsequent to balance date | – | – | – | – |
| Expired subsequent to balance date | – | – | – | – |
| Outstanding at date of Directors' report | 800,000 | – | – | – |
| Exercisable at the end of the year | 600,000 | – | – | – |
| Number of recipients | 4 | 1 | 2 | 2 |
| Exercise price | (ii) | (i) | (i) | (i) |
| Exercise period from | 25/9/03 | 19/9/01 | 14/8/01 | 30/7/01 |
| To | 25/9/08 | 19/9/05 | 14/8/05 | 30/7/05 |
| Expiration day | 25/9/08 | 19/9/05 | 14/8/05 | 30/7/05 |

The following proportion of options vest from the dates shown:

| | | | | |
|-----|---------|---------|---------|---------|
| 25% | 25/9/03 | 19/9/01 | 14/8/01 | 30/7/01 |
| 25% | 25/9/04 | 19/9/02 | 14/8/02 | 30/7/02 |
| 25% | 25/9/05 | 19/9/03 | 14/8/03 | 30/7/03 |
| 25% | 25/9/06 | 19/9/04 | 14/8/04 | 30/7/04 |

- (i) Exercise price on options issued:
- 1/3 options exercisable at \$4.37 per share
 - 1/3 options exercisable at \$4.62 per share
 - 1/3 options exercisable at \$5.12 per share

- (ii) Exercise price on options issued:
- 1/3 options exercisable at \$2.62 per share
 - 1/3 options exercisable at \$2.87 per share
 - 1/3 options exercisable at \$3.12 per share

The following assumptions were used to derive a value for the outstanding options issued in the 2004 financial year using the binomial option-pricing formula as at the grant date.

| | |
|---------------------------|---------------------|
| Issue date of options | 25 September 2003 |
| Dividend yield | 1.04% |
| Expected volatility | 45.00% |
| Historical volatility | 45.00% |
| Risk-free interest rate | 5.41% |
| Expected life of option | 5 years |
| Fair value per option | 68 cents – 78 cents |
| Exercise price per option | \$3.00 – \$3.50* |

* The exercise prices per option on date of grant were \$3.00 to \$3.50, however the exercise price has reduced by 38 cents per option as a result of a return of capital to shareholders (38 cents per share) in October 2004 (see note 20(a)). The adjusted exercise price per option is detailed in (ii) above.

21. SHARE-BASED PAYMENT PLANS (continued)

(a) Options over Ordinary Shares (continued)

The expected life of the options is assumed to be total years from grant date to expiration date and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

All options outstanding as at 30 June 2006, which comprise all options issued on 25 September 2003, continue to be “well out of the money” as at 30 June 2006 (market share price \$1.05). Accordingly, none of these options have been exercised to date.

Options in Circadian Technologies Limited are not listed and as such do not have a market value.

(b) Performance Rights over Ordinary Shares

The following table illustrates the number of and movements in performance rights issued to certain executive officers during the year:

2006

| Date of Issue | 2/11/05 |
|--|----------|
| On issue at beginning of year | – |
| Issued during the year | 257,337 |
| Vested during the year | – |
| Expired during the year | – |
| | – |
| Outstanding at balance date | 257,337 |
| Exercisable at balance date | – |
| Vested subsequent to balance date | – |
| Expired subsequent to balance date | – |
| | – |
| Outstanding at date of Directors' report | 257,337 |
| Number of recipients | 3 |
| Exercise price | \$Nil |
| Vesting date (i) | 30/06/08 |
| Expiry date | 30/06/15 |
| Fair value (ii) | \$0.23 |

(i) The number of performance rights which may vest, if any, will be determined based on Circadian's TSR (as described earlier in this note) over the performance period which commenced on 1 July 2005 and will end on 30 June 2008.

(ii) As stated earlier, the fair value of the performance rights granted during the year was performed by Leadenhall VRG Pty Ltd. The valuation was performed based on estimates of TSR for Circadian compared to the TSR of the comparator group of companies over the performance period ending 30 June 2008 and took into account the probability of performance hurdles being achieved. The key steps undertaken to perform the valuation are as follows:

- estimation of the increase in the value of each of the Group's listed investments as of date of grant over the performance period ending on 30 June 2008 based on discounted cash flow analysis
- projection of the research and development expenditure for the Group's unlisted projects from date of grant to 30 June 2008
- estimation of Circadian's TSR based on the sum of the above
- estimation of the TSR of each company in the comparator group based on their respective implicit growth as per their price earnings ratios
- ranked the comparator companies by estimated TSR performance in ascending order
- grouped the ranked comparator companies e.g. bottom half, second quartile and top quartile
- established the required Circadian estimated closing share price as at 30 June 2008 that would equate to the estimated comparator company performance e.g. what would be the required closing share price for Circadian to achieve a 2.5%, 10.0% TSR, etc.
- applied a probability to the Circadian TSR reflecting the probability of it falling within each quartile (note: 8.08% TSR is the minimum required prior to any rights vesting under this valuation method and the assumptions used)
- calculated the probability weighted value of each right in each quartile and summed these to establish the probability weighted value per right in future value terms. This was then discounted to establish the probability weighted value per right in present value terms.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets comprise cash, short-term deposits and financial investments (listed shares and listed options). The Group had a fixed interest borrowing which was repaid during the current financial year.

The Group's other various financial assets and liabilities, such as receivables and payables, arise directly from its operations. The main risks arising from the Group's financial assets and liabilities are cash flow interest rate risk, market rate risk and liquidity risk. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term deposits. These deposits are held with one of Australia's largest banks. Cash flow interest rate risk is not considered significant.

Market rate risk

Investments in listed shares and options are exposed to market rate risk and as such their fair values are exposed to fluctuations as a result of changes in market prices.

Foreign currency risk

During the year, the Group's exposure to foreign currency risk was not significant. As a result of services provided by non-related entities in the United States, part of the Group's payables can be affected by movements in the US\$/A\$ exchange rates. The Group's exposure to foreign currency risk is minimal and does not seek to hedge this exposure.

Credit risk

Credit risk is associated with those financial assets of the Group which comprise cash and cash equivalents, listed investments and listed options. The Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these investments. Credit risk is considered minimal.

Since the Group transacts only with recognised third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain an appropriate cash asset balance to fund its operations.

23. FINANCIAL ASSETS AND LIABILITIES

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial assets and liabilities recognised in the financial statements.

Market values have been used to determine the fair value of listed investments.

Annually the Parent and its subsidiaries agree that loans between them will not be recalled for a period of 12 months from the date the directors adopt the relevant annual financial statements of the Group, Parent and subsidiaries.

The fair values of intercompany loans and receivables (these are not interest bearing) at 30 June 2006 have been calculated by discounting the principal amounts over the relevant term using the relevant LIBOR rate which matches that term as closely as possible.

