CIRCADIAN TECHNOLOGIES LIMITED
ABN 32 006 340 567

10 Wallace Avenue, Toorak
Victoria 3142 Australia

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20 August 2003

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

Dear Sir/Madam

Re: 2003 Annual Report and Notice of Annual General Meeting

Please find attached the Annual Report of Circadian Technologies Limited for the year ended 30 June 2003 together with the Notice of Annual General Meeting. The AGM will be held at 9.00 am on Thursday, 25 September 2003 at the Royce Hotel, 379 St Kilda Road, Melbourne, Victoria.

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

Yours sincerely

Natalie Korchev
Company Secretary

CIRCADIAN TECHNOLOGIES LIMITED

ABN 32 006 340 567

NOTICE OF ANNUAL GENERAL MEETING
Thursday 25 September 2003

Notice is given that the Annual General Meeting of the Shareholders of Circadian Technologies Limited ('Company') will be held in the Royce Room at The Royce Hotel, 379 St Kilda Road, Melbourne, Victoria on Thursday, 25 September 2003 at 9.00 a.m.

BUSINESS

1. Financial statements and reports

To receive and consider:
- the financial report;
- the directors' report; and
- the auditor's report.

2. Election of directors (Resolutions 1 & 2)

To elect as directors of the Company:
- Sir Peter Derham (resolution 1); and
- Mr Ian Davis (resolution 2).

3. Issue of options to Mr Leon Serry, Managing Director (Resolution 3)

To consider and, if thought fit, to pass the following ordinary resolution (with or without modification):

That, in accordance with Australian Stock Exchange Listing Rule 10.11, the issue of 500,000 options to Mr Leon Serry, Managing Director, be and is hereby approved on the following terms and conditions and the Terms and Conditions of Options accompanying, and forming part of, this Notice of Annual General Meeting:

- each option entitles the holder to acquire by way of issue one fully paid ordinary share in the capital of the Company at various exercise prices as follows:
  - 1/3 of the options granted to the holder disregarding fractions are exercisable at $3.00 per option;
  - 1/3 of the options granted to the holder disregarding fractions are exercisable at $3.25 per option; and
  - the remaining options are exercisable at $3.50 per option; and
- each option will expire 5 years from the date this resolution is passed (or as otherwise provided for in the Terms and Conditions of Options accompanying, and forming part of, this Notice of Annual General Meeting).

The Company will disregard any votes cast on this resolution by:
- Mr Leon Serry;
- any associates of Mr Leon Serry.

However, the Company need not disregard a vote if:
- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. Issue of options to Mr Graeme Kaufman, Executive Director (Resolution 4)

To consider and, if thought fit, to pass the following ordinary resolution (with or without modification):

That, in accordance with Australian Stock Exchange Listing Rule 10.11, the issue of 250,000 options to Mr Graeme Kaufman, Executive Director, be and is hereby approved on the same terms and conditions as described in resolution 3 above and the Terms and Conditions of Options accompanying, and forming part of, this Notice of Annual General Meeting.

The Company will disregard any votes cast on this resolution by:

- Mr Graeme Kaufman;
- any associates of Mr Graeme Kaufman.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. Other business

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

PROXY NOTES

- A member 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 at the office of the Company, at Level 1, 10 Wallace Avenue, Toorak, 3142 or by facsimile to +61 3 9824 0083 not later than 48 hours before the time for holding the meeting.
- 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*, a person's entitlement to vote at the Annual General Meeting will be determined by reference to the number of fully paid ordinary shares registered in the name of that person (reflected in the register of members) as at the close of business on Tuesday, 23 September 2003 for the purposes of the meeting.

Dated 20 August 2003

By Order of the Board

N. Korchev

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 20 August 2003) 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 on 25 September 2003 and to assist members to determine how they wish to vote on each resolution.

RE-ELECTION OF DIRECTORS (Resolutions 1 & 2)

Introduction
Article 57 of Circadian Technologies Limited's Articles of Association requires that at each annual meeting one-third of the directors must retire from office. Therefore, two of the six directors must retire by rotation. Sir Peter Derham and Mr Ian Davis, being the directors who have longest been in office, retire by rotation and are eligible for re-election. Accordingly they seek re-election as directors.

Further, it is no longer a requirement under the *Corporations Act 2001* for directors of public companies over the age of 72 to retire at each annual general meeting and be re-elected by special resolution (as was applicable to Sir Peter Derham for previous years). Therefore, all retirements and elections of directors at this meeting are due to the requirement of rotation, and may be passed by ordinary resolution.

Re-election of Sir Peter Derham
Sir Peter Derham has been a director of Circadian Technologies Limited since 1984 and continues a long and successful business career. He 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 and the Australian Tourist Commission. He is currently Chairman of the Shrine of Remembrance Appeal, Red Hill Wines Pty Ltd, SEE Australia Limited and President of the Honorary Board of Australians Against Child Abuse.

Re-election of Mr Ian Davis
Mr Ian Davis has been a director of Circadian Technologies Limited since 1984. Mr Davis is a Senior Partner and was previously the National Chairman of the international law firm, Minter Ellison. He holds a law degree with honours from the University of Melbourne. Mr Davis has had extensive experience in the corporate and commercial area of law, in which he practices. He is also Chairman of MaxiTRANS Limited, a Director of the International Diabetes Institute and Chairman of the Retail Grocery Industry Code Administration Committee.

ISSUE OF OPTIONS (Resolutions 3 & 4)

Details of Issue
Shareholder approvals for the issue of 500,000 options to Mr Leon Serry, Managing Director and 250,000 options to Mr Graeme Kaufman, Executive Director, each of which entitles the holder to acquire by way of issue one fully paid ordinary share in the capital of the Company at various exercise prices as follows: 1/3 of the options granted to the holder disregarding fractions are exercisable at $3.00 per option; 1/3 of the options granted to the holder disregarding fractions are exercisable at $3.25 per option; and the remaining options are exercisable at $3.50 per option. The options will expire 5 years from the date this resolution is passed (or as otherwise provided for in the Terms and Conditions of Options) and are subject to the Terms and Conditions of Options accompanying, and forming part of, this Notice of Annual General Meeting.

The exercise prices of the options are substantially higher than the Company's share price of $1.98 on 4 August 2003, being the date upon which the Board of the Company approved the above issues (Mr Leon Serry and Mr Graeme Kaufman abstained from voting on the matter of issue of options relating to each of them respectively). The options will have no issue price (but are subject to payment of the exercise price).

Reasons for and Benefits of Issue
The offer of options to Mr Leon Serry and Mr Graeme Kaufman is to provide them with the opportunity to participate in the success of the Company and to provide them with further incentive to ensure wealth is created in the Company for the benefit of all shareholders. The Board, excluding Messrs Serry and Kaufman, consider the grant of the options to be reasonable in light of the other remuneration the Company provides to them.

Aside from any dilution of shareholdings, which may occur upon exercise of the options, the current directors (with Mr Leon Serry and Mr Graeme Kaufman abstaining from voting on the matter of issue of options relating to each of them respectively) do not believe that there are any disadvantages to shareholders that arise from the approval of the issue of options, which are the subject of resolutions 3 and 4.

Proposed Date of Issue
The options will be issued not later than 25 October 2003, being 1 month after the date of the meeting.

Shareholder Approvals
The approvals by members for the grant of the options are sought in accordance with Australian Stock Exchange Limited ('ASX') Listing Rule 10.11, which provides that an entity must not issue equity securities to a related party, such as a director, without the approval of holders of ordinary securities. ASX Listing Rule 10.11 also operates as an exception to ASX Listing Rule 7.1, "Issues exceeding 15% of capital". Accordingly, if approval is given by holders of ordinary securities to the grant of the options under ASX Listing Rule 10.11, approval under ASX Listing Rule 7.1 is not required.

Effect of Shareholder Approvals
Each resolution, if approved by simple majority, will allow the Company to rely on ASX Listing Rule 10.11 to issue options to acquire, by way of issue, fully paid ordinary shares to Mr Leon Serry and Mr Graeme Kaufman, in accordance with the terms and conditions set out in the attached Terms and Conditions of Options, which is included in and forms part of this Notice of Annual General Meeting.

Use of Funds
No funds will be raised by the issue of the options. It is currently intended that funds raised by any exercise of these options will be used for the Company's working capital purposes.

Voting Exclusion Statements
The Company will disregard any votes cast on resolution 3 by:

- Mr Leon Serry;
- any associates of Mr Leon Serry.

The Company will disregard any votes cast on resolution 4 by:

- Mr Graeme Kaufman;
- any associates of Mr Graeme Kaufman.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

TERMS AND CONDITIONS OF OPTIONS

Each Option to take up unissued shares ('Option') shall entitle the holder of the Option ('Option Holder') to subscribe for and be allotted one fully paid ordinary share ('Share') in Circadian Technologies Limited A.C.N. 006 340 567 ('Company') on the terms and conditions set out below:

1. Each option is exercisable at any time during the period ('Option Period') commencing 25 September 2003 and expiring at the earliest to occur of the following dates:

   (a) 5.00 p.m. Australian Eastern Standard Time on 25 September 2008;

   (b) the date of resignation or dismissal from employment (if any) of the Option Holder with the consolidated entity (as defined in the Corporations Act) of Circadian Technologies Limited ('Consolidated Entity'); and

   (c) 3 years after the date of retirement of the Option Holder (if any) from the Consolidated Entity,

   PROVIDED THAT an Option Holder may not exercise more than the following proportion of the Options from time to time held by the Option Holder:

(d)	prior to 25 September 2004	25%
(e)	prior to 25 September 2005	50%
(f)	prior to 25 September 2006	75%
(g)	prior to the closing date of the Option Period	100%

   and FURTHER PROVIDED THAT the limitations on the time of exercise of the Options set out above (excluding the limitation in paragraph 12) shall be subject to the overriding conditions that:

   (h) if retirement occurs after reaching the age determined by the Board to be normal retirement age or in any other circumstances with the approval of the Board, the Option Holder may exercise his or her options in full within 60 days after the date of retirement; and

   (i) if resignation is due to ill health or accident or a dismissal is due to redundancy, or in any other circumstances with the approval of the Board, the Option Holder may exercise his or her options in full within 60 days after the date of the resignation or dismissal.

2. Subject to paragraphs 1 and 12, the Options may be exercised wholly or in part by giving notice in writing ('Notice of Exercise') to the Board at any time during the Option Period.

3. Notwithstanding paragraph 1, but subject to paragraph 12, if an Option Holder dies during the Option Period applicable to the Option Holder, the legal personal representative of the Option Holder may exercise all or any of the Options held at the date of death on behalf of the estate of the Option Holder PROVIDED THAT such exercise must be made anytime after the death of the Option Holder but not later than 60 days after the date of granting of probate or grant or letters of administration (as appropriate) or the Options will lapse and the amount paid to acquire the Options will be forfeited. Further, in the event the Option Holder dies during the Option Period, the Company has an obligation to inform the Option Holder's legal personal representative in writing, within 30 days after the date of granting of probate or grant or letters of administration (as appropriate), of his/her right to exercise the Options in accordance with the terms of this clause.

4. In respect of the Options, the exercise price (which is payable immediately upon exercise) for one third of the Options granted to the Option Holder (disregarding fractions) is A$3.00, for another third of the Options granted to the Option Holder (disregarding fractions) is A$3.25 and for the remaining Options granted to the Option Holder is A$3.50 ('Exercise Price').

5. On receipt by the Company of the Notice of Exercise and payment of the relevant Exercise Price, the Company must, within 14 days:

   (a) do all of the following:

      (i) issue to the Option Holder the number of Shares in respect of which the Option is exercised; and

      (ii) despatch the relevant share certificate or other appropriate acknowledgment as soon as reasonably practicable thereafter; and

      at or about, and in any event by no later than 2 business days (as defined in the Corporations Act) after, the time of issue, notify Australian Stock Exchange Limited ('ASX') that:

      (i) all information of the kind that would be required to be disclosed under section 713(5) if a prospectus were to be issued by the Company in reliance on section 713 in relation to an offer of securities of the Company has been disclosed to ASX; or

      (ii) there is no information of that kind to be disclosed; or

(b) give notice to the Option Holder stating that because of the application of Listing Rule 3.1A of ASX the Company is not in a position to notify ASX as provided in paragraph 5(a) and stating a date by which such notification is expected to be made.

