

10 February 2006

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

No. of Pages: 36

HALF-YEAR REPORT (REVIEWED) - PERIOD ENDED 31 DECEMBER 2005

In accordance with Listing Rule 4.2A, we enclose the Half-Year Report (reviewed) on the consolidated results of Circadian Technologies Limited ('Circadian' or 'Group') for the half-year ended 31 December 2005.

Key Financials

- The consolidated loss of the Group for the half-year was \$899,936 after an income tax benefit of \$343,915.
- The net tangible asset backing per share as at 31 December 2005 was \$1.60.
- Cash reserves as at 31 December 2005 amounted to \$18,493,256.
- Subsequent to 31 December 2005, the combined market value of Circadian's shareholdings in listed investments increased by \$2,570,407 to \$48,290,612. The increase in market value of these investments since period end is not reflected in the 31 December 2005 financial statements.

The results for the current period and the corresponding reporting period are pursuant to the Australian equivalents of International Financial Reporting Standards (AIFRS) as explained in Note 1 to the financial statements which are included in the Half-Year Report attached. As described in Note 1, effective 1 July 2005 the Group's holdings in listed entities are recorded at their fair (market) values with movements in these values after tax reflected in the net unrealised gains reserve.

Due to the new requirements under AIFRS, the total increase in market value of holdings in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) and Avexa Limited of \$4,228,735 (being an amount after tax of \$2,960,115) has been accounted for through the net unrealised gains reserve account and not through the income statement as was previously the case.

The profit for the previous corresponding period of \$25,226,348 after income tax expense of \$1,488,106 included a gain on the disposal of the Group's interest in Axon Instruments Inc amounting to \$26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction.

The prior period's result is also after an unrealised loss (an impairment loss) of \$1,130,583 in the combined book values of Circadian's shareholdings in Zenyth and Avexa. This unrealised loss reflects the decrease in both Zenyth's and Avexa's respective share prices during that period. As stated earlier, these holdings have shown an increase in market value during the six month period to 31 December 2005 of \$4,228,735.

Key Highlights

(To be read in conjunction with the Directors' Report contained in the Half-Year Report attached):

R&D Projects

- *Cancer Vaccines Project (Circadian's interest: 50%)* - In September 2005 Circadian (through its wholly owned subsidiary Cancer Therapeutics Limited) 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.

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 improve its stability and generate improved immune responses in models of anti-tumour immunity, while maintaining its specificity for the target. 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.

- *CancerProbe Pty Ltd – Cancer Diagnostic/Therapeutics (Circadian's interest: 60%)* - 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.
- *Alzheimer's Disease Project (Circadian's interest: 100%)* - Progress has been made with regard to uptake of compounds into the brain, however further work is being undertaken to optimise the delivery of the compound to the brain.
- *Memory Enhancement Project (Circadian's interest: 60%)* - A US patent was granted in November 2005 on a family of compounds which have been shown in animal models to block GABA-C receptors in the brain. Blocking of these inhibitory receptors is postulated to improve memory formation.
- *Analgesics Project (Circadian's interest: 86%)* - Laboratory work on this project is now complete. We are currently reviewing all of our results to assemble a data package and will seek potential partners for the project. A European patent was granted in January 2006 covering a family of analgesic compounds.

Circadian's Listings

- *Metabolic Pharmaceuticals Limited (Circadian interest: 19%)* - 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." Metabolic updated the market on 23 January 2006 advising that "The low dose Phase 2B human clinical trial of obesity drug AOD9604, known as the "OPTIONS" study, is proceeding on schedule. Ethics Committee approval has been obtained at all 16 clinical sites, over 170 subjects have been screened and 88 subjects have begun treatment with the last subject expected to begin treatment in April/May 2006. Recruitment is accelerating as expected now all sites are active and the Christmas/New Year period is over."

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 patients suffering from neuropathic pain. This Phase 1 study was the first time ACV1 has been administered to humans.”

(ASX: MBP; website: www.metabolic.com.au)

- *Antisense Therapeutics Limited (Circadian’s direct and indirect interest: 27%)* - Antisense Therapeutics announced on 12 January 2006 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.”
(ASX: ANP; website: www.antisense.com.au)
- *Optiscan Imaging Limited (Circadian interest: 7%)* - 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.”
(ASX: OIL; website: www.optiscan.com)

Other

- *Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) (Circadian interest: 22%)* - On 17 August 2005 Zenyth (formerly Amrad) 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.”
(ASX: ZTL; website: www.zenyth.com.au)
- *Avexa Limited (Circadian interest: 14%)* - 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.”

For further details regarding Circadian’s projects and technology holdings refer to the Directors’ Report included in the Half-Year Report attached. For further information regarding the progress of Circadian’s listed technology holdings, see their respective public announcements which can be found on their respective websites, as detailed above, and on www.asx.com.au.

This letter and the attached Half-Year Report form part of this announcement to the Australian Stock Exchange Limited, and should be read in conjunction with the Company’s Annual Report for the year ended 30 June 2005.