23. FINANCIAL ASSETS AND LIABILITIES (continued)

| | Carrying amount | | Fair Value * | |
|--|-----------------|-----------------|--------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| CONSOLIDATED | | | | |
| FINANCIAL ASSETS | | | | |
| Cash | 14,607,460 | 24,679,406 | 14,607,460 | 24,679,406 |
| Interest receivable | 31,559 | 150,510 | 31,559 | 150,510 |
| Listed shares – current | 13,867 | 18,720 | 13,867 | 18,720 |
| Listed options – current | 39,851 | – | 39,851 | – |
| Listed shares – non-current | 26,739,165 | 16,739,880 | 26,739,165 | 48,600,379 |
| Listed options – non-current | – | 219,180 | – | 219,180 |
| Listed shares – held for sale | 13,284,354 | – | 13,284,354 | – |
| Total financial assets | 54,716,256 | 41,807,696 | 54,716,256 | 73,668,195 |
| FINANCIAL LIABILITIES | | | | |
| Payables | 385,535 | 101,490 | 385,535 | 101,490 |
| Foreign currency payables | 374,665 | – | 374,665 | – |
| Payable to shareholders | 119,739 | 134,147 | 119,739 | 134,147 |
| Bill facility | – | 5,000,000 (i) | – | 5,000,000 (i) |
| Total financial liabilities | 879,939 | 5,235,637 | 879,939 | 5,235,637 |
| PARENT | | | | |
| FINANCIAL ASSETS | | | | |
| Cash | 14,248,389 | 24,408,158 | 14,248,389 | 24,408,158 |
| Interest receivable | 31,227 | 149,706 | 31,227 | 149,706 |
| Investments in controlled entities at carrying value | 1,926,819 | – | 1,926,819 | – |
| Intercompany receivables | 23,580,353 | 19,537,127 (ii) | 23,580,353 | 19,537,127 (ii) |
| Total financial assets | 39,786,788 | 44,094,991 | 39,786,788 | 44,094,991 |
| FINANCIAL LIABILITIES | | | | |
| Payables | 243,865 | 63,006 | 243,865 | 63,006 |
| Foreign currency payables | 234,442 | – | 234,442 | – |
| Payable to shareholders | 119,739 | 134,147 | 119,739 | 134,147 |
| Bill facility | – | 5,000,000 | – | 5,000,000 |
| Intercompany payables | 159,615 | 4,770,016 (ii) | 159,615 | 4,770,016 (ii) |
| Total financial liabilities | 757,661 | 9,967,169 | 757,661 | 9,967,169 |

* Fair value is disclosed unless stated otherwise.

(i) This loan is measured at the principal amount and was a current liability at 30 June 2005 as it was repaid in October 2005.

(ii) These intercompany loans, which are non-interest bearing, are measured at their principal amounts at 30 June 2005.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

| Year ended 30 June 2006 | <1 year \$ | >1 – <2 years \$ | Total \$ | Weighted average effective interest rate % |
|---|---------------|---------------------|-------------|--|
| CONSOLIDATED | | | | |
| FINANCIAL ASSETS | | | | |
| <i>Fixed rate</i> | | | | |
| Cash at bank | 4,932,460 | – | 4,932,460 | 3.00 |
| Short term deposits | 9,675,000 | – | 9,675,000 | 5.58 |
| <i>Weighted average effective interest rate</i> | 4.29% | – | | |
| PARENT | | | | |
| FINANCIAL ASSETS | | | | |
| <i>Fixed rate</i> | | | | |
| Cash at bank | 4,748,389 | – | 4,748,389 | 3.46 |
| Short term deposits | 9,500,000 | – | 9,500,000 | 5.58 |
| <i>Weighted average effective interest rate</i> | 4.52% | – | | |
| Year ended 30 June 2005 | | | | |
| CONSOLIDATED | | | | |
| FINANCIAL ASSETS | | | | |
| <i>Fixed rate</i> | | | | |
| Cash at bank | 559,406 | – | 559,406 | 3.07 |
| Short term deposits | 24,120,000 | – | 24,120,000 | 5.39 |
| <i>Weighted average effective interest rate</i> | 4.23% | – | | |
| FINANCIAL LIABILITIES | | | | |
| <i>Fixed rate</i> | | | | |
| Bill facility | 5,000,000 | – | 5,000,000 | 5.80 |
| <i>Weighted average effective interest rate</i> | 5.80% | – | | |
| PARENT | | | | |
| FINANCIAL ASSETS | | | | |
| <i>Fixed rate</i> | | | | |
| Cash at bank | 508,158 | – | 508,158 | 3.68 |
| Short term deposits | 23,900,000 | – | 23,900,000 | 5.39 |
| <i>Weighted average effective interest rate</i> | 4.54% | – | | |
| FINANCIAL LIABILITIES | | | | |
| <i>Fixed rate</i> | | | | |
| Bill facility | 5,000,000 | – | 5,000,000 | 5.80 |
| <i>Weighted average effective interest rate</i> | 5.80% | – | | |

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

24. COMMITMENTS

Operating lease commitments – Group as lessee

The Group has entered into a commercial lease for the office premises. The lease has an average term of three years with a further term of three years. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under the non-cancellable operating lease as at 30 June are as follows:

| | Consolidated | | Parent | |
|---|----------------|---------|----------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Within one year | 80,288 | 87,504 | 80,288 | 87,504 |
| After one year but not more than five years | 87,361 | 170,693 | 87,361 | 170,693 |
| | 167,649 | 258,197 | 167,649 | 258,197 |

Research projects commitments

The Group has entered into research and development agreements with various parties (refer to note 25 for details of the projects). Expenditure commitments relating to research projects are payable as follows:

| | | | | |
|---|------------------|---------|---|---|
| Within one year | 1,292,857 | 229,446 | – | – |
| After one year but not more than five years | 223,323 | 180,000 | – | – |
| | 1,516,180 | 409,446 | – | – |

Investing commitment

Vegenics Limited is an entity which was incorporated by Circadian Technologies Limited on 10 January 2006 for the purpose of forming a collaboration between Circadian, the Ludwig Institute for Cancer Research (LICR) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On the satisfaction of the conditions precedent of the Shareholders Agreement relating to Vegenics between Circadian, LICR and Licentia, shares were to be applied for in Vegenics by each of these entities.

On 29 June 2006 the conditions precedent were satisfied in full giving rise to a commitment by Circadian of an investment of \$4 million for the issue of 24,999,995 ordinary shares in Vegenics payable in July 2006. These share application monies were paid in July 2006.

Guarantees

No guarantees were given or received by the Group during the year.