6. Where the Company gives a notice stating a date as provided in paragraph 5(b), the Company must within 14 days after that date:

(a) undertake the steps provided in paragraph 5(a); or

(b) give a further notice as provided in paragraph 5(b).

This paragraph 6 applies successively until the Company reasonably considers it is in a position to give a notification as provided in paragraph 5(a).

7. Shares allotted on the exercise of any Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the Company and will be subject to the provisions of the Constitution of the Company.

8. Adjustments to the number of Shares over which Options exist and/or the Exercise Price may be made as described in paragraph 10 to take account of changes to the capital structure of the Company by way of pro rata bonus issues. The Company agrees to notify all Option Holders and Australian Stock Exchange Limited within 1 month after the record date for a pro rata bonus issue, of any adjustment to the number of Shares over which the Options exist and/or any adjustment to the Exercise Price.

9. Subject to paragraphs 8, 10 and 11, Options do not confer rights to participate in new issues of securities of the Company.

10. The method of adjustment for the purpose of paragraph 8 shall be in accordance with Listing Rules 6.22.2 and 6.22.3 of the Official Listing Rules of the Australian Stock Exchange Limited as it currently exists and which provides:

(a) Pro-Rata Cash Issues
Where a pro-rata issue (except a bonus issue) is made to the holders of fully paid ordinary shares in the Company, the Exercise price of an Option may be reduced according to the following formula:

$$O' = O - \frac{E[P-(S+D)]}{N+1}$$

where:

O' = the new exercise price of the option.
O = The Old exercise price of the option.
E = the number of underlying securities into which one Option is Exercisable.
P = the average market price per share (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
S = the Subscription price for a security under the pro rata issue.
D = the Dividend (in the case of a trust, Distribution) due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue).
N = the Number of securities with rights or entitlements that must be held to receive a right to one new security.

(b) Pro-Rata Bonus Issues
If there is a bonus issue to the holders of the underlying securities of the Company, the number of securities over which the Option is exercisable may be increased by the number of securities, which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

11. In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Options or the exercise price of the Options or both will be reconstructed in accordance with the Listing Rules of Australian Stock Exchange Limited applying at the time of the reconstruction.

12. All unexercised Options will lapse in the event of the liquidation of the Company.

13. The Company will apply to the ASX (and any other stock exchange on which the Shares in the Company are quoted and listed) for, and will use its best endeavours to obtain, quotation and listing of all Shares allotted on the exercise of any Options. The Company will not apply for quotation or listing of the Options on any stock exchange.

14. Subject to paragraph 12, each Option is personal to the Option Holder named on the front of the Option Certificate and is not transferable, transmissible or assignable PROVIDED THAT the personal representative of an Option Holder may on the death of that Option Holder exercise Options in accordance with paragraph 3.

15. In these terms and conditions, "market price" in relation to a Share in the Company has the same meaning as in Chapter 19 of the ASX Listing Rules.

CIRCADIAN

CIRCADIAN TECHNOLOGIES LIMITED

ANNUAL REPORT 2003

CIRCADIAN

CIRCADIAN TECHNOLOGIES LIMITED

ABN 32 006 340 567

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.

COVER:
Metabolic Pharmaceuticals Limited (Circadian Interest 31.7%)
Research Scientists at Metabolic's laboratory at the
Baker Medical Research Institute in Melbourne

Contents

Directors and Other Corporate Information

Directors	Sir Peter John Derham, AC, CStJ, BSc, FAIM, FPIA, FAICD (Chairman)
	Mr Leon Serry, FCIS, CPA (Managing Director)
	Mr Graeme Kaufman, MBA, BSc
	Mr Ian Russell Davis, LLB (Hons)
	Dr John Stocker, AO, MB, BS, BMedSc, PhD, FTS, FRACP
	Mr James A C MacKenzie, BBus, FCA, FAICD
Secretary	Ms Natalie Anna Korchev, BCom, ACA
Registered Office	Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria 3000 Telephone: (03) 8608 2000
Principal Administrative Office	Level 1, 10 Wallace Avenue, Toorak, Victoria 3142 Telephone: (03) 9826 0399
Bankers	Commonwealth Bank of Australia, Melbourne, Victoria
Auditors	Ernst & Young 120 Collins Street, Melbourne, Victoria 3000
Solicitors	Minter Ellison Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria 3000
Share Register	Computershare Investor Services Pty Limited Level 12, 565 Bourke Street, Melbourne, Victoria 3000 Telephone: (03) 9611 5711
Stock Exchange Listing	Circadian Technologies Limited's shares are quoted on the Australian Stock Exchange Limited (ASX code: CIR)
Website	www.circadian.com.au

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

The Board of Directors ("Board") of Circadian Technologies Limited ("Circadian" or "Company") has pleasure in submitting its report in respect of the financial year ended 30 June 2003.

DIRECTORS

The names of the directors of the Company in office at the date of this report and their qualifications, experience and special responsibilities are as follows:

Sir Peter J Derham, (Chairman), AC, CStJ, BSc, FAIM, FPIA, FAICD
Mr Leon Serry, (Managing Director), FCIS, CPA
Mr Graeme R Kaufman, MBA, BSc
Mr Ian R Davis, LLB (Hons)
Dr John Stocker, AO, MB, BS, BMedSc, PhD, FTS, FRACP
Mr James MacKenzie, BBus, FCA, FAICD

Sir Peter J Derham (Chairman)

Sir Peter Derham continues a long and successful business career. He 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 and the Australian Tourist Commission. He is currently Chairman of the Shrine of Remembrance Appeal, Red Hill Wines Pty Ltd, SEE Australia Limited and President of the Honorary Board of Australians Against Child Abuse.

Mr Leon Serry (Managing Director)

Mr 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 1970's, 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.

Members of the Board of Directors of Circadian Technologies Limited. Left to Right - Dr John Stocker, Mr Leon Serry (Managing Director), Sir Peter Derham (Chairman), Mr Graeme Kaufman, Mr James MacKenzie and Mr Ian Davis.

Mr Graeme R Kaufman (Executive Director)

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). On 17 July 2003, Mr Graeme Kaufman was appointed to the Board of Amrad Corporation Limited as a non-executive director.

Mr Ian R Davis (Non-Executive Director)

Mr Ian Davis is a Senior Partner and was previously the National Chairman of the international law firm, Minter Ellison. He holds a law degree with honours from the University of Melbourne. Mr Davis has had extensive experience in the corporate and commercial area of law, in which he practises. He is also Chairman of MaxiTRANS Limited, a Director of the International Diabetes Institute and Chairman of the Retail Grocery Industry Code Administration Committee.

Dr John Stocker (Non-Executive Director)

Dr John Stocker was the Commonwealth Government Chief Scientist and was Chief Executive of CSIRO. He is a Director of Telstra Corporation Limited, Cambridge Antibody Technology Consolidated Entity Plc, Nufarm Limited and The Walter & Eliza Hall Institute of Medical Research. He is Chairman of the Grape and Wine Research and Development Corporation and of Sigma Company Ltd. Dr Stocker is also a Principal of Foursight Associates Pty Ltd.

Mr James MacKenzie (Non-Executive Director)

Mr James MacKenzie is currently Chairman of the Board of Management of the Victorian WorkCover Authority, the Victorian Transport Accident Commission (TAC) and the James Fielding Group. He is a Director of Victorian Major Events Company Limited, Monivae College Foundation Limited and a member of the School Council of St Catherine's School. 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 TAC. 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 Touche Tohmatsu.

All directors held their position as a director throughout the entire financial year and up to the date of this report, other than Mr James MacKenzie who was appointed to the Board on 16 July 2002.

COMPANY SECRETARY

Ms Natalie Korchev B.Com, ACA

Ms Natalie Korchev has been the company secretary of Circadian Technologies Limited for three 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 12 years. Natalie is also company secretary for Syngene Limited (42% owned by Circadian), CancerProbe Pty Ltd (30% owned by Circadian) and Antisense Therapeutics Limited.

DIRECTORS' INTERESTS

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

	Shares held directly	Shares held by companies in which Directors have a beneficial interest	Options over ordinary shares
Sir Peter Derham	500,001	-	-
Mr Leon Serry	362,668	3,325,232	1,025,000
Mr Graeme Kaufman	23,000	-	210,000
Mr Ian R Davis	54,001	524,666	-
Dr John Stocker	282,334	-	-
Mr James MacKenzie	-	-	-

There were no options issued to the directors of the Company during the year.

As at 30 June 2003 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.

DIRECTORS' ATTENDANCE AT MEETINGS

The number of meetings of the Board of Directors and of Board Committees during the year was:

Board or Committee	Number of Meetings
Full Board	9
Audit Committee	2
Remuneration Committee	1
Buy-Back Committee	7

The attendances of directors at meetings of the Board and its Committees were:

	Full Board	Audit	Remuneration	Buy-Back
Sir Peter Derham	9	1 [2]	1	-
Mr Leon Serry	9	2 [0]	-	7
Mr Graeme Kaufman	9	2 [0]	-	7
Mr Ian Davis	8 [9]	2	1	7
Dr John Stocker	8 [9]	1 [0]	1	-
Mr James MacKenzie	8 [9]	2 [1]	-	-
Professor Ray Martin	3 [3]	1 [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. Mr Leon Serry and Dr John Stocker, who are not members of the Audit Committee, attended the Audit Committee meetings by invitation. Mr James MacKenzie was appointed a member of the Audit Committee on 29 January 2003 and prior to his appointment attended an Audit Committee meeting by invitation. As described in the "Corporate Governance" section of this report, a Buy-Back Committee was established during the year. Mr Leon Serry, Mr Ian Davis and Mr Graeme Kaufman were appointed members of this committee.

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 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.

RESULTS

The consolidated loss for the Consolidated Entity after income tax for the financial year was $3,506,768 (2002: loss of $5,743,579), which includes an unrealised provision for diminution in the book value of the Company's shareholding in Amrad Corporation Limited of $1,936,128 (2002: $4,095,089) to reflect the year end market value. The operating loss for the period under review excluding the unrealised write-down of the shareholding in Amrad to market value was $1,570,640 (2002: loss of $1,648,490).

Subsequent to year end, the market value of Circadian's shareholding in Amrad increased by $1,413,230 to $18,371,979. The increase in market value of this investment since period end is not reflected in the 30 June 2003 financial results.

The Company's listed share and option holding portfolio, excluding the Amrad holding, had a market value of $59,401,779 as at 30 June 2003 compared with a book value of $3,839,511.

REVIEW OF OPERATIONS

The consolidated loss is after fully expensing research and development expenditure, patenting costs and the provision for diminution in the book value of the Amrad holding (as described above) during the year. Other factors that have contributed to the current year's results include a decrease in interest income, and an increase in patenting costs. These have been offset by a decrease in equity accounted losses of Syngene Limited and CancerProbe Pty Ltd, which reflect research costs expensed in these companies, and by a reduction in research and development costs incurred directly by the consolidated entity.

On 8 April the Company announced that the directors resolved to initiate an on-market buy-back of up to 4,138,961 fully paid ordinary shares, representing 10% of the Company's issued ordinary shares. The buy-back, which commenced on 24 April 2003, was initiated due to the significant disparity between Circadian's share price and the value of the Company's tangible assets (at close of business on 7 April 2003 the market value of the Company's listed holdings plus cash equated to $2.05 per share, whereas Circadian's share price was $1.10, representing a 46% discount to this value). For this reason the Board considers the buy-back to be an appropriate application of a portion of Circadian's cash reserves and to be in the best interests of all shareholders. For the period to 30 June 2003, 1,056,081 fully paid ordinary shares were bought back by the Company for $1,558,576 including transaction costs (an average cost of $1.465 per share before transaction costs - Circadian's share price as at 30/6/03 was $1.55). The market value of the company's listed share portfolio and cash on 30 July 2003 equated to $2.77 per Circadian share, whereas the Circadian share price was $1.85 (closing price as at 30 July 2003) representing a 33% discount (92 cents per share) to this value. Further details relating to the buy-back are set out in Note 9 to the financial statements.

The Review of Operations Report provides information regarding the progress achieved during the 30 June 2003 financial year on the consolidated entity's interests in research and development projects and an update on its listed technology holdings.