Yours faithfully

Natalie Korchev
Company Secretary

APPENDIX 4D

Half-Year Report

Name of entity: **CIRCADIAN TECHNOLOGIES LIMITED**

ABN: **32 006 340 567**

Reporting period: **HALF-YEAR ENDED 31 DECEMBER 2005**

Previous
corresponding period: **HALF-YEAR ENDED 31 DECEMBER 2004**

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THIS HALF-YEAR REPORT IS TO BE READ IN CONJUNCTION WITH THE COMPANY'S 2005 ANNUAL REPORT

Note: The financial figures provided are in **actual** Australian dollars, unless specified otherwise.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The consolidated results of Circadian Technologies Limited for the six months ended 31 December 2005 are as follow:

Revenues and Results from Ordinary Activities:	Change compared to 31/12/04 %	31/12/05 \$
Revenues from ordinary activities	Down 97.9 to	638,844
Profit/(loss) from ordinary activities after tax attributable to members		(899,936)
Net profit/(loss) for the period attributable to members		(899,936)
Note: The percentage changes for the profit (loss) comparative have not been provided as the company has moved from a profit position to a loss position during the period under review.		
Brief explanation of figures reported above:		
<i>Revenues from ordinary activities – explanation of % change compared to 31/12/04:</i>		
<p>The previous corresponding period includes a net gain on sale of investments of \$29,942,876 which 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). Also see “<i>Net profit/ (loss) for the period</i>” below for further details.</p>		
<i>Net profit/(loss) for the period:</i>		
<p>The consolidated loss of the Group for the half-year was \$899,936 (2004: profit of \$25,226,348) after an income tax benefit of \$343,915 (2004: income tax expense of \$1,488,106). The results for the current period and the corresponding reporting period are pursuant to the Australian equivalents of International Financial Reporting Standards (AIFRS) as explained in Note 1 to the financial statements which are included in the section “Financial Report”. As described in Note 1, effective 1 July 2005 the Group’s holdings in listed entities are recorded at their fair values with movements in these values after tax reflected in the net unrealised gains reserve.</p> <p>Due to the new requirements under AIFRS, the total increase in market value of holdings in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) and Avexa Limited of \$4,228,735 (being an amount after tax of \$2,960,115) has been accounted for through the net unrealised gains reserve account and not through the income statement as was previously the case.</p> <p>The profit for the previous corresponding period included a gain on the disposal of the Group’s interest in Axon Instruments Inc amounting to \$26,452,624, which was acquired by the US company Molecular Devices Corporation (“Molecular Devices”) in a merger transaction (also see explanation for movement in revenues between periods above).</p>		

Net profit/(loss) for the period (cont.):

The prior period's result is also after an unrealised loss (an impairment loss) of \$1,130,583 in the combined book values of Circadian's shareholdings in Zenyth Therapeutics Limited ("Zenyth") and Avexa Limited ("Avexa"). This unrealised loss reflects the decrease in both Zenyth's and Avexa's respective share prices during that period. As stated earlier, these holdings have shown an increase in market value during the six month period to 31 December 2005 of \$4,228,735.

For further details relating to the current period's results, refer to the Directors' Report contained within the Financial Report for the half-year ended 31 December 2005.

Shareholder Distributions

No dividends have been paid or declared by the entity since the beginning of the current reporting period.

In the prior corresponding period, Circadian provided its shareholders with a 50 cents per share return comprising of:

- 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 and was paid to shareholders in October 2004.

In February 2005 Circadian also declared a further distribution to shareholders in the form of a special unfranked dividend of 15 cents per share amounting to a total of \$6 million.

**CIRCADIAN TECHNOLOGIES LIMITED AND
CONTROLLED ENTITIES**

ABN 32 006 340 567

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

**CIRCADIAN TECHNOLOGIES LIMITED (ACN 006 340 567)
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT

The Board of Directors of Circadian Technologies Limited ("Circadian") has pleasure in submitting its report in respect of the financial half-year ended 31 December 2005.

Directors

The names of the directors in office during or since the end of the half-year are:

Ms Dominique Fisher (Non-Executive Chairman) (appointed 1 September 2005)
Mr Leon Serry (Managing Director)
Mr Graeme Kaufman (Executive Director)
Dr John Stocker
Mr James MacKenzie
Mr Donald Clarke (appointed 1 September 2005)
Sir Peter J Derham (Non-Executive Chairman) (retired 6 October 2005)

Unless otherwise indicated, all directors held their position as a director throughout the entire half year and up to the date of this report.

Principal Activities

The principal activities of Circadian and its subsidiary companies ("the Group") include the management and funding of pharmaceutical research and development projects with Australian and New Zealand Universities to the stage where collaborative and/or licensing arrangements with major international pharmaceutical companies are sought. These activities also include investment in leading edge Australian technology. The Group is committed to the innovation, management and commercialisation of its projects and technology holdings.