25. INTERESTS IN JOINT VENTURE OPERATIONS

| Parties | Pharmaceutical Research and Development Project | Share of Project Income (a) | | Loss Contributed (b) | |
|--|---|-----------------------------|-------|----------------------|---------|
| | | 2006 | 2005 | 2006 | 2005 |
| Neuro Therapeutics Ltd and Monash University | Anti-Allergy Asthma | 67.5% | 67.5% | | |
| | Analgesics Compound | 85.7% | 85.7% | – | 23,643 |
| Neuro Therapeutics Ltd and University of Sydney | GABA-C Receptors | 60% | 60% | 21,231 | – |
| Neuro Therapeutics Ltd and the University of Melbourne | Alzheimer's Disease Research | 100% | 100% | 269,676 | 283,180 |
| Neuro Therapeutics Ltd and Howard Florey Institute | Neurodegenerative Diseases/ Paracetamol | 50% | 50% | 80,000 | 93,370 |
| Polychip Pharmaceuticals Pty Ltd and Monash University | Dicarba Analogues | 50% | – | 198,667 | – |
| Cancer Therapeutics Limited and Monash University | Peptide-Based Cancer Vaccine | 50% | 50% | 252,923 | – |
| Other non joint venture research project costs | | | | 257,800 | 299,811 |
| | | | | 1,080,297 | 700,004 |

- (a) There was no project income in the current year or in the prior year from any of the joint venture projects.
- (b) These amounts represent the Company's, or controlled entities', share of the research and development costs incurred and expensed on a project.
- (c) Expenditure commitments relating to joint venture research projects are payable as follows (these amounts are included in the total commitments disclosed in note 24):

| | Consolidated | | Parent | |
|---|------------------|---------|--------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Within one year | 878,971 | 96,750 | – | – |
| After one year but not more than five years | 223,323 | 180,000 | – | – |
| | 1,102,294 | 276,750 | – | – |

- (d) The consolidated entity has nil assets in the financial statements employed in the joint ventures.
- (e) There were no impairment losses in the joint venture operations.

26. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Circadian Technologies Limited and the subsidiaries listed in the following table:

| Name of company | Book value of parent entity investment and % equity interest | | | |
|--|--|-----|---------|-----|
| | 2006 | | 2005 | |
| | \$ | % | \$ | % |
| Circadian Pharmaceuticals (Aust) Pty Ltd | – | 100 | – | 100 |
| Precision Patchclamps (Int) Pty Ltd | – | 100 | – | 100 |
| Polychip Pharmaceuticals Pty Ltd | 615,076 | 100 | 650,569 | 100 |
| Fibre Optics (Aust) Pty Ltd | 1,311,742 | 100 | – | 100 |
| Cancer Therapeutics Limited | – | 100 | – | 100 |
| Neuro Therapeutics Limited | – | 100 | – | 100 |
| CancerProbe Pty Ltd (i) | – | 60 | – | 30 |
| Vegenics Limited (ii) | – | 100 | – | 100 |
| | 1,926,818 | | 650,569 | |

Circadian Technologies Limited is the ultimate parent entity.

All controlled entities were incorporated in Australia and have the same financial year as Circadian Technologies Limited.

- (i) Circadian's wholly owned subsidiary, Fibre Optics (Aust) Pty Ltd, gained effective control of CancerProbe Pty Ltd on 1 June 2005. Also refer to note 8(c).
- (ii) Vegenics Limited was incorporated on 10 January 2006. Circadian's interest in Vegenics was reduced to 50% in July 2006 pursuant to the Shareholders Agreement relating to Vegenics. Refer to note 4(e) and note 24 for further details.

The following transactions and balances were held with related parties during the years ended 30 June 2005 and 2006:

- (a) Loans to controlled entities of \$23,580,353 (2005: \$19,537,127) are non-interest bearing, stated at the lower of amortised value and recoverable value, are unsecured and have no fixed terms of repayment of principal (although repayment is not expected within the next year). Interest of \$1,430,789 was incurred by the controlled entities for the year (2005: \$nil) due to the discounting of the loans and use of the effective interest method in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* (see note 2(q)).

There is a loan to an associated entity of \$544,987 (2005: \$544,987) which was written down to \$nil during the current year to reflect its fair value at 30 June 2006. The loan is repayable on demand but not later than 31 May 2007 and interest is payable by the associated entity at 5% p.a.

26. RELATED PARTY DISCLOSURES (continued)

The amounts are owed by the following companies (stated at the lower of amortised value and recoverable value):

| | 2006 \$ | 2005 \$ |
|--------------------------------------|-------------------|------------|
| CONTROLLED ENTITIES | | |
| Current | | |
| Fibre Optics (Aust) Pty Ltd (ii) | 20,135,688 | – |
| | 20,135,688 | – |
| Non-Current | | |
| Polychip Pharmaceuticals Pty Ltd (i) | 1,920,522 | 646,865 |
| Fibre Optics (Aust) Pty Ltd (ii) | 1,147,938 | 18,805,779 |
| Cancer Therapeutics Limited (iii) | 326,205 | 14,243 |
| Neuro Therapeutics Limited (iii) | – | 70,240 |
| Vegenics Limited (iv) | 50,000 | – |
| | 3,444,665 | 19,537,127 |
| | 23,580,353 | 19,537,127 |
| ASSOCIATED ENTITY | | |
| Syngene Ltd (note 13) | – | 544,987 |

(i) The amount lent to Polychip Pharmaceuticals Pty Ltd was mostly used for working capital purposes and was also used to subscribe for further ordinary shares in Antisense Therapeutics Limited in a share placement by Antisense Therapeutics Limited in April 2006 (refer to note 12).

(ii) The amount lent to Fibre Optics (Aust) Pty Ltd (Fibre Optics) during the year was used to fund the acquisition of ordinary shares in Avexa Limited and also reflects the reversal of impairment losses.

A significant portion of the loan to Fibre Optics has been classified as current at year end as cash proceeds are expected to be received from Fibre Optics on the proposed acquisition by CSL Limited of Zenyth Therapeutics Limited (Zenyth) as detailed in note 11. The Group's investment in Zenyth is owned by Fibre Optics.

In the prior financial year, the amount lent to Fibre Optics was used to fund the acquisition of ordinary shares in Avexa Limited and CancerProbe Pty Ltd, part of which was offset by proceeds received on the disposal of its investment in Axon Instruments Inc (a small portion of the total investment in Axon was owned by Fibre Optics) (refer to note 4).

(iii) The amounts lent to Cancer Therapeutics Limited and Neuro Therapeutics Limited during the year were mostly used for working capital purposes.

(iv) The amount lent to Vegenics Limited during the year was partly used for incorporation costs and for working capital purposes. The loan was repaid by Vegenics subsequent to year end.