DIVIDENDS

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

OPTIONS AND SHARES

Details of options granted to directors or relevant officers as part of their remuneration are set out in the section of this report headed "Directors' and Officers' Remuneration". Details of shares and interests under option are set out in Note 9 of the financial statements and form part of this report. There were no options granted or shares issued to directors or relevant officers during or since the end of the financial year.

DIRECTORS' AND OFFICERS' REMUNERATION

Remuneration of directors and senior executives of the Company is established by the Remuneration Committee who are authorised to determine the remuneration of directors and senior executives taking into account market factors and a review of performance. The Remuneration Committee may seek independent remuneration advice. For executive directors and officers, remuneration packages generally comprise salary and superannuation. Executives are also provided with longer-term incentives through the Company's option schemes, which act to align the executives' actions with the interests of the shareholders.

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.

Details of remuneration provided to directors and officers of the Company are as follows:

Previous ASIC guidelines required the total value of options issued to be disclosed as part of remuneration in the year they were issued. The company made such disclosures, as required, in its 2001 and 2002 directors' reports and notes to the financial statements. The options issued in these years were "well out of the money" at their respective grant dates and year end dates.

Options issued by Circadian in 2001 and 2002 have four vesting dates, for various proportions of the total issued options, during the life of the options. Accordingly, although no options were issued during the year ended 30 June 2003, the options issued in previous years, which had not vested at 1 July 2002,

	Base Salary $	Directors' Fees $	Super-annuation $	Total $	Options vesting during current period ('out of the money') Amortised Cost (a) (granted in 00/01 and 01/02) $	% of Remuneration
Directors						
L Serry	582,083		52,387	634,470	25,000	3.8%
G Kaufman	240,000		21,600	261,600	< 1	< 1%
P Derham		48,000		48,000		
R Martin		9,000		9,000		
I Davis		36,000	3,240	39,240		
J Stocker		55,000	4,950	59,950		
J MacKenzie		34,594	3,113	37,707		
Officer						
N Korchev	145,008		13,051	158,059	2,500	1.6%

(a) No options were granted to directors and officers during the year ended 30 June 2003.

ASIC's "Media release 03-202 Valuing options for directors and executives" provides guidelines for Australian listed companies on how to include the values of options and similar equity instruments in the disclosure of director and executive remuneration for the 30 June 2003 directors' report. The guidelines provided draw on the issuance of the Australian Accounting Standards Board's Exposure Draft 108 "Share-Based Payment" (ED 108) and its equivalent the International Accounting Standards Board's Exposure Draft ED 2 "Share-Based Payment" (ED 2). ED 108/ED 2 provide a basis for valuing options and allocating those values over time. Note that ASIC's guidelines do not require that options be expensed in the financial statements, only that they be disclosed in the directors' report.

ED 108/ED 2 propose that an expense be recognised in relation to options over the period from grant date to the vesting date. For options that vest immediately, the value is recognised as an expense at grant date.

have been allocated the values provided above for the current financial year. These values have been determined by allocating the fair value for total options equally over the vesting periods. Currently, these amortised fair values are not recognised as an expense in the financial statements and no adjustments have been made to reflect estimated or actual forfeitures (i.e., options that do not vest or are not exercised).

Details of the number of options issued, their related terms and conditions and valuation basis are set out in Notes 9 and 15. The total of all options issued to directors and relevant officers in the 2001 and 2002 financial years continue to be "well out of the money" as at 30 June 2003.

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.

INDEMNIFICATION AND INSURANCE

During the financial year ended 30 June 2003, 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 2003. 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.

ENVIRONMENTAL REGULATIONS

The Company is not subject to significant environmental regulations.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Subsequent to year end the share price of the consolidated entity's investment in Amrad Corporation Limited increased to 65 cents. The market value at year end was $16,958,749 and the market value at the date of this report is $18,371,979. The increase in market value of the consolidated entity's investment in Amrad Corporation Limited since year end of $1,413,230 is not reflected in the financial report at 30 June 2003.

LIKELY DEVELOPMENTS

The Board of Directors intends to continue with the Company's direct involvement in research projects with universities 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 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.

CORPORATE GOVERNANCE

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.

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.

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least 4 directors and should maintain a majority of non-executive directors;
- the chairperson must be a non-executive director; and
- the Board should comprise directors with an appropriate range of qualifications and expertise.

Remuneration Committee

The Remuneration Committee, comprising non-executive directors, is responsible for determining and reviewing compensation arrangements for the directors. The members of the Remuneration Committee during the year were Sir Peter Derham, Mr Ian Davis, Dr John Stocker and Prof Ray Martin (retired 19 September 2002). Details relating to performance evaluation are set out in the section of this report headed "Directors' and Officers' Remuneration".

Audit Committee

It is the Audit Committee'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 Sir Peter Derham, Mr Ian Davis, Professor Ray Martin (retired 19 September 2002) and Mr James MacKenzie who was appointed on 29 January 2003.

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.

Buy-Back Committee

During the year the Circadian Board resolved to undertake an on-market buy-back of up to 4,138,961 fully-paid ordinary shares, representing 10% of the Company's issued ordinary shares. The reason for the buy-back and other details with respect to the buy-back are set out in Note 9 of the financial statements. The Board established a Buy-Back Committee and have delegated to it the power and discretion to do all things necessary or convenient to implement the share buy-back.

Members of the Buy-Back Committee are Mr Ian Davis, Mr Leon Serry and Mr Graeme Kaufman. The buy-back period commenced on 24 April 2003 and the Company currently intends to conclude the buy-back period on 23 October 2003.

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place for an effective risk management system.

The responsibility for the operation and administration of the Consolidated Entity is delegated by the Board to the managing director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the managing director and the executive team.

The Board will ensure that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

Monitoring of the Board's Performance

Policies and procedures in place with respect to monitoring the performance of the Board are set out in the section of this report headed "Directors' and Officers' Remuneration".

Conflict of Interest

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over the Board members or receive relevant Board papers where there is a conflict.

Board's Communication to Shareholders

The Board of Directors aims to ensure that communication to shareholders is provided through:

- the annual report, which is distributed to all shareholders;
- the half yearly report provided to the Australian Stock Exchange; and
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate.

A policy has also been adopted that the communications described above and announcements made by the Company to the Australian Stock Exchange be posted to Circadian's website (www.circadian.com.au).

Policy Concerning Trading in Company Securities

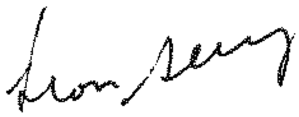
The Company has a formal policy in place governing trading practices in Circadian's shares by directors, officers and employees. This policy complements the requirements of the law in this area and the requirements under the Corporations Act and the ASX Listing Rules to disclose any trading undertaken by directors or their related entities in the Company's securities. Compliance with this policy is reviewed by the Board on a regular basis.

ASX Corporate Governance Council - Principles of Good Corporate Governance and Best Practice Recommendations

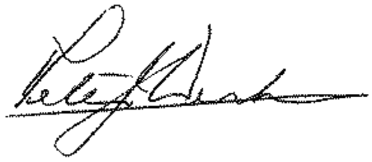
The Company has addressed the best practice recommendations made by the ASX (as issued by the ASX in March 2003) and has posted its corporate governance policies (effective 1 July 2003) to Circadian's website.

This report has been signed in accordance with a Resolution of the Directors made on 31 July 2003.

For and on behalf of the Board:



Mr Leon Serry
Director



Sir Peter Derham
Director

Melbourne
31 July 2003

Review of Operations Report

The progress achieved during the 30 June 2003 financial year on the consolidated entity's interests in research and development projects and an update on its listed technology holdings is provided below.

METABOLIC PHARMACEUTICALS LIMITED

- Advanced Obesity Drug and Other Projects

Circadian Holding 30 June 2003 -
***Market Value:** $36.7 million;* ***Book Value:** $Nil*
***Shareholders:** Circadian: 31.7%; Monash University: 21.1%; Others: 47.2%*

Company Background

In November 1998, Metabolic Pharmaceuticals Limited ("Metabolic") was listed on the Australian Stock Exchange. Metabolic was formed by Circadian and Monash University 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 broadened its range of projects to include research and development in treatments for osteoporosis and iron overload diseases. 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, exercisable at 20 cents prior to 31 July 2003.

METABOLIC PHARMACEUTICALS LIMITED (Circadian interest 31.7%)
Metabolic's laboratory at the Baker Medical Research Institute in Melbourne

AOD9604 Obesity Drug

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

"Existing drugs act primarily to suppress food intake either by affecting the brain to reduce appetite or by affecting the gut to reduce absorption of dietary fat."

Metabolic's candidate obesity drug AOD9604, discovered at Monash University, is "modelled on the active fat reducing portion of the human growth hormone molecule. Growth hormone occurs naturally in the body and is involved in promoting growth, particularly in children. However it also has pronounced effects on body fat."
(2002 Annual Report)

Type 2 Diabetes Compound

Metabolic's second area of focus is the development of a novel insulin-sensitising drug for type 2 diabetes.

"Type 2 diabetes is expected to grow to epidemic proportions in the 21st century due to the ageing baby boomer population, greater prevalence of obesity and sedentary lifestyles."

"It is estimated that 20% of the US population have some degree of insulin resistance, including 11% with impaired glucose tolerance and 6% with type 2 diabetes."
(2002 Annual Report)

Other Projects – Treatments for Osteoporosis and Iron Overload Diseases

Metabolic's research and development pipeline also includes projects involved in osteoporosis and in the area of iron overload diseases.

Osteoporosis

"In the US, there are 28 million individuals over the age of 50 with osteoporosis, with an incidence of 50% of all women over 75 years. Up to 20% of aged osteoporosis patients die after a hip fracture and 40% can no longer live independently. The World Health Organization (WHO) estimates the total treatment costs attributable to osteoporosis (predominantly fracture-related costs) are US$18 billion worldwide.

The current worldwide sales of osteoporosis drugs are in excess of US$2.8 billion and are projected to reach US$9.3 billion by 2009." *(26 March 2002 ASX Announcement)*

Iron Overload

"Iron overload occurs when iron accumulates inside the body's cells to toxic levels. This is most often either due to hereditary conditions, or due to repeated blood transfusions in patients with severe anaemia. Iron chelator drugs bind to iron and remove the excess iron from the body."

"The iron chelator market, potentially worth up to US$350 million per annum, has long been dominated by a single treatment, desferoxamine from Novartis." "There is yet no effective orally administered iron chelator available."
(18 March 2002 ASX Announcement)

Update

Metabolic has advised the following in its "Investor Updates" and other public announcements during the year:

AOD9604 for Obesity

As reported by Metabolic in its *Half Yearly Report* released on 7 March 2003:

- "In early February 2002 Metabolic announced results from a single dose intravenous Phase 2A human clinical safety trial indicating signs of drug activity and clear indications of weight loss. A subsequent clinical trial to assess safety was conducted by oral dosing, results of which were reported in August 2002 and this trial confirmed bioactivity of AOD9604 via oral administration."

- "Metabolic's most recent trial was a Phase 2A multiple oral dose safety trial involving 36 patients, treated daily for one week. Dosing was completed in December 2002 and on 3 March 2003 the results of this trial were announced indicating further evidence of the safety and tolerability of AOD9604 together with clear trends in body weight reduction."

Metabolic further reported in its *Investor Update 21 May 2003:*

- "In (Metabolic's) plan for a licensing agreement with a major pharmaceutical company, we (Metabolic) will be seeking financial support for late-stage (Phase 3) clinical development and, most importantly, a partner with the best infrastructure for future marketing and distribution. The pharmaceutical companies of interest to us (Metabolic) are those with the established capacity to market billion dollar drugs worldwide."

  "To this end, over the last six months we (Metabolic) have been sharing full details of our data package on AOD9604 with major US and European pharmaceutical companies. The positive response and frequency of requests for further interaction has been very encouraging."

In its *Investor Update - AOD9604 28 July 2003,* Metabolic advised:

- "The Metabolic team met with the US Food and Drug Administration (FDA) in June 2003 to discuss the AOD9604 development program, including the protocol for the Phase 2b trial. The meeting was useful to confirm our (Metabolic's) overall approach and provide detailed guidance, and no changes have been made to our trial protocol."