Results

- The consolidated loss of the Group for the half-year was \$899,936 after an income tax benefit of \$343,915 (2004: profit of \$25,226,348 after an income tax expense of \$1,488,106).
- The net tangible asset backing per share as at 31 December 2005 was \$1.60.
- Cash reserves as at 31 December 2005 amounted to \$18,493,256.
- Subsequent to 31 December 2005, the combined market value of Circadian's shareholdings in listed investments increased by \$2,570,407 to \$48,290,612. The increase in market value of these investments since period end is not reflected in the 31 December 2005 financial statements.

The results for the current period and the corresponding reporting period are pursuant to the Australian equivalents of International Financial Reporting Standards as explained in Note 1 to the financial statements.

The movement in the respective share prices of holdings in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) and Avexa Limited from 30 June 2005 to 31 December 2005 (which resulted in an increase in value) is not reflected in the current period income statement, as was previously the case, due to the new requirements effective 1 July 2005 under AASB 139 *Financial*

Instruments: Recognition and Measurement of the AIFRS. The total increase in value of these holdings of \$4,228,735 (being an amount after tax of \$2,960,115) has been accounted for through the net unrealised gains reserve account. As described in Note 1 to the financial statements, effective 1 July 2005 the Group's holdings in listed entities are recorded at their fair values with movements in these values after tax reflected in the net unrealised gains reserve.

The profit for the previous corresponding period included a gain on the disposal of the Group's interest in Axon Instruments Inc amounting to \$26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction. The consideration received by Circadian was partly paid in cash (approximately 50%) and partly paid by the issue of Molecular Devices shares (approximately 50%). The Group during the previous period also sold its Molecular Devices shares resulting in a further gain of \$3,490,252. 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 that period.

The prior period's result is also after an unrealised loss (an impairment loss) of \$1,130,583 in the combined book values of Circadian's shareholdings in Amrad Corporation Limited ("Amrad") and Avexa Limited ("Avexa"). This unrealised loss reflects the decrease in both Amrad's and Avexa's respective share prices during that period. As stated earlier, these holdings have shown an increase in market value during the six month period to 31 December 2005 of \$4,228,735.

Review of Operations

Detailed below is an update on the Group's interests in research and development projects and listed technology holdings for the half-year ended 31 December 2005. The 30 June 2005 annual report contains detailed background information relating to these projects and holdings and should be read in conjunction with this report.

NEUROSCIENCE RESEARCH PORTFOLIO

Alzheimer's Research Project

Project Owner: Circadian: 100%

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).

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 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.

Update

- Progress has been made with regard to uptake of compounds into the brain, however further work is being undertaken to optimise the delivery of the compound to the brain.

Memory Enhancement Project

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

This 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.

Update

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

Analgesic Project - Non-Sedating Analgesics

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

The aim of the analgesic 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 be the adverse results of taking morphine and codeine, the most commonly prescribed analgesics for strong pain.

Update

- Laboratory work on this project is now complete. We are currently reviewing all of our results to assemble a data package and will seek potential partners for the project.
- A European patent was granted in January 2006 covering a family of analgesic compounds.

Neurodegenerative Diseases Project

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

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. This project is based at the National Neuroscience Facility in Melbourne.

Update

- Research is being conducted on an antibiotic that has a neuro-protective function which may have potential application in stroke. The research team has made the derivatives of the compound which will be trialed in a cell culture model. If successful, these will be tested in an *in-vivo* stroke model.

Paracetamol Project

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

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

Update

- Testing of two candidate compounds has been completed with encouraging results.

CANCER RESEARCH PORTFOLIO

Cancer Therapeutics Limited (wholly owned subsidiary of Circadian) – Cancer Vaccines

Project Ownership: 50% Cancer Therapeutics; 50% Monash University

In September 2005 Cancer Therapeutics Limited 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. The technology is 50% owned by Circadian's wholly owned subsidiary Cancer Therapeutics Limited, and 50% by Monash University. 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 improve its stability and generate improved immune responses in models of anti-tumour immunity, while maintaining its specificity for the target.

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.

Cancer Therapeutics Limited - formerly Centre Therapeutics Limited
(wholly owned subsidiary of Circadian) – Cancer of Unknown Primaries

Project Ownership: 50% Cancer Therapeutics; 50% Peter MacCallum Cancer Centre

In November 2003, Cancer Therapeutics concluded collaboration agreements with the Peter MacCallum Cancer Centre ("Peter MacCallum") whereby Cancer Therapeutics provides the funding and commercialisation/ management expertise for a research project aimed at diagnosing cancers of unknown tissue origin (Cancers of Unknown Primaries Project). 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.

Update

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

CancerProbe Pty Ltd - Cancer Diagnostic/Therapeutics

Shareholders: Circadian: 30%; Inventors and Others: 70%

CancerProbe has lodged patents (patent application) for 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.

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

Syngene Limited - Gene Diagnostics

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

Syngene has an exclusive worldwide license from the Howard Florey Institute of Experimental Physiology and Medicine (“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 first draft map of the human genome.

As a result of Syngene’s projects with the 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.