(b) Loans from controlled entities of \$159,615 (2005: \$4,770,016) are non-interest bearing, unsecured and have no fixed terms of repayment of principal (although repayment is not expected within the next year). Interest of \$254,773 was incurred by the parent during the year (2005: \$Nil) due to the discounting of the loans and use of the effective interest method in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* (see note 2(q)).

The amounts are owed to the following companies:

| | 2006 \$ | 2005 \$ |
|---|----------------|------------|
| CONTROLLED ENTITIES | | |
| Precision Patchclamps (Int) Pty Ltd (i) | 67,558 | 1,667,559 |
| Circadian Pharmaceuticals (Aust) Pty Ltd (ii) | 92,057 | 3,102,457 |
| | 159,615 | 4,770,016 |

- (i) The amount owing to Precision Patchclamps (Int) Pty Ltd has arisen due to the proceeds received in the prior year by Circadian on behalf of Precision Patchclamps on the disposal of Precision Patchclamps' investment in Axon Instruments Inc, less an unfranked dividend paid by Precision Patchclamps to Circadian on receipt of the Axon proceeds (refer to note 4). A further unfranked dividend of \$1,600,000 was paid by Precision Patchclamps to Circadian in the current year.
- (ii) An unfranked dividend of \$3,000,000 was paid by Circadian Pharmaceuticals (Aust) Pty Ltd to Circadian in the current year.

27. EVENTS AFTER THE BALANCE SHEET DATE

- (i) As stated in note 11, prior to 30 June 2006, the directors of Circadian intended to dispose of the Group's holding in the ordinary shares of Zenyth Therapeutics Ltd (Zenyth). On 17 July 2006, Zenyth (Circadian interest 22.6%) and CSL Limited (CSL) announced a proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders. For further details see note 11.
- (ii) As explained in note 24, Vegenics Limited is an entity which was incorporated by Circadian on 10 January 2006 for the purpose of forming a collaboration between Circadian, the Ludwig Institute for Cancer Research (LICR) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On the satisfaction of the conditions precedent of the Shareholders Agreement relating to Vegenics between Circadian, LICR and Licentia, shares were to be applied for in Vegenics by each of these entities.
- On 29 June 2006 the conditions precedent were satisfied in full giving rise to a commitment by Circadian for an investment of \$4 million for the issue of 24,999,995 ordinary shares in Vegenics payable in July 2006. These share application monies were paid in July 2006.
- (iii) At the date of this report, the market value of the consolidated entity's shareholdings in listed investments, including the investment in Zenyth which is an asset classified as held for sale (see note 11), increased by \$14,698,986 to \$57,433,592. The increase in market value of these investments since year end is not reflected in the financial report.

28. AUDITORS' REMUNERATION

The auditor of Circadian Technologies Limited is Ernst & Young.

| | Consolidated | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Amounts received or due and receivable by Ernst & Young (Australia) for: | \$ | \$ | \$ | \$ |
| • an audit or review of the financial report of the entity and any other entity in the consolidated group | 68,820 | 58,596 | 49,540 | 43,781 |
| • other services in relation to the entity and any other entity in the consolidated group | | | | |
| – tax compliance | 8,090 | 24,120 | 8,090 | 24,120 |
| – assurance related | 9,270 | 5,524 | 9,270 | 4,774 |
| – special audits required by regulators | – | 2,500 | – | – |
| | 86,180 | 90,740 | 66,900 | 72,675 |

29. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

| | |
|------------------|--|
| Dominique Fisher | Chairman (non-executive) (appointed director 1 September 2005, appointed Chairman 19 October 2005) |
| Leon Serry | Managing Director |
| Graeme Kaufman | Executive Director |
| John Stocker | Director (non-executive) |
| James MacKenzie | Director (non-executive) |
| Don Clarke | Director (non-executive) (appointed 1 September 2005) |
| Sir Peter Derham | Chairman (non-executive) (retired 6 October 2005) |

(ii) Executives

| | |
|-----------------|---|
| Natalie Korchev | Company Secretary & Chief Financial Officer |
| Robert Klupac | Manager, Strategic Development (commenced 15 August 2005) |

There have been no changes to the key management personnel after reporting date and the date the financial report was authorised for issue.

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel

(i) Compensation Policy

Compensation of directors and senior executives of the Company is established by the Remuneration Committee which is authorised to determine the compensation of directors and senior executives taking into account market factors and a review of performance. The Remuneration Committee may seek independent compensation advice. For executive directors and officers, compensation packages generally comprise salary and superannuation. Executives are also provided with longer-term incentives through the Company's option and performance rights schemes, to allow the executives to participate in the growth of the Company as a result of their efforts.

The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the managing director, who in turn evaluates the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

(A) Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the managing director and all other key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team.

(B) Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

(C) Non-executive Director Compensation

Objective

The Board seeks to set aggregate compensation at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount (not exceeding the amount approved at the General Meeting) is determined by the Board and then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting on 6 October 2005 when shareholders approved the aggregate maximum sum to be paid or provided as compensation to the non-executive directors as a whole (therefore excluding the Managing Director and the Executive Director) for their services as \$500,000 per annum. Currently, non-executive directors are compensated to an aggregate of \$225,000 per annum.

The manner in which the aggregate compensation is apportioned amongst non-executive directors is reviewed periodically.

Each director receives a fee for being a director of the Company. Non-executive directors are not compensated by way of issue of securities in the Company.

The Board is responsible for reviewing its own performance. Board performance is monitored on an informal basis throughout the year and a formal evaluation is performed annually following the end of the fiscal year. An evaluation was conducted during the year of the Board's performance.

The compensation of non-executive directors for the year ending 30 June 2006 is detailed in section (ii) of this note (b).

(D) Executive Compensation

Objective

The Company aims to fairly and responsibly compensate executives with a level and mix of compensation commensurate with their position and responsibilities within the company and so as to:

- reward executives for company performance;
- link reward with the strategic goals of the Company;
- align the interest of executives with those of shareholders; and
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make-up of executive compensation, the Remuneration Committee engaged an external consultant in the prior financial year to provide independent advice both in the form of a written report detailing market levels of compensation for comparable executive roles as well as the participation of an independent consultant in the Committee meetings from which the Committee made its recommendations to the Board.

Compensation consists of the following key elements, the relative proportions of which are market based:

- Fixed Compensation
- Long-Term Incentive

The non-executive directors are responsible for evaluating the performance of the Managing Director, who in turn evaluates the performance of all other executives. The evaluation process is intended to assess the Company's business performance, whether long-term strategic objectives are being achieved and the achievement of individual performance objectives.

The performance of the Managing Director and senior executives are monitored on an informal basis throughout the year with the objective of performing a formal evaluation annually. The last remuneration committee meeting, at which an evaluation of the Managing Director's and senior executives' performance was conducted, was in April/May 2005. As noted above, the Remuneration Committee has access to external advice independent of management.