- "The FDA has now publicly signalled its intention to smooth the regulatory path for approval of obesity drugs. In a speech to the Harvard School of Public Health on 1 July, FDA commissioner Mark B McClellan, MD, PhD commented:

  '...one key part of the FDA's new medical innovation initiative is to try to facilitate the development of better treatments for obesity and diabetes. These are areas where we think regulatory pathways could be improved or better defined, and where we intend to give priority attention to potentially valuable new products. In the past, the FDA has approved a number of anti-obesity therapies, but we've received only two products that demonstrated some effectiveness in achieving long-term weight loss without unacceptable side effects. That's not enough, and we're trying to do something about it. So our new working groups are already meeting, and we expect them to issue new regulatory guidance on the most efficient ways to demonstrate that a new product is safe and effective, to reduce the high cost and uncertainty of developing new products in these key areas...'"

- *Phase 2b trial ethics approval process on track:* "As foreshadowed, the process for obtaining ethics approval for commencement of the Phase 2b clinical trial on AOD9604 at the five clinical trial sites is now well advanced and is expected to be completed on schedule in August 2003. Patient screening is scheduled to start in September 2003 and the first patient is expected to commence treatment in October 2003."

METABOLIC PHARMACEUTICALS LIMITED (Circadian interest [illegible])
Metabolic Research Scientist preparing a protein sample for the analysis of the effects of anti-obesity compound AOD9604 at Metabolic's laboratory

"There has been a very good response to recent publicity on national television of our 1800 number for people to record their interest in participating in the 300-patient trial. Several thousand people have already left contact details."

- "Draft reports on 3 month toxicity studies in monkeys and rats have been received and are favourable."

MBP0201 for Iron Overload Diseases

- "Animal experiments performed to date under this project have confirmed that our (Metabolic's) current most favoured iron chelating compound (now codenamed MBP0201) is orally active in rodents. Further preclinical efficacy studies are underway on MBP0201, and IDT Australia Ltd has been appointed to manufacture bulk quantities of clinical grade MBP0201 for animal toxicity and clinical studies." *(October 2002 Investor Update)*

Metabolic's public announcements, which can be found on www.asx.com.au and www.metabolic.com.au and its 30 June 2003 annual report, once released, should be read in conjunction with this report.

OPTISCAN IMAGING LIMITED

- Early Cancer Detection

Circadian Holding 30 June 2003 -
Market Value: *$2.7 million;* ***Book Value:*** *$361,132*
Shareholders: *Circadian: 8%; Axon: 12.1%; Others: 79.9%*

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's interest was diluted to 15.35% on the listing of Optiscan on the Australian Stock Exchange. 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. At year end Circadian has an 8% interest in Optiscan. Axon Instruments Inc, in which Circadian has a 15% holding, also has a 12.1% interest in Optiscan.

Flexible Endomicroscope

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)*

"This joint venture is worth nearly A$20 million to Optiscan before sales of the product begin". A$13 million of funds have been received to date by Optiscan (an initial payment of A$6.5 million and A$6.5 million for 3.33 million shares in Optiscan). "A milestone payment of A$6.5 million is receivable on successful completion of the development phase and significant ongoing royalties and manufacturing returns after the product reaches the market." *(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)*

Rigid Endoscope

Using its patented technology, Optiscan developed the world's first rigid endomicroscope. 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)*

"Optiscan has allocated resources to developing several applications of these devices in three specific fields of medicine: gynaecology (cervical cancer), head and neck (oral cancers) and orthopaedics (cartilage imaging)." *(AGM 13 November 2002, Managing Director's address)*

Optiscan License Agreements

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

Update

Optiscan advised the following in its "Investor Updates" and other public announcements during the year:

Pentax Flexible Endomicroscope Project

- Optiscan advised of the following in its *22 May 2003 ASX Announcement:*

  "Optiscan Imaging Limited (ASX:OIL) has achieved a key milestone in its collaboration with Pentax, with the release of the world's first fully-functional flexible confocal internal microscope (endomicroscope) at the Digestive Diseases Week Congress in Orlando, Florida."

  "For Pentax, the annual DDW Congress is the most important exhibition of our endoscopy products," said

Ikuzo Okamoto, President of Pentax Precision Instrument Corporation, Pentax's US company. "This year we are pleased to be featuring the flexible confocal endomicroscope jointly developed with Optiscan. This technology breakthrough has created a high level of interest among doctors visiting our exhibit at the congress."

Joe Williams, Senior Manager Business Development with Pentax Precision Instruments, said: "The level of excitement our new flexible endomicroscope is generating is gratifying to observe and is a great indicator of its potential in the global marketplace."

- Following this exhibition, another important milestone was achieved with the announcement made by Optiscan on 30 June 2003 that it "received its third payment from Pentax under its partnership agreement." "Pentax paid US$3.33 million (less withholding tax of 10%) with payment previously hedged by Optiscan at A$1 = US$0.54...Pentax's partnership with Optiscan has been consummated by this payment. It also serves to demonstrate their confidence in the market potential of flexible endomicroscopes."

Rigid Endoscopes

- Optiscan stated in their half year report for 31 December 2002 that, "We are continuing our marketing endeavours to identify potential partners for the commercialisation of rigid endoscopes and a number of early stage discussions are under way. On the applications front, the first round of clinical trials at the Royal Women's Hospital produced both good images and feedback about prototype design enhancements. Arrangements are now in hand for a further round of trials."

Optiscan's public announcements, which can be found on www.asx.com.au and www.optiscan.com.au and its 30 June 2003 annual report once released, should be read in conjunction with this report.

AXON INSTRUMENTS INC (USA)

- Developer and Manufacturer of High-Throughput Screening Systems for Drug Discovery and Instrumentation for Genomics and Cellular Neurosciences

Circadian Holding 30 June 2003 –
Market Value: *$12.5 million;* ***Book Value:*** *$1.9 million*
Shareholders: *Circadian: 15.3%; Others: 84.7%*

Company Background

The shareholding in Axon Instruments Inc. ("Axon") owned by Precision Patchclamps (Int) Pty Ltd (a wholly owned subsidiary of Circadian) was acquired on 1 July 1985 at a consideration of A$322,530 satisfied by cash and an allotment of shares in Circadian. In January 1993, Circadian acquired 20,000 options in Axon, which were exercised in March 2000 at a price of $161,895. The Axon holding disclosed in the balance sheet at year end is a deemed cost of $1,932,854, which includes the purchase of 1.5 million shares for a total value of $522,459 made during the 2002 financial year. At year end Circadian owned 15.3% of Axon's issued capital (30 June 2002: 15.3%). The major shareholders of Axon are Dr Alan Finkel and Dr Elizabeth Finkel, both of whom are related to Leon Serry, a director of Circadian.

Axon, which commenced operations in the US in 1983 and listed on the Australian Stock Exchange in March 2000, produces "flexible, high-quality instruments and software at prices accessible to the global scientific, industrial research (including pharmaceutical companies), and medical communities, backed up with strong, expert customer support." *(31 December 2002 Annual Report)*

Axon's "main product lines are:

- *Cellular Neuroscience:* hardware and software products for cellular electrophysiology that measure the tiny electrical currents that modulate electrical signalling between cells.
- *Cell-Based Screening:* workstations for cell-based pharmaceutical screening using high-resolution fluorescence imaging and electrophysiological recording and analysis.
- *Microarray Analysis:* scanners and analysis software for microarrays of any biological samples, eg protein or tissue arrays." *(31 December 2002 Annual Report)*

Update

Product Releases

Axon advised of the following product releases in its *31 December 2002 Annual Report* (unless stated otherwise):

Cell-Based Screening Products – Fluorescence Imaging Screening

- *ImageXpress 5000A*
  "The ImageXpress 5000A began shipments in January 2003. This integrated hardware and software workstation represents the next step in Axon's drive into the high-content and high-throughput pharmaceutical drug-screening market, automatically imaging and analysing fluorescently treated cells in any multi-well plate one well at a time."

- On 3 June 2003, Axon announced the "successful completion of the collaborative development of a sophisticated neuronal image analysis suite for the company's ImageXpress cellular imaging and analysis system...The new highly sophisticated neuronal analysis software, developed in collaboration with Australia's CSIRO, enables automatic identification and measurement of neurites – the thin fibre-like projections that carry the signals between neurons in the brain, the spinal cord, and the body's periphery. Many human diseases and disorders result from the degeneration of these connections, as in the case of Parkinson's disease, or the severing of them, as in the case of spinal cord injury."

Microarray Analysis

- ***GenePix Personal 4100A Microarray Scanner***
  "The GenePix Personal 4100A was introduced for sale in August 2002. The 4100A is a small, economically priced scanner for use in low-throughput environments...This (product) appeals especially to academic and diagnostic research markets."

- ***GenePix Professional 4200A***
  "The GenePix Professional 4200A – the premiere system in Axon's microarray scanner product line – was released in 2003...With the addition of the 4200A, the GenePix product line now includes a full range of instruments and software for microarray scanning and data analysis."

- ***GenePix Pro 4.0/4.1/5.0***
  "In 2002 GenePix Pro was developed aggressively and (Axon) released two generations of the software." A third generation of the software was released in April 2003.

  GenePix Pro is "the acquisition and analysis software that accompanies the GenePix array scanner." *(Axon 2000 Annual Report)*

- ***Proteomics Scanner***
  "In collaboration with Zyomix Inc., Axon has developed a customised version of the GenePix 4000B microarray scanner for scanning proteomic microarrays manufactured by Zyomix. A number of scanners have been delivered to Zyomix and are now in the hands of Zyomix customers for final testing of the entire Zyomix microarray platform.

AXON INSTRUMENTS INC (Circadian interest 15.6%) PatchXpress 7000A Ion-Channel Screening System

Neurosciences

- ***pCLAMP 9.0***
  "Version 9.0 of Axon's flagship electrophysiology software suite, pCLAMP, was released in September 2002."

Product Development

Axon advised in its *31 December 2002 Annual Report* that the following products were in development:

Cell-Based Screening Products – Ion Channel Screening
- *PatchXpress 7000A*
- *DataXpress*

Cell-Based Screening Products – Fluorescence Imaging Screening
- *ImageXpress Live Cell*

Microarray Analysis
- *GenePix Professional 4200A – Automatic Sample Handling*

Axon's public announcements, its 31 December 2002 annual report, which can be found, on www.asx.com.au and www.axon.com, and its half-year report for 30 June 2003 once released, should be read in conjunction with this report.

ANTISENSE THERAPEUTICS LIMITED

- Gene Directed Therapeutics

Circadian Holding 30 June 2003 –
Market Value: *\$7.5 million;* ***Book Value:*** *\$1.5 million*
Shareholders: *Circadian: 23.5%; Syngene: 19.8%; Isis Pharmaceuticals Inc: 14%; Queensland Investment Corporation: 5%; Murdoch Childrens Research Institute (MCRI): 4%; Others: 33.7%*

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.

ATL was formed with the "mission to create, develop and commercialise novel antisense pharmaceuticals for large unmet markets" *(8 October 2002 ASX Announcement)*. This new class of therapeutic drugs is based on "small synthetic genetic molecules...with the potential to treat a wide range of conditions and diseases including autoimmune, infectious, inflammatory, dermatological, metabolic and cardiovascular diseases as well as cancer." *(ATL Prospectus 16 November 2001)* "ATL's two most advanced projects target multiple sclerosis (ATL1102) and psoriasis (ATL1101)." *(8 October 2002 ASX Announcement)*

"ATL's access to these projects is derived from its technology and research collaborations with Isis Pharmaceuticals Inc ("Isis") and the Murdoch Childrens Research Institute ("MCRI")." *(8 October 2002 ASX Announcement)*

"Californian based Isis is a world leader in the field of antisense drug technology" and has a market capitalisation of approximately US$284 million. "The collaboration agreement with Isis provides ATL with an extensive package of access to Isis' antisense drug discovery technology to commercialise antisense drugs to a number of protein targets including those relevant to the treatment of viral, skin, growth and inflammatory disorders."
(8 October 2002 ASX Announcement)

The MCRI, based in Melbourne, is ATL's founding research partner and ATL will be building on their work and expertise in the application of antisense to skin diseases such as psoriasis. *(Source: ATL Prospectus 16 November 2001)*

"ATL plans to commercialise its pipeline via licensing/collaboration agreements with major biotechnology and pharmaceutical companies."
(8 October 2002 ASX Announcement)

Antisense technology

"Proteins play a central role in virtually every aspect of human biology. Each of our genes is a set of instructions for, and control of, the manufacture inside the cell of a particular unique protein. Conventional pharmaceutical drugs typically bring about their desired therapeutic effect by binding to a target protein directly, to interfere with its action.