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 15.3% holding in Antisense Therapeutics Limited which had a market value of \$1,904,471 at 31 December 2005 compared with an original cost of \$505,000.

LISTED TECHNOLOGY HOLDINGS

Key Highlights:

Circadian’s interests in listed technology holdings are detailed below. Background information with respect to these holdings is contained in Circadian’s 2005 annual report which should be read in conjunction with this report.

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 and Other New Drug Development Projects

*Circadian Holding 31 December 2005 - Market Value: \$22.1 million; Original cost: \$10K
Shareholders: Circadian: 18.9%; Monash University: 8.5%; Others: 72.6%*

- ***Obesity Drug AOD9604***

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 updated the market on 23 January 2006 advising that “The low dose Phase 2B human clinical trial of obesity drug AOD9604, known as the “OPTIONS” study, is proceeding on schedule. Ethics Committee approval has been obtained at all 16 clinical sites, over 170 subjects

have been screened and 88 subjects have begun treatment with the last subject expected to begin treatment in April/May 2006. Recruitment is accelerating as expected now all sites are active and the Christmas/New Year period is over.”

- ***Pain Drug ACV1***

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 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).”

For information regarding the progress of Metabolic’s operations see their public announcements which can be found on www.asx.com.au and www.metabolic.com.au.

Antisense Therapeutics Limited - Gene Directed Therapeutics

Circadian Holding 31 December 2005 – Market Value: \$2.6 million; Original cost: \$2.8 million
Shareholders: Circadian: 20.4%; Syngene: 15.3%; Others: 64.3%

- ***ATL1102 for MS***

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.”

For information regarding the progress of Antisense Therapeutics’ operations see their public announcements which can be found on www.asx.com.au and www.antisense.com.au.

Optiscan Imaging Limited - Early Cancer Detection

Circadian Holding 31 December 2005 - Market Value: \$2.3 million; Original cost: \$366K
Shareholders: Circadian: 6.4%; Others: 93.6%

- 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.”

For information regarding the progress of Optiscan’s operations see their public announcements which can be found on www.asx.com.au and www.optiscan.com.

Zenyth Therapeutics Limited (formerly Amrad Corporation Limited)

Circadian Holding 31 December 2005 - Market Value: \$13.6 million; Original cost: \$16.8 million
Shareholders: Circadian: 22.6%; Others: 77.4%

- On 17 August 2005 Zenyth (formerly Amrad) 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 totaling US\$14 million.”

For information regarding the progress of Zenyth’s operations see their public announcements which can be found on www.asx.com.au and www.zenyth.com.au.

Avexa Limited

Circadian Holding 31 December 2005 - Market Value: \$5.2 million; Original cost: \$7.2 million
Shareholders: Circadian: 13.9%; Amrad: 15.3%; Others: 70.8%

- 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.”

“AVX754 is a nucleoside reverse transcriptase inhibitor. The Phase IIb trial is investigating the effect of AVX754 on the level of virus in HIV patients that have been treated with existing HIV therapies but are failing these therapies. 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.”

For information regarding the progress of Avexa’s operations see their public announcements which can be found on www.asx.com.au and www.avexa.com.au.

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 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 report.

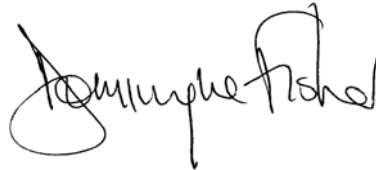
Auditor's Independence Declaration

The Directors have obtained a declaration of independence from Ernst & Young, the Group's auditors, which is attached to this report.

For and on behalf of the Board:



Leon Serry
Director

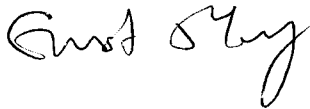


Dominique Fisher
Director

Melbourne
9 February 2006

Auditor's Independence Declaration to the Directors of Circadian Technologies Limited

In relation to our review of the financial report of Circadian Technologies Limited for the half-year ended 31 December 2005, 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
9 February 2006

CONDENSED BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	Consolidated	
		31 December 2005 \$	30 June 2005 \$
ASSETS			
Current Assets			
Cash and cash equivalents		18,493,256	24,679,406
Receivables		187,897	236,960
Prepayments		278,889	196,847
Other financial asset		15,946	18,720
Total Current Assets		<u>18,975,988</u>	<u>25,131,933</u>
Non-Current Assets			
Investments	4	45,720,205	16,959,060
Investment in associate accounted for using the equity method		1,238,667	1,117,024
Deferred income tax asset		-	7,194,238
Plant and equipment		38,366	38,154
Intangible assets		226,165	226,165
Total Non-Current Assets		<u>47,223,403</u>	<u>25,534,641</u>
TOTAL ASSETS		<u>66,199,391</u>	<u>50,666,574</u>
LIABILITIES			
Current Liabilities			
Payables		272,349	277,601
Interest bearing borrowing		-	5,000,000
Provisions		346,838	322,294
Total Current Liabilities		<u>619,187</u>	<u>5,599,895</u>
Non-Current Liabilities			
Deferred income tax liability		1,094,520	-
Provisions		26,824	25,156
Total Non-Current Liabilities		<u>1,121,344</u>	<u>25,156</u>
TOTAL LIABILITIES		<u>1,740,531</u>	<u>5,625,051</u>
NET ASSETS		<u>64,458,860</u>	<u>45,041,523</u>
EQUITY			
Issued capital		33,167,977	33,167,977
Retained earnings		8,743,937	10,001,318
Other reserves		22,428,519	1,729,815
Parent interests		<u>64,340,433</u>	<u>44,899,110</u>
Minority interests		<u>118,427</u>	<u>142,413</u>
TOTAL EQUITY		<u>64,458,860</u>	<u>45,041,523</u>