(E) Fixed Compensation

Objective

The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market. Leon Serry, Graeme Kaufman and Robert Klupacs between them have about 80 years experience in the pharmaceutical/biotechnology industry.

Structure

Executives' fixed compensation comprises salary and superannuation and as stated earlier is reviewed every 12 to 18 months by the Remuneration Committee.

(F) Variable Pay – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth.

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of options and performance rights.

Options:

Options granted to key management personnel have an exercise price which are set at substantially higher prices than the Company's share price at grant date. The contractual life of each option granted is five years. Refer to note 29(c) and 21 for further details on the terms and conditions relating to the options granted.

Performance rights:

The Group uses a relative Total Shareholder Return (TSR) as the performance hurdle in granting performance rights to its key management personnel. The use of a relative TSR based hurdle is currently market best practice as its objective is to align comparative shareholder return and reward for the Company's key management personnel. Refer to note 29(c) and 21 for further details on the terms and conditions relating to the performance rights granted.

One grant of performance rights has been made to date, which occurred in November 2005 (see note 21). As performance of the Company's TSR is over a 3-year period, which commenced on 1 July 2005, the first assessment of whether the performance hurdles have been met will occur shortly after 30 June 2008. The assessment of whether performance hurdles for each grant have been met will be performed by the independent consulting firm which recommended these performance rights as an LTI.

Details regarding the determination of the Company's performance against the hurdle is provided in note 21.

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(b) Compensation of Key Management Personnel (continued)***(ii) Compensation of Key Management Personnel (Consolidated)*

| | | Short-Term | | Post Employment | Long-Term | Share-based Payment | Total | Total Performance Related |
|---|-------------|------------------|----------------|-----------------|--------------------|--------------------------------|------------------|---------------------------|
| | | Salary & Fees | Other Benefits | Super-annuation | Long service leave | Options & Performance Rights*^ | | |
| Directors: | | \$ | \$ | \$ | \$ | \$ | \$ | % |
| L Serry | 2006 | 582,084 | – | 52,388 | 10,962 | 93,296 | 738,730 | 12.63 |
| | 2005 | 582,084 | – | 52,388 | 10,962 | 90,157 | 735,591 | 12.26 |
| G Kaufman | 2006 | 309,953 | – | 27,896 | – | 46,910 | 384,759 | 12.19 |
| | 2005 | 250,435 | – | 22,539 | – | 45,079 | 318,053 | 14.17 |
| J Stocker | 2006 | 65,000 | – | 5,850 | – | – | 70,850 | – |
| | 2005 | 62,538 | – | 5,628 | – | – | 68,166 | – |
| J MacKenzie | 2006 | 46,000 | – | 4,140 | – | – | 50,140 | – |
| | 2005 | 43,538 | – | 3,918 | – | – | 47,456 | – |
| D Fisher ¹ | 2006 | 53,932 | – | 4,854 | – | – | 58,786 | – |
| | 2005 | – | – | – | – | – | – | – |
| D Clarke ¹ | 2006 | 38,333 | – | 3,450 | – | – | 41,783 | – |
| | 2005 | – | – | – | – | – | – | – |
| P Derham ² | 2006 | 23,871 | – | – | – | – | 23,871 | – |
| | 2005 | 63,077 | – | – | – | – | 63,077 | – |
| I Davis ³ | 2006 | – | – | – | – | – | – | – |
| | 2005 | 35,223 | 1,625 | 3,170 | – | – | 40,018 | – |
| Executives: | | | | | | | | |
| N Korchev | 2006 | 171,921 | – | 15,473 | – | 4,300 | 191,694 | 2.24 |
| | 2005 | 168,801 | – | 15,192 | – | 4,508 | 188,501 | 2.39 |
| R Klupacs ⁴ | 2006 | 237,159 | 12,295 | 21,881 | – | 3,454 | 274,789 | 1.26 |
| | 2005 | – | – | – | – | – | – | – |
| Total Compensation: Directors and Executives | | | | | | | | |
| | 2006 | 1,528,253 | 12,295 | 135,932 | 10,962 | 147,960 | 1,835,402 | |
| | 2005 | 1,205,696 | 1,625 | 102,835 | 10,962 | 139,744 | 1,460,862 | |

1. Appointed 1 September 2005

2. Retired 6 October 2005 after 21 years of service

3. Resigned 26 April 2005 after 20 years of service

4. Employment commenced 15 August 2005

* No options have been exercised by the executive directors and other executives in the last six years.

^ The value of the options attributed to compensation of certain key management personnel for the current financial year represent the amortised cost of options that were granted in the 2004 financial year, and has been determined by allocating the fair value of the options equally over their respective vesting periods. Refer to note 21 for details on the valuation of the options.

The value of the performance rights attributed to compensation of certain key management personnel for the current year has been determined based on amortising the value of total performance rights issued on a straight line basis from grant date to vesting date. Refer to note 21 for details on the valuation of the performance rights.

(iii) Compensation by category: Key Management Personnel

| | Consolidated | | Parent | |
|---------------------|------------------|------------------|------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Short-Term | 1,540,548 | 1,207,321 | 1,540,548 | 1,207,321 |
| Post Employment | 135,932 | 102,835 | 135,932 | 102,835 |
| Long-Term | 10,962 | 10,962 | 10,962 | 10,962 |
| Share-based Payment | 147,960 | 139,744 | 147,960 | 139,744 |
| | 1,835,402 | 1,460,862 | 1,835,402 | 1,460,862 |

(c) Compensation options and performance rights: Granted and vested during the year (Consolidated)

During the current financial year, performance rights were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed below. No performance rights have been granted to the non-executive directors of the Board of Directors under this scheme. There is no issue price for the performance rights granted and there is no exercise price applicable. Each performance right when exercised will result in each of the participants acquiring one fully paid ordinary share in the Company. For further details relating to the performance rights, refer to note 21.

There were no options granted to key management personnel during the current financial year.

| 30 June 2006 | Vested* | Granted | Terms & Conditions for each Grant | | | | | |
|----------------------------|---------|---------|-----------------------------------|---|---|-------------|---------------------|--------------------|
| | No. | No. | Grant Date | Fair value per option/right at grant date (note 21) | Exercise price per option/right (note 21) | Expiry Date | First Exercise Date | Last Exercise Date |
| OPTIONS: | | | | | | | | |
| Directors | | | | | | | | |
| L. Serry | 125,000 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| G. Kaufman | 62,500 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| Executive | | | | | | | | |
| N. Korchev | 6,250 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| PERFORMANCE RIGHTS: | | | | | | | | |
| Directors | | | | | | | | |
| L. Serry | – | 128,110 | 2/11/05 | \$0.23 | Nil | 30/6/15 | 30/6/08 | 30/6/15 |
| G. Kaufman | – | 68,652 | 2/11/05 | \$0.23 | Nil | 30/6/15 | 30/6/08 | 30/6/15 |
| Executive | | | | | | | | |
| R. Klupacs | – | 60,575 | 2/11/05 | \$0.23 | Nil | 30/6/15 | 30/6/08 | 30/6/15 |
| Total | 193,750 | 257,337 | | | | | | |

* The number of options that vested during the reporting period includes relevant portions of those granted in the 2004 financial year. These were not exercised during the reporting period as they were "well out of the money".