Antisense drugs are small synthetic genetic molecules designed instead to interfere with the process by which a target protein is made from its genetic blueprint, interfering with the protein production process in a highly specific manner. Compared to conventional drugs, antisense aims to provide faster, more predictable drug discovery, with increased specificity of action and uniformity of methods of manufacture, formulation and delivery.

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." *(ATL Prospectus 16 November 2001)*

Multiple Sclerosis and ATL1102

"Multiple sclerosis (MS) is a life-long chronic, incurable disease, which progressively destroys the central nervous system, commonly diagnosed between the ages of 20 and 40 years. The disease affects about 350,000 people in the US where the estimated annual cost of the disease is more than US$2.5 billion. Although current treatments are unable to slow disease progression, the aims of therapy are to reduce the duration, frequency and severity of attacks."

"ATL1102 is a drug under development by ATL, which aims to prevent the synthesis of a protein called VLA-4 known to play a part in both the onset and progression of MS." *(Investor Update - February 2003)*

Psoriasis and ATL1101

"Psoriasis is a chronic, non-contagious skin disorder, which affects 2% of the population. Although the worldwide market for psoriasis treatments was more than US$500 million in 2000 and is forecast to exceed US$2billion by 2007 (Frost & Sullivan), there is an acknowledged need for more effective and safer treatments than those currently available."

"ATL's candidate for psoriasis treatment is ATL1101, an antisense compound designed to block the production of a cell protein involved in the regulation of cell growth in psoriasis." *(Investor Update - February 2003)*

Other Projects

"ATL has several other antisense projects in its research portfolio including compounds directed at treating gastrointestinal, cardiovascular, inflammatory, immune and viral diseases and growth disorders." *(Investor Update - February 2003)*

Update

Antisense Therapeutics reported the following in its "Investor Updates" and other public announcements during the year:

Multiple Sclerosis (ATL1102) Project

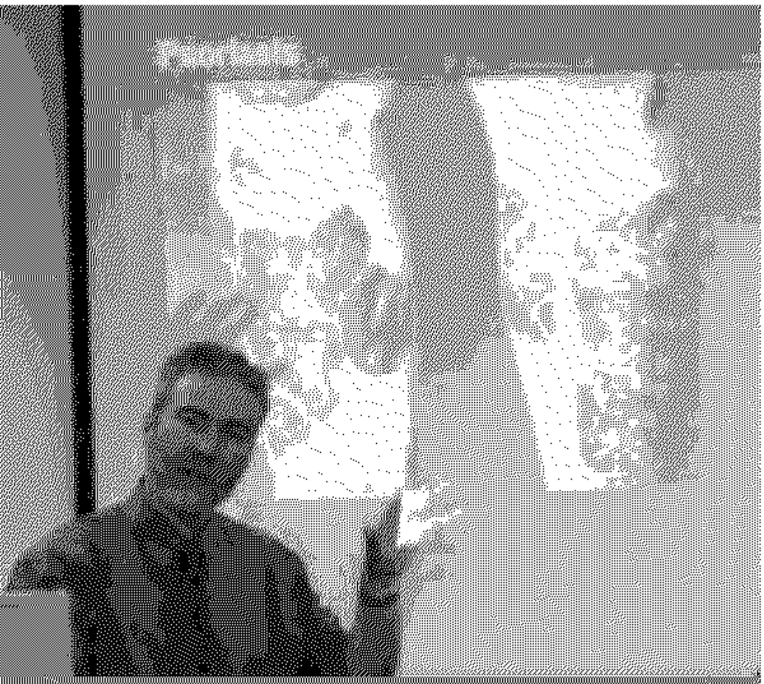
- "In October 2002 ATL announced the successful completion of a package of pre-clinical (animal) studies, which has enabled ATL to progress arrangements to start Phase I clinical trials of its product ATL1102 for multiple sclerosis.

  The results of the studies on the safety and properties of ATL1102 administered to animals have demonstrated the exciting prospect of dosing human subjects as infrequently as once a week or less frequently, the likelihood of which will be determined in the Phase I clinical trials." *(Investor Update - February 2003)*

- "In December 2002, ATL applied to the Charterhouse Clinical Research Unit at the Stamford Hospital in London to conduct the Phase I clinical trial to assess the safety and behaviour (pharmacokinetics) of ATL1102 in human volunteers. On 4 February 2003, approval was received from Charterhouse to conduct this Phase I study." *(Investor Update - February 2003)*

- The Phase I trial is expected to commence in mid 2003. *(28 March 2003 ASX Announcement)*

- "Upon the successful completion of the Phase I trial, it is anticipated that an application will be made in 2004 for a Phase IIa trial to assess preliminary efficacy in patients with MS." *(Investor Update - February 2003)*



ANTISENSE THERAPEUTICS LIMITED (Circadian interest 25.9%; Syngene interest 19.6%) Antisense Research Director, Dr Christopher Wraight, at a press conference presenting on the Psoriasis Project (ATL1101)

Psoriasis (ATL1101) Project

- On 19 May 2003 ATL announced "that the Industry Research and Development Board has approved a grant to Antisense Therapeutics Limited under the Commonwealth Government's R&D Start Grant Program to be used in the development of the company's psoriasis treatment – ATL1101.

  The grant, subject to finalisation by written agreement, will provide up to $1.1 million in dollar-for-dollar funding for the financial year 2003/2004."

- On 5 June 2003, ATL's Research Director, Dr Christopher Wraight, stated in an announcement made by ATL that "we have now shown that a cream containing the antisense compound ATL1101 can penetrate human psoriasis skin biopsies (samples) in the laboratory and silence the target gene...This is a major advance in the development of our antisense psoriasis cream... It provides us with increased confidence that ATL1101 may be effective as a cream topical formulation, and to proceed to the next major stage of the drug's development, the conduct of pre-clinical safety trials."

Other Projects

- "Six lead antisense compounds have been produced for ATL since its listing in December 2001, for disease targets relevant to the treatment of viral, skin, growth and inflammatory disorders. Pilot efficacy studies in animals are underway for two of these compounds." *(Investor Update - February 2003)*

- "Additional pilot efficacy studies are expected to be completed by the end of the 2003 financial year. A select number of successful candidates may then be progressed into formal pre-clinical development including animal toxicology studies." *(Investor Update - February 2003)*

ATL's public announcements, which can be found on www.asx.com.au and www.antisense.com.au, and its annual report for 30 June 2003 once released, should be read in conjunction with this report.

AMRAD CORPORATION LIMITED

Circadian Holding 30 June 2003 -
Market Value: *$17 million;* ***Book value:*** *$17 million*
Shareholders: *Circadian: 21.6%; Others: 78.4%*

Circadian's wholly owned controlled entity, Fibre Optics (Aust) Pty Ltd, increased its holding in Amrad Corporation Limited ("Amrad") from 19.3% to 21.6% during the period.

Highlights

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

- the grant to Serono, a global biotechnology company, of "exclusive worldwide rights to develop and commercialise emfilermin (rhLIF) in all indications within the field of Reproductive Health. With this new licence Serono has taken up the option granted under an original agreement announced in January 2000.

Serono is paying an undisclosed initial licence fee to Amrad followed by further scheduled payments based on the fulfilment of certain development and product sales milestones. Serono will also pay royalties to Amrad based on sales of emfilermin as a therapeutic product." *(9 May 2003 ASX Announcement)*

- the announcement, with the Australian subsidiary of the US-based pharmaceutical company, Merck & Co. Inc. (Merck Sharp & Dohme (Australia) Pty Ltd) of "an exclusive licensing and multiyear research collaboration agreement. Based on the results of the collaboration, Merck will seek to develop drugs with therapeutic potential in areas such as asthma, other types of respiratory disease and oncology.

  Under the agreement with MSD, Amrad will receive an upfront payment of $US5 million. Total potential payments to Amrad by MSD based on the successful development of a human health product for all indications would amount to a total of $US112 million. Amrad would also receive royalties for commercialised products. Amrad and MSD will work together to investigate drug candidates, with Merck being solely responsible for all clinical development and marketing." *(23 June 2003 ASX Announcement)*

- "the sale of its 4.7 hectare site in Richmond to RMAC Australia Pty Ltd, the Macquarie Bank Limited and R. Corporation joint venture company. The transaction includes a cash consideration of $47.5 million and provides for Amrad's continued occupancy on the site.

  The sale will realise investable funds of approximately $28 million, once all the costs of divestment have been finalised." *(26 May 2003 ASX Announcement)*

For further information regarding the progress of Amrad's operations see its public announcements which can be found on www.asx.com.au and www.amrad.com.au, and its 30 June 2003 annual report once released.

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%*

Project 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 Casthree 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 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 project with the HFI, Syngene has exclusive worldwide 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.

A patent was granted in the U.S. in 1997 in respect of the main area of Syngene's technology, providing Syngene 17 years of patent protection in the U.S. at a time when the potential worldwide market for this market segment is increasing. Patents have already been granted in Europe, Canada, Japan and Australia.

In September 2000, the US patent office issued a notice of allowance in respect of broader claims relating to the *in situ* hybridisation patents, and the broad patent was granted on 24 July 2001. This patent, which results from a divisional patent filed in July 1997, provides broader patent coverage in the area of *in situ* hybridisation in the US. Syngene is thus in a much stronger position to negotiate non-exclusive licence agreements with potential diagnostic/pharmaceutical companies.

Syngene has granted a non-exclusive worldwide licence to Roche Diagnostics (formerly Boehringer Mannheim GmbH) and Novocastra Laboratories Ltd in the UK in respect of its patented technology.

Update

- On 22 July 2003, Syngene signed a non-exclusive licence agreement with GeneDetect.com (New Zealand) in respect to Syngene's *in situ* hybridisation patents. Negotiations are in progress with other potential licensees with regard to the granting of further non-exclusive licenses to this technology.

- In August 2002, Syngene was provided with a Biotechnology Innovation Fund Grant ("BIF Grant") of $250,000 (the maximum allowable) for the project with the Howard Florey Institute relating to novel approaches to improve the uptake of antisense therapeutic compounds into the central nervous system. The BIF Grant has enabled the project scope to be expanded. The project is progressing on schedule.

- Syngene has a 19.8% holding in Antisense Therapeutics Limited which had a market value of $5.7 million compared with a book value of $229,473 at 30 June 2003.

CANCERPROBE PTY LTD

- Cancer Diagnostics/Therapeutics

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

Project 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.

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 and may also have potential for new therapeutic products. A provisional patent application covering the technology has been lodged.

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

Update

During the period under review:

- We previously reported that the research team has been working on improving detection methods for cancer markers. We are now pleased to report that the research team has made improvements to this process.
- The patent, which was submitted in November 2001, entered the National Phase in May 2003.

ALZHEIMER'S DISEASE PROJECT

Project Owner: *Circadian: 100%*

New Project

During the period under review, Circadian concluded agreements to provide funding for a research project to develop a potential new treatment for Alzheimer's disease.

The 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 licensed exclusively to Circadian's wholly owned subsidiary Polychip Pharmaceuticals Pty Ltd 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

ALZHEIMER'S DISEASE PROJECT (Circadian interest 100%)
Research Scientists involved in the Alzheimer's Disease Project: Dr Graham Barrett, MBBS BMedSci PhD and Ms Jennifer [illegible], BSc (Hons) at the University of Melbourne.

approved drugs for treating Alzheimer's attempt to boost the level of acetylcholine to compensate for this loss.

Research at 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 role of the p75 receptor in the death of these nerve cells has been confirmed by other international researchers in animal models.

Circadian's inhibitor has the potential to be more effective than current approved drugs, which become less effective with age as the nerve cells die.

Circadian has committed $441,000 funding over three years. 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.

For the period to 30 June 2003, the company provided $122,500 for research funding with respect to this project, $42,951 of which was treated as a prepayment at year end (representing amounts received but not expended by the University for this period). The company's remaining funding commitment at year end is $318,500.