CONDENSED INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

		Consolidated	
	Note	31 December 2005 \$	31 December 2004 \$
Interest income		630,094	738,070
Net gain on sale of investments	2	-	29,942,876
Other income	2	8,750	93,949
Research and development expenses		(344,446)	(415,739)
Patent expenses		(127,967)	(78,011)
Administrative expenses	2	(1,261,915)	(1,042,440)
Occupancy expenses		(56,395)	(57,906)
Impairment losses	2	(2,773)	(1,266,627)
Share of net loss of associate		(16,334)	(27,044)
Foreign exchange losses		-	(1,092,653)
Profit/(loss) before tax and finance costs		(1,170,986)	26,794,475
Finance costs		(96,851)	(80,021)
Profit/(loss) before income tax		(1,267,837)	26,714,454
Income tax benefit/(expense)		343,915	(1,488,106)
Net profit/(loss) for the period		(923,922)	25,226,348
Loss attributable to minority interest		23,986	-
Net profit/(loss) attributable to members of the parent entity		(899,936)	25,226,348
Earnings per share (cents per share):			
- basic for profit/(loss) for the half-year		(2.24)	62.87
- diluted for profit/(loss) for the half-year		(2.24)	62.87
- dividends paid per share	3	-	12.00
- return of capital per share	3	-	38.00

CONDENSED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated	
		31 December 2005 \$	31 December 2004 \$
Cash Flows from Operating Activities:			
Biotechnology Innovation Fund (BIF) grant income		-	93,719
Other receipts		9,625	9,625
Payments to suppliers, employees and for research and development		(1,757,106)	(1,523,539)
Borrowing costs		(80,404)	(80,021)
Interest received		666,319	531,857
Net cash flows from operating activities		<u>(1,161,566)</u>	<u>(968,359)</u>
Cash Flows from Investing Activities:			
Purchase of investments		(5,000)	-
Proceeds from sale of investments		-	30,783,076
Purchase of plant and equipment		(7,201)	(3,908)
Net cash flows from investing activities		<u>(12,201)</u>	<u>30,779,168</u>
Cash Flows from Financing Activities:			
Proceeds from issue of shares and options		-	20,000
Proceeds from borrowings		-	5,000,000
Repayment of borrowings		(5,000,000)	-
Payment of unfranked dividends	(i)	(10,441)	(4,793,368)
Return of capital to shareholders	(i)	(1,942)	(15,137,604)
Net cash flows from financing activities		<u>(5,012,383)</u>	<u>(14,910,972)</u>
Net increase/(decrease) in cash and cash equivalents		(6,186,150)	14,899,837
Cash and cash equivalents at beginning of period		24,679,406	17,431,103
Cash and cash equivalents at end of period	9	<u>18,493,256</u>	<u>32,330,940</u>

- (i) The payment of unfranked dividends and return of capital during the current period is to those shareholders who were not paid in the previous period 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.

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED	Attributable to equity holders of the parent			Total	Minority interest	Total equity
	Issued capital	Retained earnings/ (accumulated losses)	Other reserves			
	\$	\$	\$			
At 1 July 2004	48,396,484	(894,562)	1,621,061	49,122,983	-	49,122,983
Profit for the period	-	25,226,348	-	25,226,348	-	25,226,348
Total income/expense for the period	-	25,226,348	-	25,226,348	-	25,226,348
Exercise of options	20,000	-	-	20,000	-	20,000
Equity dividends	-	(4,814,939)	-	(4,814,939)	-	(4,814,939)
Return of capital to shareholders	(15,247,307)	-	-	(15,247,307)	-	(15,247,307)
Cost of share-based payment	-	-	37,947	37,947	-	37,947
At 31 December 2004	33,169,177	19,516,847	1,659,008	54,345,032	-	54,345,032
At 1 July 2005	33,167,977	9,643,873	1,729,815	44,541,665	142,413	44,684,078
Fair value adjustments to listed investments on adoption of accounting standard AASB 139	-	-	22,910,766	22,910,766	-	22,910,766
Net unrealised gains/(losses) on listed investments for the period	-	-	(2,286,043)	(2,286,043)	-	(2,286,043)
Total unrealised fair value adjustments	-	-	20,624,723	20,624,723	-	20,624,723
Total income and expense for the period recognised directly in equity	-	-	20,624,723	20,624,723	-	20,624,723
Profit/(loss) for the period	-	(899,936)	-	(899,936)	(23,986)	(923,922)
Total income/expense for the period	-	(899,936)	20,624,723	19,724,787	(23,986)	19,700,801
Cost of share-based payment	-	-	73,981	73,981	-	73,981
At 31 December 2005	33,167,977	8,743,937	22,428,519	64,340,433	118,427	64,458,860

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Note 1. Basis of Preparation of the Half-Year Financial Report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Circadian Technologies Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Circadian Technologies Limited during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

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

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
 - AIFRS profit for the half-year 31 December 2004 and full-year 30 June 2005,
- to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Circadian Technologies Limited and its subsidiaries ('the Group').