(i) Refer to note 21(a).

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(c) Compensation options and performance rights: Granted and vested during the year (Consolidated) (continued)**

| 30 June 2005 | Vested [^] | Granted | Terms & Conditions for each Grant | | | | | |
|------------------|---------------------|---------|-----------------------------------|-------------------------------------|---------------------------|-------------|---------------------|--------------------|
| | No. | No. | Grant Date | Fair value per option at grant date | Exercise price per option | Expiry Date | First Exercise Date | Last Exercise Date |
| OPTIONS: | | | | | | | | |
| Directors | | | | | | | | |
| L. Serry | 256,250 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| G. Kaufman | 115,000 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| Executive | | | | | | | | |
| N. Korchev | 18,750 | – | N/A | (i) | (i) | N/A | N/A | N/A |
| Total | 390,000 | – | | | | | | |

[^] The number of options that vested during the 2005 reporting period includes relevant portions of those granted in the 2002 and 2004 financial years. These were not exercised during the 2005 reporting period as they were “well out of the money”.

(i) Refer to note 21(a).

There were no options or performance rights granted during the 2005 reporting period.

(d) Shares issued on Exercise of Compensation Options and Performance Rights (Consolidated)

There were no options or performance rights exercised by key management personnel during the current financial year as the options were “well out of the money” and the performance rights had not vested as at 30 June 2006.

(e) Option holdings and performance rights held by Key Management Personnel (Consolidated)

| 30 June 2006 | Balance at 01-Jul-05 | Granted as Remuneration | Options/ Rights Exercised | Options Expired | Balance at 30-Jun-06 | Total at 30 June 2006 | |
|----------------------------|----------------------|-------------------------|---------------------------|-----------------|----------------------|--------------------------|----------------------------------|
| | | | | | | Exercisable (ie. vested) | Not exercisable (ie. not vested) |
| OPTIONS: | | | | | | | |
| Directors | | | | | | | |
| L. Serry | 1,025,000 | – | – | (525,000) | 500,000 | 375,000 | 125,000 |
| G. Kaufman | 460,000 | – | – | (210,000) | 250,000 | 187,500 | 62,500 |
| Executive | | | | | | | |
| N. Korchev | 75,000 | – | – | (50,000) | 25,000 | 18,750 | 6,250 |
| PERFORMANCE RIGHTS: | | | | | | | |
| Directors | | | | | | | |
| L. Serry | – | 128,110 | – | – | 128,110 | – | 128,110 |
| G. Kaufman | – | 68,652 | – | – | 68,652 | – | 68,652 |
| Executive | | | | | | | |
| R. Klupacs | – | 60,575 | – | – | 60,575 | – | 60,575 |
| Total | 1,560,000 | 257,337 | – | (785,000) | 1,032,337 | 581,250 | 451,087 |

The options which were issued in the 2002 financial year expired in July 2005. As these options were “out of the money” during their entire term, they were not exercised by the relevant key management personnel.

| 30 June 2005 | Balance at 01-Jul-04 | Granted as Remuneration | Options Exercised | Options Expired | Balance at 30-Jun-05 | Total at 30 June 2005 | |
|------------------|-------------------------|----------------------------|----------------------|--------------------|-------------------------|-----------------------------|-------------------------------------|
| | | | | | | Exercisable (ie. vested) | Not exercisable (ie. not vested) |
| OPTIONS: | | | | | | | |
| Directors | | | | | | | |
| L. Serry | 1,525,000 | – | – | (500,000) | 1,025,000 | 775,000 | 250,000 |
| G. Kaufman | 460,000 | – | – | – | 460,000 | 335,000 | 125,000 |
| Executive | | | | | | | |
| N. Korchev | 125,000 | – | – | (50,000) | 75,000 | 62,500 | 12,500 |
| Total | 2,110,000 | – | – | (550,000) | 1,560,000 | 1,172,500 | 387,500 |

The options which were issued in the 2002 and 2004 financial years have four vesting dates, for various proportions of the total issued options, during the life of the options. The options issued in these years were “well out of the money” at their respective grant dates and as at 30 June 2005.

(f) Shareholdings of Key Management Personnel (Consolidated)

Ordinary shares held in Circadian Technologies Limited (Number)

| 30 June 2006 | Balance at 01-Jul-05 | Granted as Remuneration | On Exercise Of Options | Net Change Other | Balance at 30-Jun-06 |
|-------------------|-------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| Directors | | | | | |
| P. Derham (i) | 500,001 | – | – | (500,001) | – |
| L. Serry | 2,100,000 | – | – | – | 2,100,000 |
| G. Kaufman | 28,500 | – | – | – | 28,500 |
| J. Stocker | 282,334 | – | – | – | 282,334 |
| J. MacKenzie | – | – | – | – | – |
| D. Fisher (ii) | – | – | – | 10,000 | 10,000 |
| D. Clarke (ii) | – | – | – | 60,000 | 60,000 |
| Executives | | | | | |
| N. Korchev | – | – | – | – | – |
| R. Klupacs (iii) | – | – | – | – | – |
| Total | 2,910,835 | – | – | (430,001) | 2,480,834 |

(i) Sir P. Derham retired as a director of Circadian on 6 October 2005. On date of retirement, he held 500,001 shares in Circadian.

(ii) D. Fisher and D. Clarke were appointed to the Board on 1 September 2005. Mr Clarke held his shares prior to becoming a director of Circadian.

(iii) R. Klupacs became an executive of Circadian on 15 August 2005.

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(f) Shareholdings of Key Management Personnel (Consolidated) (continued)**

| 30 June 2005 | Balance at 01-Jul-04 | Granted as Remuneration | On Exercise Of Options | Net Change Other | Balance at 30-Jun-05 |
|-------------------|-------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| Directors | | | | | |
| P. Derham | 500,001 | – | – | – | 500,001 |
| L. Serry | 2,600,000 | – | – | (500,000) | 2,100,000 |
| G. Kaufman | 28,500 | – | – | – | 28,500 |
| J. Stocker | 282,334 | – | – | – | 282,334 |
| J. MacKenzie | – | – | – | – | – |
| I. Davis (i) | 578,667 | – | – | (578,667) | – |
| Executives | | | | | |
| N. Korchev | – | – | – | – | – |
| Total | 3,989,502 | – | – | (1,078,667) | 2,910,835 |

- (i) I. Davis resigned as a director of Circadian on 26 April 2005. He held 578,667 Circadian shares as at the date of his resignation.