Commonwealth Government Grant Approved

In April 2003 the Industry Research and Development Board approved a grant to Polychip of $246,000 under the Commonwealth Government's Biotechnology Innovation Fund (BIF) Scheme providing additional funding for our Alzheimer's disease research project.

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 be the adverse results of 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.

An international patent application was lodged in early 1999, and entered into national phase in the USA 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.

Update

- Research continued during the period with further compounds being developed and tested.
- During the financial year the company provided $88,146 (2002: $144,224) for research funding and independent laboratory testing which has been fully expensed. The company's remaining funding commitment is $12,000 (2002: $43,780).

YEAST MEDIATED REACTIONS PROJECT (EPHEDRINE)

Project Owners: *Circadian: 60%; Victoria University of Technology: 40%*

Project Background

The project is a collaboration between Victoria University of Technology ("VUT") and Circadian to develop cost effective and environmentally friendly methods of producing pharmaceuticals using yeast mediated reactions. Ephedrine is the active ingredient in many over-the-counter nasal decongestant medications.

Update

- The company is seeking commercialisation partners.
- The company is assessing the results of the solvent free yeast based process, a development project earlier funded at VUT. This process may potentially have better reactivity than those processes using a solvent.

MEMORY ENHANCEMENT PROJECT

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

Project Background

A patent application was filed in June 1997 and is currently in national phase. The patent covers 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.

While the project did not identify new compounds with the properties required for a potential pharmaceutical, it is believed that the patented technology may be valuable in the future and the company intends to fund the patents to completion.

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 has focused on synthesising several of the related compounds for further laboratory testing.

Update

- A PCT (full international patent) application was filed in November 2002 covering the new compounds produced in accordance with the collaboration agreement.
- Testing of a compound with an independent research laboratory in France will commence shortly.
- The company did not provide any further research funding during the financial year, however continued to pay for patenting costs. The company does however, have a funding commitment at year end amounting to $18,892, relating to the independent laboratory testing of compounds (in France).

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 2003.

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 company and of the consolidated entity are 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 2003 and of their performance for the year ended on that date; and

(ii) comply 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.

For and on behalf of the Board:

Leon Serry
Director

Sir Peter Derham
Director

Melbourne
31 July 2003

Statement of Financial Position

at 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Current Assets					
Cash assets	12	**14,680,492**	20,004,548	**14,680,492**	20,004,548
Receivables	3a	**94,509**	57,408	**38,374**	53,902
Other financial assets	3b	**69,333**	128,266	**–**	–
Other	3c	**77,554**	32,557	**34,603**	32,557
Total Current Assets		**14,921,888**	20,222,779	**14,753,469**	20,091,007
Non-Current Assets					
Receivables	4a	**544,987**	544,987	**20,485,886**	20,354,641
Investments accounted for using equity method	24	**516,908**	545,562	**–**	–
Other financial assets	4b	**20,798,260**	20,327,700	**925,972**	925,972
Plant and equipment	4c	**72,460**	78,570	**72,460**	78,570
Total Non-Current Assets		**21,932,615**	21,496,819	**21,484,318**	21,359,183
Total Assets		**36,854,503**	41,719,598	**36,237,787**	41,450,190
Current Liabilities					
Payables	5	**151,965**	83,175	**90,293**	42,335
Provisions	6	**302,567**	106,366	**302,567**	106,366
Total Current Liabilities		**454,532**	189,541	**392,860**	148,701
Non-Current Liabilities					
Payables	7	**–**	–	**3,145,577**	3,154,014
Provisions	8	**17,797**	181,852	**17,797**	181,852
Total Non-Current Liabilities		**17,797**	181,852	**3,163,374**	3,335,866
Total Liabilities		**472,329**	371,393	**3,556,234**	3,484,567
Net Assets		**36,382,174**	41,348,205	**32,681,553**	37,965,623
Equity					
Contributed equity	9	**48,885,731**	50,344,994	**48,885,731**	50,344,994
Reserves	10	**1,391,311**	1,391,311	**734,421**	734,421
Accumulated losses	11	**(13,894,868)**	(10,388,100)	**(16,938,599)**	(13,113,792)
Total Equity		**36,382,174**	41,348,205	**32,681,553**	37,965,623

The accompanying notes form an integral part of this Statement of Financial Position.

Statement of Financial Performance

for the Year Ended 30 June 2003

		Consolidated		Parent	
	Note	2003 $	2002 $	2003 $	2002 $
Revenue from ordinary activities	2	**862,252**	1,727,241	**862,252**	1,046,041
Net gain on loss of subsidiary	24(c)	**–**	144,409	**–**	–
Occupancy expenses		**(106,832)**	(101,783)	**(106,832)**	(101,783)
Administrative expenses		**(1,856,263)**	(1,915,676)	**(1,852,155)**	(1,915,676)
Investing expenses	2	**(2,165,254)**	(4,199,254)	**–**	–
Patent expenses		**(178,262)**	(76,346)	**–**	–
Research and development expenses		**(158,060)**	(257,049)	**–**	–
Other expenses	2	**–**	(639,235)	**–**	–
Share of net loss of associates accounted for using the equity method	24(a)	**(28,654)**	(425,734)	**–**	–
Write-down of receivables from controlled entities		**–**	–	**(2,728,072)**	(3,702,623)
Loss from ordinary activities before income tax (expense)/benefit		**(3,631,073)**	(5,743,427)	**(3,824,807)**	(4,674,041)
Income tax (expense)/benefit relating to ordinary activities	13	**124,305**	(152)	**–**	–
Loss from ordinary activities after related income tax (expense)/benefit		**(3,506,768)**	(5,743,579)	**(3,824,807)**	(4,674,041)
Net Loss		**(3,506,768)**	(5,743,579)	**(3,824,807)**	(4,674,041)
Net loss attributable to members of the parent entity	11	**(3,506,768)**	(5,743,579)	**(3,824,807)**	(4,674,041)
Movement in option reserve	10	**–**	6	**–**	6
Share issue and buy-back costs		**(11,790)**	(1,466)	**(11,790)**	(1,466)
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		**(11,790)**	(1,460)	**(11,790)**	(1,460)
Total changes in equity other than those resulting from transactions with owners as owners		**(3,518,558)**	(5,745,039)	**(3,836,597)**	(4,675,501)
Basic earnings per share (cents per share)	14	**(8.49)**	(13.92)		
Diluted earnings per share (cents per share)	14	**(8.49)**	(13.92)		

The accompanying notes form an integral part of this Statement of Financial Performance.

Statement of Cash Flows

for the Year Ended 30 June 2003

		Consolidated		Parent	
	Note	2003	2002	2003	2002
		$	$	$	$
Cash Flows from Operating Activities:					
Other receipts		**19,250**	19,250	**19,250**	19,250
Payments to suppliers, employees and for research and development		**(2,325,387)**	(2,354,068)	**(1,922,121)**	(2,016,251)
GST received from the ATO		**56,828**	94,323	**56,828**	94,323
Interest received		**871,950**	1,199,703	**871,950**	1,199,703
Income taxes (paid)/tax benefits received		**72,388**	(152)	**–**	–
Net operating cash flows (used in) operating activities	12	**(1,304,971)**	(1,040,944)	**(974,093)**	(702,975)
Cash Flows from Investing Activities:					
Purchase of plant and equipment		**(22,429)**	(22,337)	**(22,429)**	(22,337)
Proceeds from sale of plant and equipment		**–**	3,453	**–**	3,453
Receipts on behalf of controlled entities		**–**	–	**78,000**	681,200
Payments on behalf of controlled entities		**–**	–	**(2,945,759)**	(4,847,272)
Purchase of investments		**(2,536,881)**	(4,509,303)	**–**	–
Proceeds from sale of investments		**–**	681,200	**–**	–
Loan to associated entity		**–**	(100,000)	**–**	(100,000)
Loan repayments received		**–**	100,000	**–**	100,000
Net cash flows (used in) investing activities		**(2,559,310)**	(3,846,987)	**(2,890,188)**	(4,184,956)
Cash Flows from Financing Activities:					
Proceeds from issues of shares and options		**100,000**	117,006	**100,000**	117,006
Payments for share buy-back		**(1,547,473)**	–	**(1,547,473)**	–
Transaction costs paid: share & option issues; share buy-back		**(12,302)**	(1,333)	**(12,302)**	(1,333)
Net cash flows from/(used in) financing activities		**(1,459,775)**	115,673	**(1,459,775)**	115,673
Net decrease in cash held		**(5,324,056)**	(4,772,258)	**(5,324,056)**	(4,772,258)
Add opening cash brought forward	12	**20,004,548**	25,412,146	**20,004,548**	24,776,806
Net decrease in cash flow from loss of control of controlled entity	12	**–**	(635,340)	**–**	–
Closing cash carried forward		**14,680,492**	20,004,548	**14,680,492**	20,004,548

The accompanying notes form an integral part of this Statement of Cash Flows.

Notes to the Financial Statements at 30 June 2003

Note 1. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The accounting policies used, which are described below, are consistent with those of the previous year.

The financial report has been prepared in accordance with the historical cost convention, except for certain investments, which are held at fair value, in accordance with the accounting policies described below.

(b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Circadian Technologies Limited (the parent entity) and all entities controlled from time to time during the year and at reporting date.

All inter-entity balances and transactions have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

(c) Investments

Long term investments held for dividend purposes are classified as non-current assets and are carried at the lower of cost or market valuation, as described in Note 4. 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. Unrealised losses are recognised as an expense in determining the net profit/loss for the period.

(d) Associated Entities

Interests in associated entities are included in non-current investments and brought to account using the equity method. Under this method the investment in associates is initially recognised at its cost of acquisition and its carrying value is subsequently adjusted for increases or decreases in the investor's share of post-acquisition results and reserves of the associate. The investment in associated entities is decreased by the amount of dividends received or receivable. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount in the consolidated financial accounts.

Detailed equity accounting information concerning the consolidated entity's interests in material associated entities is provided in Note 24.

(e) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

(f) Income Tax

The financial statements apply the principles of tax-effect accounting. The income tax expense in the Statement of Financial Performance represents the tax on the pre-tax accounting profit/(loss) adjusted for income and expenses never to be assessed or allowed for taxation purposes. The provision for deferred income tax liability and the future income tax benefit (as disclosed, but not recognised in the Statement of Financial Position) include the tax effect of differences between income and expense items recognised in different accounting periods for book and tax purposes, calculated at the tax rates expected to apply when the differences reverse. The future income tax benefit relating to tax losses and

Note 1. Summary of Significant Accounting Policies (continued)

timing differences have not been recognised as an asset as there is no virtual certainty of realisation, except for the tax rebate received/receivable which is available under the Research & Development Tax Concession of the Income Tax Assessment Act 1936.

(g) Goods and Services Tax

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 receivable from, or payable to, the taxation authority is included as part of the receivables or payables in the Statement of Financial Position. Cash flows arising from operating activities are included in the Statement of Cash Flows on a gross basis (i.e. including GST) 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.

(h) Receivables

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

(i) Payables

Liabilities for trade creditors and other amounts 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 consolidated entity. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(j) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(k) Revenue Recognition

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

Interest

Control of the right to receive the interest payment.

(l) Research and Development

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

Patent costs are expensed as incurred.

(m) Plant and Equipment

Plant and equipment are measured at cost and are depreciated over their useful economic lives as follows:

	Life	Method
Equipment and furniture	3-10 years	Straight line
Leasehold improvements	8 years	Straight line

Note 1. Summary of Significant Accounting Policies (continued)

(n) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used. Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits/losses on a net basis in their respective categories. The value of the equity-based compensation scheme described in note 15 is not being recognised as an employee benefits expense.

(o) Joint Venture Operations

An interest in a joint venture is brought to account by including in the respective financial statement categories:

- the consolidated entity's share in each of the individual assets employed in the joint venture;
- liabilities incurred by the consolidated entity in relation to the joint venture including the consolidated entity's share of any liabilities for which the economic entity is jointly and/or severally liable; and
- the consolidated entity's share of expenses of the joint venture.

(p) Financial Instruments included in Equity

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(q) Financial Instruments included in Assets

Receivables (non-current) include loans to subsidiaries.

Investments include equity interests in non-subsidiary, non-associated corporations and are recorded at the lower of cost or market valuation. Dividend income is brought to account when declared.