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

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are 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.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Circadian Technologies Limited has control.

Minority interests represent the interests in CancerProbe Pty Ltd, not held by the Group.

Note 1. Basis of Preparation of the Half-Year Financial Report

(c) Summary of significant accounting policies (continued)

(ii) Investment in associate

The Group's investment in its associate is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate.

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

iii) Interest in joint venture operation

The Group's interests in its joint venture operations are accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

iv) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon 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 item) is included in the income statement in the period the item is derecognised.

v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

vi) Goodwill

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.

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.

(vii) Research and development costs

Research and patent costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. No development expenditure has been carried forward.

Note 1. Basis of Preparation of the Half-Year Financial Report

(c) Summary of significant accounting policies (continued)

(viii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is fair value less costs to sell.

(ix) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which fall within the definition of held for trading and available-for-sale pursuant to AASB 139 *Financial Instruments: Recognition and Measurement*, are measured at fair value. The Group does not have any investments which are "held for trading" financial assets. The Group's non-current investments in listed companies (shares and options) fall within the definition of "available-for-sale" financial assets.

Gains or losses on available-for-sale investments are 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 included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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.

(x) Receivables

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(xi) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank 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, if any.

(xii) Interest-bearing loans and borrowings

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.

Note 1. Basis of Preparation of the Half-Year Financial Report

(c) Summary of significant accounting policies (continued)

(xiii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xiv) Share-based payment transactions

In addition to salaries, the Group provides benefits to certain employees (including executive directors) of the Group in the form of share-based payment transactions, 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.

Note 1. Basis of Preparation of the Half-Year Financial Report

(c) Summary of significant accounting policies (continued)

(xv) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xvi) Revenue

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.

Interest

Revenue is recognised as the interest accrues.

(xvii) Government grants

Government grants are recognised at their fair value where there is a 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.

Where the grant relates to an asset, the fair value is credited to the deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(xviii) Income tax

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.

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 assets and unused tax losses can be utilised.

Deferred income tax assets have been offset against deferred income tax liabilities in the balance sheet in accordance with the accounting standards.

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.

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 the income statement.

(xix) Other taxes

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

- where 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.

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.

Note 1. Basis of Preparation of the Half-Year Financial Report

(c) Summary of significant accounting policies (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financial 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.

(xx) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(d) AASB 1 Transitional exemptions

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).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale through equity at 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.

(e) 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 below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	30-Jun-05***	Consolidated 31-Dec-04**	01-Jul-04*
	\$	\$	\$
Total equity under AGAAP	37,545,530	48,400,040	41,695,542
<i>Adjustments to retained earnings (net of tax):</i>			
Recognition of share-based payment expense (A)	(108,754)	(37,947)	-
Write-back of goodwill amortisation (B)	31,297	-	-
Recognition of deferred tax asset (C)	6,964,493	5,455,175	6,943,281
Equity accounting of associate's recognition of deferred tax asset	270,458	260,072	254,416
<i>Adjustments to other reserves (net of tax):</i>			
Recognition of share-based payment expense (A)	108,754	37,947	-
Recognition of deferred tax asset (C)	229,745	229,745	229,745

CIRCADIAN TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES - HALF-YEAR REPORT

Total equity under AIFRS	45,041,523	54,345,032	49,122,984
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Note 1. Basis of Preparation of the Half-Year Financial Report

(e) Impact of adoption of AIFRS (continued)

- * 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 half-year ended 31 December 2004.
- *** 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 company 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 company's non-current investments in listed entities and in associated companies. This includes the difference in the cost base of the company'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.

As at 1 July 2005, the company applied the requirements of AASB 139 'Financial Instruments: Recognition and Measurement'. Pursuant to AASB 139 the company 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).