Any equity transactions by key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more or no less favourable than those the Group would have adopted if dealing at arm's length.

(g) Loans to Key Management Personnel (Consolidated)

There were no loans to key management personnel during the current financial year and the previous financial year.

(h) Other transactions and balances with Key Management Personnel**Director Related Entity Transactions:****Purchases:**

- (i) During the year legal fees, including miscellaneous expenses, totalling \$71,129 (2005: \$13,278) were incurred by the consolidated entity for services provided by the legal firm of Minter Ellison of which Don Clarke, a director of the Company since 1 September 2005, is a partner. These legal fees were charged at commercial rates.
- (ii) Antisense Therapeutics Limited, a company in which Polychip Pharmaceuticals Pty Ltd (a 100% owned subsidiary) has a 22.1% shareholding, rented premises during the year from Castlegreen Pty Ltd, a company in which Leon Serry, Polychip's Managing Director, is a director and major shareholder. The total amount of rent, rates and taxes paid by Antisense Therapeutics during the year was \$87,123 (2005: \$84,379) and was based on commercial rental rates.

Revenue:

- (i) During the year, secretarial fees totalling \$22,500 (2005: \$17,500) were paid by Traders Macquarie Pty Ltd to Circadian Technologies Limited. Leon Serry, the Managing Director of the consolidated entity, is a director and major shareholder of Traders Macquarie Pty Ltd. This is a voluntary contribution.

Amounts recognised at the reporting date in relation to director related entity transactions:

| | 2006 | 2005 |
|--|--------|--------|
| | \$ | \$ |
| Assets and liabilities: | | |
| <i>Current assets</i> | – | – |
| <i>Non-current assets</i> | – | – |
| Total assets | – | – |
| <i>Current liabilities</i> | | |
| Payables | 6,757 | – |
| <i>Non-current liabilities</i> | – | – |
| Total liabilities | 6,757 | – |
| Revenues and expenses: | | |
| Revenue | 22,500 | 17,500 |
| Total revenue | 22,500 | 17,500 |
| Administrative expenses (legal fees) | 19,477 | 13,278 |
| Other expenses (legal fees – also see note 4(e)) | 51,652 | – |
| Total expenses | 71,129 | 13,278 |

30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as follows:

Business combinations

AASB 3 *Business Combinations* was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 *Share-Based Payments* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has elected to adopt this exemption and has not applied AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information.

Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statements presented under previous AGAAP.

Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (AGAAP) are illustrated on the following page.

30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS**

| | Consolidated | | Parent | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 30-Jun-05** \$ | 01-Jul-04* \$ | 30-Jun-05** \$ | 01-Jul-04* \$ |
| Total equity under AGAAP | 37,545,530 | 41,695,542 | 32,072,869 | 36,697,253 |
| <i>Adjustments to retained earnings (net of tax):</i> | | | | |
| Recognition of share-based payment expense (A) | (108,754) | – | (108,754) | – |
| Write-back of goodwill amortisation (B) | 31,297 | – | – | – |
| Recognition of deferred tax asset (C) | 6,964,493 | 6,943,281 | 3,103,847 | 1,596,862 |
| Distributions from subsidiaries – head entity assumption of tax consolidated group losses (C),(D) | – | – | 2,408,029 | 144,620 |
| Adjustments to reversal of impairment losses on intercompany loans receivable (D) | – | – | 3,256,782 | 1,667,820 |
| Equity accounting of associate's recognition of deferred tax asset | 270,458 | 254,416 | – | – |
| <i>Adjustments to other reserves (net of tax):</i> | | | | |
| Recognition of share-based payment expense (A) | 108,754 | – | 108,754 | – |
| Recognition of deferred tax asset (C) | 229,745 | 229,745 | – | – |
| Total equity under AIFRS | <u>45,041,523</u> | <u>49,122,984</u> | <u>40,841,527</u> | <u>40,106,555</u> |

* This column represents the adjustments as at the date of transition to AIFRS.

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those of the year ended 30 June 2005.

(A) Under AASB 2 *Share-Based Payments*, the Group has recognised the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payments were not recognised under AGAAP.

(B) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under AGAAP.

(C) AASB 112 *Income Taxes* requires the Group to use a balance sheet liability method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Under AGAAP, the income statement method was used. This has resulted in the recognition of a net deferred tax asset in relation to the Group's non-current investments in listed entities and in associated companies. This includes the difference in the cost base of the Group's investment in Axon Instruments Inc and its tax cost base and the difference between the market value of listed investments in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) and Avexa Limited (their book values reflecting the lower of cost and market value) and their tax cost base. Under AGAAP, the tax effects of differences between cost base and tax base for such assets were not recognised. The Group's deferred tax asset also includes carry forward tax losses.

The recognition of deferred tax asset for the Parent comprises tax losses which under AIFRS meet the recognition criteria and the difference between the carrying value and tax base of intercompany loans receivable.

As at 1 July 2005, the Group applied the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. Pursuant to AASB 139, the Group has recorded at fair value all of its investments which meet the definition of "available-for-sale" financial assets, namely the investments in listed shares and options. Under AGAAP, these assets were recorded at the lower of cost and market value. As required by AASB 112, a deferred tax liability has been recognised on the fair value adjustments to the "available-for-sale" financial assets recorded at cost as at 30 June 2005 (namely listed shares in Metabolic Pharmaceuticals Limited, Antisense Therapeutics Limited and Optiscan Imaging Limited).

- D) Pursuant to AIFRS UIG 1052 *Tax Consolidation Accounting*, the head entity of a tax consolidated group is to assume the current tax liability (asset), tax losses and certain tax credits relating to subsidiaries which are to be accounted for as a contribution by or distribution to equity participants.

Under AGAAP, the taxes recorded/disclosed by the head entity reflected all of the taxes for the tax consolidation group and there was no requirement to account for the assumption of tax losses as a contribution by or distribution to equity participants.

As a result of accounting for distributions from subsidiaries as described above, this has had a resultant impact on the reversal of impairment losses on intercompany loans to subsidiaries.