(r) Financial Instruments included in Liabilities

Loans are recognised when issued at the amount of the net proceeds received. Interest is recognised as an expense on an effective yield basis.

(s) Employee Option Ownership Schemes

Certain employees are entitled to participate in option ownership schemes. The details of the schemes are described in Note 15. No remuneration expense is recognised in respect of employee options issued.

(t) Earnings per share

Basic EPS is calculated as net profit/loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share 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 revenues 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.

(u) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(v) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
Note 2. Revenue and Expenses from Ordinary Activities				
Revenues from ordinary activities:				
- Interest from:				
Related party - associated company	**27,249**	27,249	**27,249**	27,249
Other unrelated persons	**817,503**	1,001,292	**817,503**	1,001,292
- Gross proceeds on the sale of investments (b)	**–**	681,200	**–**	–
- Other revenue items	**17,500**	17,500	**17,500**	17,500
Total revenues from ordinary activities	**862,252**	1,727,241	**862,252**	1,046,041
Expenses and Losses/(Gains):				
Investing expenses:				
- Provision for diminution of investment in Amrad Corporation Ltd to reflect year end market value (Notes 4(b), 25)	**1,936,128**	4,095,089	**–**	–
- Provision for diminution of investment in options to reflect year end market value (Note 4(b))	**130,193**	–	**–**	–
- Write-down of other investments to reflect year end market value	**58,933**	72,800	**–**	–
- Consultants and other expenses	**40,000**	31,365	**–**	–
	2,165,254	4,199,254	**–**	–
Depreciation of				
- Equipment and furniture	**19,892**	20,390	**19,892**	20,390
- Leasehold improvements	**9,203**	9,023	**9,203**	9,023
	29,095	29,413	**29,095**	29,413
Operating lease rentals	**68,896**	68,474	**68,896**	68,474
Provision for employee entitlements	**130,393**	143,440	**130,393**	143,440
Other expenses comprising of:				
- Write-down of capitalised project costs	**–**	161,020	**–**	–
- Cost of sale of investments (b)	**–**	468,215	**–**	–
- Other	**–**	10,000	**–**	–
	–	639,235	**–**	–
(a) *Gain/(loss) on sale of plant and equipment*				
Revenue from sale of plant and equipment	**–**	3,453	**–**	3,453
Written down value of plant and equipment sold	**–**	(3,453)	**–**	(3,453)
	–	–	**–**	–
(b) *Profit on sale of investments*				
Revenue from sale of investments	**–**	681,200	**–**	–
Cost of investments sold	**–**	(468,215)	**–**	–
	–	212,985	**–**	–
Note 3. Current Assets				
(a) *Receivables*				
Interest receivable – unrelated	**22,917**	50,115	**22,917**	50,115
Tax rebate receivable (Note 13)	**51,917**	–	**–**	–
Other receivables	**19,675**	7,293	**15,457**	3,787
Total current receivables	**94,509**	57,408	**38,374**	53,902

Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Note 3. Current Assets (continued)				
(b) Other Financial Assets				
Shares – at lower of cost and market value in listed entity	**69,333**	128,266	–	–

Listed shares are readily saleable with no fixed terms. There would be no material capital gains tax payable if these assets were sold at the reporting date.

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
(c) Other				
Prepayments	**77,554**	32,557	**34,603**	32,557
Note 4. Non-Current Assets				
(a) Receivables				
Loans to controlled entities (Note 19(c)(ii))	–	–	**19,940,899**	19,809,654
Loan to associated entity (Note 19(c)(ii))	**544,987**	544,987	**544,987**	544,987
Total non-current receivables	**544,987**	544,987	**20,485,886**	20,354,641
(b) Other Financial Assets				
Shares at lower of cost and recoverable value				
- listed companies, at cost (i)	**26,144,017**	23,607,136	–	–
- provision for diminution of investment in Amrad Corporation Ltd (i)	**(6,031,217)**	(4,095,089)	–	–
- unlisted controlled entity, at deemed cost (Note 18)	–	–	**925,972**	925,972
Options at lower of cost and recoverable value				
- listed company, at cost (i)	**815,653**	815,653	–	–
- provision for diminution of investment in options (i)	**(130,193)**	–	–	–
Total non-current other financial assets	**20,798,260**	20,327,700	**925,972**	925,972

(i) **Listed Investments**	Direct Ownership Interest 2003 %	Direct Ownership Interest 2002 %	Diluted Ownership Interest 2003 %	Diluted Ownership Interest 2002 %	Book Value 2003 $	Book Value 2002 $	Market Value (ii) 2003 $	Market Value (ii) 2002 $
Optiscan Imaging Ltd	**8.0**	8.0	**7.6**	7.8	**361,132**	361,132	**2,707,250**	3,885,701
Metabolic Pharmaceuticals Ltd	**31.7**	34.0	**24.2**	24.3	**Nil**	Nil	**36,720,000**	38,880,000
Amrad Corporation Ltd (iii) (Note 19(c)), (Note 25)	**21.6**	19.3	**20.7**	18.4	**16,958,749**	17,132,996	**16,958,749**	17,132,996
Axon Instruments Inc	**15.3**	15.3	**14.0**	13.8	**1,932,854**	1,932,854	**12,494,694**	24,989,388
Antisense Therapeutics Ltd (iv), (Note 24(c))	**23.5**	25.3	**20.2**	20.8	**860,065**	85,065	**6,794,375**	6,253,126
Antisense Therapeutics Ltd (Options)					**685,460**	815,653	**685,460**	1,158,754
Total					**20,798,260**	20,327,700	**76,360,528**	92,299,965

(ii) The market value, as disclosed in Note (i) above, represents the share price at 30 June 2003, and does not include any capital gains tax that may be applicable on their disposal.

Note 4. Non-Current Assets (continued)

(iii) The movement between years in the book value of the company's investment in Amrad Corporation Limited comprises the purchase, by the consolidated entity, of a further 3,069,000 shares at a consideration of 57 cents per share (a total value of $1.76 million) in July 2002 and an increase in the provision for diminution in this investment of $1.93 million during the year.

(iv) As at 30 June 2001 Polychip Pharmaceuticals Pty Ltd ('Polychip'), wholly owned by Circadian, had a 50.001% controlling interest in Antisense Therapeutics Limited ('ATL'). ATL was not listed at this time. On 1 July 2001 Polychip's interest in ATL was diluted from 50.001% to 50% as a result of a share issue to Syngene Limited (an associated company of Polychip (Note 24)). Consequently, Polychip ceased to control ATL, however, it retained significant influence over the operations of ATL. Polychip's interest in ATL was further diluted to 25.3% as a result of a public issue of shares when ATL listed on the ASX on 20 December 2001. The book value of $85,065 as at 30 June 2002 represents the consideration of $500,001 less 50% of ATL's losses to 19 December 2001 (date which Polychip ceased to have significant influence).

During the current year, Polychip acquired a further 10.3 million shares through a capital raising by ATL in December 2002, diluting Polychip's interest in ATL from 25.3% to 23.5%.

Polychip's total undiluted interest in ATL, including its indirect interest in ATL through its investment in Syngene Limited, amounted to 31.9% at year end (2002: 36%), representing a market value of $9,214,009 (2002: $8,903,200).

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
(c) Plant and Equipment				
Equipment and furniture at cost				
Opening Balance	**137,330**	142,686	**137,330**	126,580
Additions	**21,475**	22,337	**21,475**	22,337
Disposals	–	(11,587)	–	(11,587)
Disposal through loss of control of subsidiary	–	(16,106)	–	–
Closing balance	**158,805**	137,330	**158,805**	137,330
Accumulated depreciation				
Opening balance	**88,332**	77,463	**88,332**	76,076
Depreciation for the year	**19,892**	20,390	**19,892**	20,390
Disposals	–	(8,134)	–	(8,134)
Disposal through loss of control of subsidiary	–	(1,387)	–	–
Closing balance	**108,224**	88,332	**108,224**	88,332
Net book value	**50,581**	48,998	**50,581**	48,998
Leasehold improvements at cost				
Opening Balance	**72,187**	72,187	**72,187**	72,187
Additions	**1,510**	–	**1,510**	–
Closing balance	**73,697**	72,187	**73,697**	72,187
Accumulated depreciation				
Opening balance	**42,615**	33,592	**42,615**	33,592
Depreciation for the year	**9,203**	9,023	**9,203**	9,023
Closing balance	**51,818**	42,615	**51,818**	42,615
Net book value	**21,879**	29,572	**21,879**	29,572
Total plant and equipment, net	**72,460**	78,570	**72,460**	78,570

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
Note 5. Payables (Current)				
Accrued expenses (unsecured) (i)	**100,948**	83,175	**39,276**	42,335
PAYG tax liability	**51,017**	–	**51,017**	–
	151,965	83,175	**90,293**	42,335

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

Note 6. Provisions (Current)				
Annual Leave	**105,241**	106,366	**105,241**	106,366
Long Service Leave	**197,326**	–	**197,326**	–
	302,567	106,366	**302,567**	106,366
Note 7. Payables (Non-Current)				
Loan from controlled entity (Note 19(c)(iii))	**–**	–	**3,145,577**	3,154,014
Note 8. Provisions (Non-Current)				
Long service leave	**17,797**	181,852	**17,797**	181,852
Note 9. Contributed Equity				
Contributed equity at beginning of year	**50,344,994**	50,229,839	**50,344,994**	50,229,839
Shares issued during the year:				
- employee share scheme (i)	**100,000**	116,621	**100,000**	116,621
- transaction costs	**(687)**	(1,466)	**(687)**	(1,466)
Shares bought back during the year (ii)	**(1,547,473)**	–	**(1,547,473)**	–
- transaction costs	**(11,103)**	–	**(11,103)**	–
Contributed equity at end of year	**48,885,731**	50,344,994	**48,885,731**	50,344,994

(a) Movement in Contributed Equity for the Year:

	No.	No.	No.	No.
Balance of number of shares at beginning of year	**41,289,618**	41,211,618	**41,289,618**	41,211,618
Shares issued during the year (i)	**100,000**	78,000	**100,000**	78,000
Shares bought back during the year (ii)	**(1,056,081)**	–	**(1,056,081)**	–
Balance of number of issued shares at end of year	**40,333,537**	41,289,618	**40,333,537**	41,289,618

(i) On 26 August 2002, 100,000 shares were issued to an employee as a result of options exercised to purchase ordinary shares in the company at an exercise price of $1.00 per share (Refer Note 9(b)). The closing market price on that day was $1.95 per share. The market price on the date these options were granted was $0.67 per share.

(ii) On 8 April 2003, the company announced that the directors resolved to initiate an on-market buy-back of up to 4,138,961 fully-paid ordinary shares, representing 10% of the company's issued ordinary shares. The market value of the company's listed share portfolio and cash at the time was $84.6 million, equating to $2.05 per Circadian share, whereas the Circadian share price at the time was $1.10 (closing price as at 7 April 2003), representing a 46% discount (95 cents per share) to this value. This analysis does not take into account the value of Circadian's significant portfolio of research projects, intellectual property and its holdings in the unlisted entities Syngene Limited and CancerProbe Pty Ltd.

Given the disparity between Circadian's share price and the value of the company's tangible assets, the Board considers the buy-back to be an appropriate application of a portion of Circadian's cash reserves and to be in the best interests of all shareholders. The buy-back period commenced on 24 April 2003 and the company currently intends to conclude the buy-back period on 23 October 2003.

To 30 June 2003, Circadian bought back 1,056,081 fully paid ordinary shares representing 2.6% of total issued ordinary shares. These shares were bought-back at an average cost of $1.465 per share (before transaction costs). The total cost of the buy-back, including transaction costs, was $1,558,576, which was debited to the contributed equity account. The market value of the company's listed share portfolio and cash on 30 July 2003 equated to $2.77 per Circadian share, whereas the Circadian share price was $1.85 (closing price as at 30 July 2003) representing a 33% discount (92 cents per share) to this value.