The above changes have resulted in the recognition of a net deferred tax asset under AIFRS as follows:

	Consolidated		
	30-Jun-05	31-Dec-04	01-Jul-04
	\$	\$	\$
Opening net deferred tax asset balance	5,684,920	7,173,026	-
Increase/(decrease) due to changes in retained earnings - note (C)	1,509,318	(1,488,106)	6,943,281
Increase due to changes in reserves – note (C)	-	-	229,745
Closing net deferred tax asset balance	<u>7,194,238</u>	<u>5,684,920</u>	<u>7,173,026</u>

Note 1. Basis of Preparation of the Half-Year Financial Report

(e) Impact of adoption of AIFRS (continued)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Consolidated	
	Year ended 30-Jun-05	Half-Year ended 31-Dec-04
	\$	\$
Profit after tax as previously reported	21,764,179	26,746,745
Recognition of share-based payment expense note (i)(A)	(108,754)	(37,947)
Write-back of goodwill amortisation – note (i)(B)	31,297	-
Equity accounting of associate's adjustment to income tax benefit	16,042	5,656
Adjustment to income tax benefit/(expense) (a), note (i)(C)	21,212	(1,488,106)
Profit after tax under AIFRS	<u>21,723,976</u>	<u>25,226,348</u>

(a) This tax benefit for the 2005 financial year reflects the utilisation of capital losses on the sale of the company's holding in Axon Instruments Inc and Molecular Devices Corporation (which occurred on 1 July 2004), which is offset by:

- (a) income tax losses arising during the year ended 30 June 2005; and
- (b) the tax benefit recognised on the increase in the provisions for diminution in investments for Zenyith Therapeutics Limited and Avexa Limited and in listed options. Also refer to (i)(C) above.

(iii) Explanation of material adjustments to the Cash Flow Statement

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

	Consolidated	
	31 December 2005	31 December 2004
	\$	\$

Note 2. Revenue and Expenses

Specific Items

Profit/(loss) before income tax includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the Group:

Revenues:

Net gain on sale of investments (a)	-	29,942,876
Other Income:		
- BIF grant income	-	85,199
- Other revenue items	8,750	8,750
	<u>8,750</u>	<u>93,949</u>

(a) 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 period, the Board unanimously decided to sell its entire holding, thus limiting its foreign exchange exposure.

Note 2. Revenue and Expenses (continued)

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	
	31 December 2005	31 December 2004
	\$	\$
Expenses:		
Impairment losses:		
- Zenyth Therapeutics Ltd (formerly Amrad Corporation Ltd) and Avexa Limited (a)	-	1,130,583
- Listed options	-	131,191
- Other listed financial asset	<u>2,773</u>	<u>4,853</u>
Total	<u><u>2,773</u></u>	<u><u>1,266,627</u></u>
Employee expenses	928,639	744,964
Expense of share-based payments	73,981	37,947

- (a) The prior period's result is after an unrealised impairment loss of \$1,130,583 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. This unrealised loss reflects the decrease in both Zenyth's and Avexa's respective share prices during the prior period.

The cumulative unrealised loss before tax on these two investments at 31 December 2005 was \$5,257,248 comprising an unrealised loss of \$9,485,983 included in retained earnings and an unrealised gain of \$4,228,735 accounted for in the net unrealised gains reserve.

CIRCADIAN TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES - HALF-YEAR REPORT

	Consolidated	
	31 December 2005 \$	31 December 2004 \$
Note 3. Dividends paid		
(a) Dividends paid during the half-year:		
Unfranked special dividend (12 cents per share) – paid 29/10/04	-	4,814,939
(b) Dividends proposed and not recognised as a liability:		
Unfranked special dividend (15 cents per share) – paid 24/2/05	-	6,018,674
Total	<u>-</u>	<u>10,833,613</u>

In addition to the dividend paid on 29 October 2004, Circadian shareholders received a capital return of 38 cents per share, providing a total payment of 50 cents per share at that time.

Note 4. Investments (Non-Current)

	Consolidated	
	31 December 2005 \$	30 June 2005 (i) \$
At fair value:		
- Listed shares	45,620,578	14,503,984
- Listed options	99,627	219,180
At cost:		
- Listed shares	-	2,235,896
Total	<u>45,720,205</u>	<u>16,959,060</u>

Listed Investments	Direct Ownership Interest		Diluted Ownership Interest		Cost of Investment		Market Value (ii)	
	Dec 2005	Jun 2005	Dec 2005	Jun 2005	Dec 2005	Jun 2005	Dec 2005	Jun 2005
	%	%	%	%	\$	\$	\$	\$
Metabolic Pharmaceuticals Ltd	18.9	19.4	18.7	19.2	10,000	5,000	22,085,842	29,042,726
Zenyth Therapeutics Ltd (iv)	22.6	22.6	21.7	21.7	16,804,666	16,804,666	13,567,000	11,729,802
Avexa Limited (iv)	13.9	13.9	13.2	13.3	7,185,301	7,185,301	5,165,719	2,774,182
Antisense Therapeutics Ltd (iii)	20.4	20.4	19.6	19.2	1,864,765	1,864,765	2,535,288	3,042,346
Antisense Therapeutics Ltd (Options)					1,087,614	1,087,614	99,627	219,180
Optiscan Imaging Ltd	6.4	6.4	6.0	6.1	366,131	366,131	2,266,729	2,011,323
Total					<u>27,318,477</u>	<u>27,313,477</u>	<u>45,720,205</u>	<u>48,819,559</u>

- (i) As stated in Note 1(d), 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-subsiary, non-associated corporations (ie. the Group's listed investments) which are carried at the lower of cost or

Note 4. Investments (Non-Current) (continued)

market valuation (fair value). At 30 June 2005, the shares held in Zenyth Therapeutics Limited and Avexa Limited were recorded at fair value. All other non-current listed shareholdings were recorded at cost. Also see (iv) below.