The above changes have resulted in the recognition of a net deferred tax asset under AIFRS as follows:

| | Consolidated | | Parent | |
|--|--------------|-----------|-----------|-----------|
| | 30-Jun-05 | 01-Jul-04 | 30-Jun-05 | 01-Jul-04 |
| | \$ | \$ | \$ | \$ |
| Opening net deferred tax asset balance | 5,684,920 | – | – | – |
| Increase/(decrease) due to changes in retained earnings - note (C) | 1,509,318 | 6,943,281 | 5,787,279 | 1,046,789 |
| Increase due to changes in reserves – note (C) | – | 229,745 | – | – |
| Closing net deferred tax asset balance | 7,194,238 | 7,173,026 | 5,787,279 | 1,046,789 |

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

| | Consolidated | Parent |
|---|--------------|------------|
| | Year Ended | Year Ended |
| | 30-Jun-05 | 30-Jun-05 |
| | \$ | \$ |
| Profit after tax as previously reported | 21,764,179 | 21,437,736 |
| Recognition of share-based payment expense - note (i)(A) | (108,754) | (108,754) |
| Write-back of goodwill amortisation – note (i)(B) | 31,297 | – |
| Equity accounting of associate's adjustment to income tax benefit | 16,043 | – |
| Adjustment to income tax benefit/(expense) - (a), note (i)(C) | 21,212 | 1,506,985 |
| Distributions from subsidiaries – head entity assumption of tax consolidated group losses – note (i)(C),(D) | – | 2,263,409 |
| Adjustments to reversal of impairment losses on intercompany loans receivable – note (i)(D) | – | 1,588,963 |
| Profit after tax under AIFRS | 21,723,977 | 26,688,339 |

- (a) This consolidated tax benefit for the 2005 financial year reflects the utilisation of capital losses on the sale of the Group's holding in Axon Instruments Inc and Molecular Devices Corporation (which occurred on 1 July 2004), which is offset by:

- income tax losses arising during the year ended 30 June 2005; and
- the tax benefit recognised on the increase in the provisions for diminution in investments for Zenyth Therapeutics Limited and Avexa Limited and in listed options. Also refer to (i)(C) above.

30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**(iii) Restated Balance Sheet on adoption of AASB 132 and AASB 139 as at 1 July 2005**

| | Consolidated | Parent |
|--|---------------------|--------------------|
| | 1 July 2005 | 1 July 2005 |
| | \$ | \$ |
| Total equity under AIFRS as per (i) | 45,041,523 | 40,841,527 |
| <i>Adjustment to retained earnings (net of tax)</i> | | |
| Fair value adjustment to intercompany loan accounts – gain on discount on loans from subsidiaries | – | 254,772 |
| Tax effect | – | (76,432) |
| Changes in accounting investment value in associate (tax expense) | (75,292) | – |
| <i>Adjustments to other reserves (net of tax)</i> | | |
| Fair value adjustment to financial investments | 31,860,498 | – |
| Tax effect | (9,558,150) | – |
| Total equity under AIFRS after AASB 139 | 67,268,579 | 41,019,867 |

The above change will result in a net deferred tax liability under AIFRS as at 1 July 2005 as follows:

| | Consolidated | Parent |
|---|---------------------|--------------------|
| | 1 July 2005 | 1 July 2005 |
| | \$ | \$ |
| Deferred tax asset balance as at 30 June 2005 (refer (i)) | 7,194,238 | 5,787,279 |
| Tax effect of fair value adjustment to financial assets | (9,558,150) | (76,432) |
| Changes in accounting investment value in associate | (75,292) | – |
| Deferred tax asset/(liability) as at 1 July 2005 | (2,439,204) | 5,710,847 |



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Independent audit report to members of Circadian Technologies Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Circadian Technologies Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Circadian Technologies Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Circadian Technologies Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Denis Thorn'.

Denis Thorn
Partner
Melbourne
25 August 2006

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 17 August 2006.

(A) DISTRIBUTION OF EQUITY SECURITIES

The number of shareholders, by size of holding, in the following class of shares are:

| Category | Fully Paid Ordinary Shares | |
|--------------------|----------------------------|-------------------|
| | No. of Holders | No. of Shares |
| 1 - 1,000 | 1,525 | 1,031,096 |
| 1,001 - 5,000 | 2,117 | 5,773,839 |
| 5,001 - 10,000 | 465 | 3,728,077 |
| 10,001 - 100,000 | 342 | 9,313,506 |
| 100,001 - and over | 32 | 20,277,980 |
| | <u>4,481</u> | <u>40,124,498</u> |

The number of shareholders holding less than a marketable parcel of shares are: 324 68,609

(B) TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of quoted shares and their respective holdings are:

| | Listed Ordinary Shares | |
|---|------------------------|--------------|
| | No. of Shares | % Interest |
| 1. Cogent Nominees Pty Limited | 8,204,749 | 20.45 |
| 2. Capital Macquarie Pty Ltd | 1,377,360 | 3.43 |
| 3. Queensland Investment Corporation | 1,120,373 | 2.79 |
| 4. UBS Nominees Pty Ltd | 1,000,038 | 2.49 |
| 5. ANZ Nominees Limited <Cash Income A/C> | 969,072 | 2.42 |
| 6. JFF Steven Pty Ltd | 965,867 | 2.41 |
| 7. Jagen Pty Ltd | 819,322 | 2.04 |
| 8. Traders Macquarie Pty Ltd | 647,972 | 1.61 |
| 9. Audivac Pty Ltd | 543,400 | 1.35 |
| 10. Denvorcorp Holdings Pty Ltd | 514,622 | 1.28 |
| 11. Jetan Pty Ltd | 373,428 | 0.93 |
| 12. Mr Eric Lucas | 354,036 | 0.88 |
| 13. Dr John Stocker | 282,334 | 0.70 |
| 14. Tasman Asset Management Ltd <Special Situations Fund A/C> | 263,111 | 0.66 |
| 15. Citicorp Nominees Pty Limited | 240,452 | 0.60 |
| 16. Professor Raymond Martin | 215,001 | 0.54 |
| 17. Westpac Custodian Nominees Limited | 201,925 | 0.50 |
| 18. Harech Pty Ltd <Porter Super Fund A/C> | 201,400 | 0.50 |
| 19. Bow Lane Nominees Pty Ltd | 200,000 | 0.50 |
| 20. Peters Investments Pty Ltd | 200,000 | 0.50 |
| | <u>18,694,462</u> | <u>46.58</u> |

ASX Additional Information

(continued)

(C) SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders of the Company and their respective holdings are:

| | No. of Shares |
|--|----------------------|
| Leon Serry | |
| - Capital Macquarie Pty Ltd | 1,377,360 |
| - Traders Macquarie Pty Ltd | 647,972 |
| - Sked Pty Ltd <Superannuation Fund A/C> | 12,000 |
| - L. Serry | 62,668 |
| | <u>2,100,000</u> |
| Packer & Co Ltd <Packer & Co Investigator Trust> | 7,298,125 |

(D) VOTING RIGHTS

Ordinary shares carry one vote per share for each fully paid share and voting rights pro-rata to the amount of paid up capital on each partly paid share. There are no partly paid ordinary shares.