- (ii) The market value represents the share (bid) price at period 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.
- (iii) The consolidated entity's total undiluted interest in Antisense Therapeutics, including its indirect interest in Antisense Therapeutics through its investment in Syngene Limited, amounted to 27% at period end, representing a market value of \$3,342,403 (cost: \$2,076,665).
- (iv) Closing retained earnings include cumulative impairment losses of \$9,485,983 for these listed investments representing the decrease in the respective share prices of these investments from the time of their acquisition to 30 June 2005.

Consolidated

	31 December 2005	30 June 2005
	\$	\$

Note 5. Commitments

(a) *Operating office lease expenditure contracted for is payable as follows:*

Not later than one year	80,212	87,504
Later than one year, but not later than five years	126,713	170,693
	206,925	258,197

Operating leases have an average lease term of three years. The asset that is the subject of an operation lease is office premises.

(b) *Expenditure commitments relating to research projects are payable as follows:*

Not later than one year	982,263	229,446
Later than one year, but not later than five years	509,969	180,000
	1,492,232	409,446

Note 6. Events after the Balance Sheet date

Subsequent to period end, the market value of Circadian's investments in listed companies (see note 4) increased by \$2,570,407 to \$48,290,612. The increase in market value of these investments since period end is not reflected in the financial report.

Note 7. 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.

Note 8. Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material changes in contingent liabilities or contingent assets - these remain at \$nil respectively.

Note 9. Additional Information

Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	Consolidated	
	31 December 2005	31 December 2004
	\$	\$
Cash at bank	723,256	1,095,940
Term deposits (i)	17,770,000	31,235,000
Closing cash balance	18,493,256	32,330,940

- (i) Term deposits are with a major bank and are short term. The bank pays interest at current bank deposit rates. At period end the average rate was 5.52%.

Directors' Declaration

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

In the opinion of the directors:

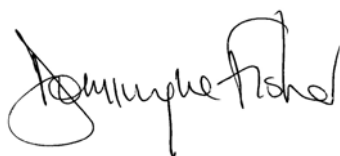
- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the 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.

On behalf of the Board



Leon Serry
Director



Dominique Fisher
Director

Melbourne
9 February 2006

Independent review report to members of Circadian Technologies Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements and the other information set out in Appendix 4D to the Australian Stock Exchange (ASX) Listing Rules for the consolidated entity comprising both Circadian Technologies Limited (the company) and the entities it controlled during the half year, and the directors' declaration, for the company, for the half year ended 31 December 2005.

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 consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*, and the ASX Listing Rules as they relate to Appendix 4D. 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the ASX and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, and the ASX Listing Rules as they relate to Appendix 4D, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

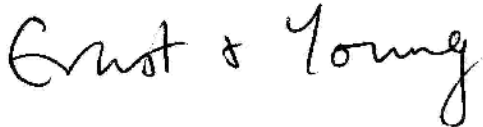
Independence

We are independent of the company, 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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity Ciradian Technologies Limited and the entities it controlled during the for the half year ended 31 December 2005 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia and the ASX Listing Rules as they relate to Appendix 4D.



Ernst & Young



Denis Thorn
Partner
Melbourne
9 February 2006

OTHER INFORMATION

NTA backing	Consolidated	
	31.12.05	31.12.04
Net tangible asset backing per ordinary security	\$1.60	\$1.35

Interests in entities which are not controlled entities

The economic entity has an interest in the following entities.

Equity accounted associates	Percentage of ownership interest		Contribution to net profit/(loss) for the half-year ending:		Contribution to net unrealised gains reserve	
	31.12.05	31.12.04	31.12.05	31.12.04	31.12.05	31.12.04
Name of entity:			\$	\$	\$	\$
SYNGENE LIMITED	42.38%	42.38%	(16,334)	(13,935)	(ii) 495,422	-
CANCERPROBE PTY LTD (i)	(i)	30%	(i)	(13,109)	-	-
Total			(16,334)	(27,044)	495,422	-

- (i) 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. From 1 June 2005, Fibre Optics has consolidated the results of CancerProbe.
- (ii) This amount of \$495,422 comprises Circadian's equity share of Syngene's:
- | | |
|---|------------------|
| Fair value adjustment (unrealised) to its investment in a listed entity on adoption of accounting standard AASB 139 (after tax) | \$608,418 |
| Net unrealised loss on listed investment for the half-year ended 31 December 2005 (after tax) | <u>(112,996)</u> |
| Circadian's total equity share of Syngene's net fair value adjustments | <u>\$495,422</u> |

Status of review of accounts

The financial report for the half-year ended 31 December 2005 has been reviewed. The review report is included with the financial report.