Note 9. Contributed Equity (continued)

(b) Options over Ordinary Shares

2003

Date of Issue	**19/9/01**	**14/8/01**	**30/7/01**	**21/9/00**	**16/11/99**	**16/11/99**	**16/11/99**	**27/10/97**	**27/10/97**
On issue at beginning of year ('000)	40	95	735	775	10	20	20	150	100
Issued during the year ('000)	–	–	–	–	–	–	–	–	–
Exercised during the year ('000)	–	–	–	–	–	–	–	–	(100)
Expired during the year ('000)	–	–	–	–	–	–	–	(150)	–
Outstanding at balance date ('000)	40	95	735	775	10	20	20	–	–
Exercised subsequent to balance date ('000)	–	–	–	–	–	–	–	–	–
Outstanding at date of Directors' report ('000)	40	95	735	775	10	20	20	–	–
Number of recipients	1	3	2	6	1	2	1	1	1
Exercise price	(i)	(i)	(i)	$6.00	$2.00	$2.50	$2.80	$1.50	$1.00
Exercise period from	19/9/01	14/8/01	30/7/01	21/9/00	16/11/99	16/11/99	16/11/99	27/10/97	27/10/97
To	19/9/05	14/8/05	30/7/05	21/9/04	16/9/04	16/9/04	16/9/04	27/8/02	27/8/02
Expiration day	19/9/05	14/8/05	30/7/05	21/9/04	16/9/04	16/9/04	16/9/04	27/8/02	27/8/02
The following proportion of options vest									
from the dates shown: 10%					16/11/99	16/11/99	16/11/99	27/10/01	27/10/01
30%					16/11/00	16/11/00	16/11/00	27/10/00	27/10/00
30%					16/11/01	16/11/01	16/11/01	27/10/99	27/10/99
30%					16/11/02	16/11/02	16/11/02	27/10/97	27/10/97
25%	19/9/01	14/8/01	30/7/01	21/9/00					
25%	19/9/02	14/8/02	30/7/02	21/9/01					
25%	19/9/03	14/8/03	30/7/03	21/9/02					
25%	19/9/04	14/8/04	30/7/04	21/9/03					

(i) Exercise price on options issued:
1/3 options exercisable at $4.75 per share
1/3 options exercisable at $5.00 per share
1/3 options exercisable at $5.50 per share

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Note 10. Reserves				
Asset revaluation reserve (i),(ii)	**734,407**	734,407	**734,407**	734,407
Option reserve (iii)	**14**	14	**14**	14
Contributed capital of associate reserve (iv)	**656,890**	656,890	**–**	–
Total reserves	**1,391,311**	1,391,311	**734,421**	734,421

(i) Nature and purpose of 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

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
(ii) Movement in asset revaluation reserve:				
Opening & closing balance	**734,407**	734,407	**734,407**	734,407
(iii) Movement in option reserve:				
Balance at beginning of year	**14**	8	**14**	8
Consideration for options issued during the year	**–**	6	**–**	6
Balance at end of year	**14**	14	**14**	14
(iv) Movement in contributed capital of associate reserve:				
Opening and closing balance	**656,890**	656,890	**–**	–

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Note 11. Accumulated Losses				
Accumulated losses at the beginning of the financial year	**(10,388,100)**	(4,644,521)	**(13,113,792)**	(8,439,751)
Net loss	**(3,506,768)**	(5,743,579)	**(3,824,807)**	(4,674,041)
Accumulated losses at the end of the financial year	**(13,894,868)**	(10,388,100)	**(16,938,599)**	(13,113,792)

Note 12. Statement of Cash Flows

(a) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash at bank and investments in money market instruments. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Cash	**180,492**	204,548	**180,492**	204,548
Term deposits (i)	**14,500,000**	19,800,000	**14,500,000**	19,800,000
Closing cash balance	**14,680,492**	20,004,548	**14,680,492**	20,004,548

(i) Term deposits are with a major bank and are short term. The bank pays interest at current bank deposit rates. At year end the rate was 4.66% (2002: 4.86%).

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
Note 12. Statement of Cash Flows (continued)				
(b) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations				
Net loss after income tax	**(3,506,768)**	(5,743,579)	**(3,824,807)**	(4,674,041)
Decrease/(increase) in prepayments and other current assets	**(109,296)**	4,562	**(13,716)**	8,068
(Increase)/decrease in interest receivable	**27,198**	171,162	**27,198**	171,162
(Decrease)/increase in payables	**68,746**	9,243	**47,919**	(31,207)
(Decrease)/increase in employee provisions	**32,146**	91,006	**32,146**	91,006
Depreciation	**29,095**	29,413	**29,095**	29,413
Write-down of receivables from subsidiaries	–	–	**2,728,072**	3,702,624
Increase in provision for diminution of investment in Amrad Corporation Ltd to reflect year end market value	**1,936,128**	4,095,089	–	–
Write-down of other investments to reflect year end market value	**189,126**	72,800	–	–
Write-off of capitalised project costs	–	161,020	–	–
Net gain on deconsolidation of subsidiary	–	(144,409)	–	–
Profit on sale of investments	–	(212,985)	–	–
Share of associates' net losses (Note 24(b))	**28,654**	425,734	–	–
Net operating cash flows used in operating activities	**(1,304,971)**	(1,040,944)	**(974,093)**	(702,975)

(c) Loss of Control of Subsidiary

On 1 July 2001 the Company's interest in Antisense Therapeutics Limited ('ATL') was diluted from 50.001% to 50% as a result of a share issue to Syngene Limited. Consequently, the Company ceased to control ATL as defined by Australian Accounting Standard AASB 1024. ATL was subsequently listed on 20 December 2001 at which time the Company ceased to have significant influence over ATL (see Note 24(c) for further details).

The carrying amounts of assets and liabilities no longer controlled by major classes:

	2003	2002
	$	$
Cash	–	635,340
Receivables	–	10,662
Property, plant and equipment	–	14,719
Creditors	–	(54,460)
Net assets of entity no longer consolidated	–	606,261

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$

Note 13. Income Tax

The prima facie tax on loss from ordinary activities differs from the income tax expense/(benefit) provided in the financial statements as follows:

	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Loss from ordinary activities	**(3,631,073)**	(5,743,427)	**(3,824,807)**	(4,674,041)
Prima facie tax calculated at 30%	**(1,089,322)**	(1,723,028)	**(1,147,442)**	(1,402,212)
Tax effect of permanent differences:				
Research and development	**(10,383)**	(15,576)	**–**	–
Write-down of receivables	**–**	–	**818,422**	1,110,787
Write-down of capitalised costs and investments	**637,576**	1,298,673	**–**	–
Gain on deconsolidation of Antisense Therapeutics Limited	**–**	(102,384)	**–**	–
Share of losses in associated entities	**8,597**	186,781	**–**	–
Tax losses relating to subsidiary which ceased to be controlled	**–**	114,735	**–**	–
Other non-deductible expenses	**1,317**	6,576	**1,317**	6,576
Tax benefit of losses transferred (in)/out				
– current year (a)	**–**	–	**–**	–
– prior year (a)	**–**	–	**39,043**	19,027
Under/(over) provisions of previous year	**8,714**	(52,677)	**58**	(84,571)
Income tax adjusted for permanent differences	**(443,501)**	(286,900)	**(288,602)**	(350,393)
Benefit of tax losses not brought to account	**397,077**	287,052	**288,602**	350,393
Utilisation of tax losses not brought to account in previous periods	**(77,881)**	–	**–**	–
Income tax expense/(benefit) attributable to ordinary activities (b)	**(124,305)**	152	**–**	–
The estimated potential future income tax benefit at year end in respect of tax losses not brought to account is:	**1,649,316**	1,341,210	**535,510**	255,950

(a) Tax losses were transferred for $nil consideration (2002: $nil).

(b) The income tax benefit comprises cash rebates received/receivable which are available under the Research and Development Tax Concession of the Income Tax Assessment Act 1936.

Benefit of income tax losses not brought to account

The estimated potential future income tax benefit at year end in respect of timing differences (calculated at 30% tax rate) for the consolidated entity amounted to $111,304 (2002: $98,795) and for the parent entity $99,304 (2002: $83,761).

The benefits of the tax losses and timing differences will only be realised if:

(i) entities within the economic entity derive future assessable income of a nature and amount sufficient to enable the benefit of the taxation deductions to be realised;

(ii) entities within the economic entity continue to comply with the conditions for deductibility imposed by law; and

(iii) there are no changes in taxation legislation adversely affecting entities in realising the benefit.

The franking account balance at the end of the financial year at 30% (2002: 30%) is $17,890 (2002: $17,890), which represents the amount of franking credits available for the subsequent financial year.

	Consolidated	
	2003	2002
Note 14. Earnings Per Share		
Basic earnings per share (cents per share)	**(8.49)**	(13.92)
Diluted earnings per share (cents per share)	**(8.49)**	(13.92)
(a) Earnings/(loss) used in calculating basic and diluted earnings per share (numerator)	**(3,506,768)**	(5,743,579)
(b) Number of Ordinary Shares		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (denominator)	**41,290,990**	41,252,993

(c) Potential Ordinary Shares Not Considered Dilutive

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive for the year ended 30 June 2003.

(d) There have been no other conversions to, calls of, or subscription for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

Note 15. Employee Benefits

(a) Employee Option Ownership Scheme

Circadian Technologies Limited offers options over ordinary shares to employees at the discretion of the Board of Directors.

Details of the employee option ownership schemes for both the parent and the consolidated entities are as follows:

	Options	
	2003	2002
Total number issued to employees during the year ('000)	**–**	870
Total number issued to employees since commencement of the scheme ('000)	**3,310**	3,310
Total number of employees eligible to participate in this scheme	**7**	7
Total market value of issues during the year (i)	**–**	–
Proceeds received and receivable from issues during the year	**–**	$6

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

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
(b) Employee Benefits Recognised				
Aggregate employee benefits liability (Refer to Notes 6 and 8)	**320,364**	288,218	**320,364**	288,218
(c) Number of employees	**No.**	**No.**	**No.**	**No.**
The number of full time equivalents employed as at 30 June are:	**5**	5	**5**	5

Note 16. Remuneration of Directors and Executives

(a) Remuneration of Directors

The number of executive and non-executive directors of the parent entity who were paid or were due to be paid remuneration directly or indirectly from the company or any related corporation, as shown in the following bands were:

		2003	2002
$ 0 – 9,999		**1**	–
$ 30,000 – 39,999		**2**	2
$ 40,000 – 49,999		**1**	1
$ 50,000 – 59,999		**1**	1
$ 210,000 – 219,999	(i)	**–**	1
$ 260,000 – 269,999	(i)	**1**	–
$ 570,000 – 579,999	(i)	**–**	1
$ 660,000 – 669,999	(i)	**1**	–

The aggregate remuneration of the directors referred to in the above bands was $1,117,778 (2002: $976,595). All remuneration of the consolidated entity was solely provided by the parent entity, Circadian Technologies Limited.

Note 16. Remuneration of Directors and Executives (continued)

The total of all remuneration paid or due to be paid to all the directors of each corporation in the consolidated entity from all corporations of which they are director, or any related corporation, was $1,092,778 (2002: $976,594).

(i) No options were granted to directors and officers during the year ended 30 June 2003.

ASIC's "Media release 03-202 Valuing options for directors and executives" provides guidelines for Australian listed companies on how to include the values of options and similar equity instruments in the disclosure of director and executive remuneration for the 30 June 2003 directors' report. The guidelines provided draw on the issuance of the Australian Accounting Standards Board's Exposure Draft 108 "Share-Based Payment" (ED 108) and its equivalent the International Accounting Standards Board's Exposure Draft ED 2 "Share-Based Payment" (ED 2). ED 108/ED 2 provide a basis for valuing options and allocating those values over time. Note that ASIC's guidelines do not require that options be expensed in the financial statements, only that they be disclosed in the directors' report.

ED 108/ED 2 propose that an expense be recognised in relation to options over the period from grant date to the vesting date. For options that vest immediately, the value is recognised as an expense at grant date. Previous ASIC guidelines required the total value of options issued to be disclosed as part of remuneration in the year they were granted. The company made such disclosures, as required, in its 2001 and 2002 directors' reports and notes to the financial statements. The options issued in these years were "well out of the money" at their respective grant dates and year end dates.

Options issued by Circadian in 2001 and 2002 have four vesting dates, for various proportions of the total issued options, during the life of the options as detailed below. Accordingly, although no options were issued during the year ended 30 June 2003, the options issued to directors in previous years, which had not vested at 1 July 2002, have been allocated a total value of $25,000 for the current financial year and are included in the remuneration of directors above. This amount has been determined by allocating the fair value of options issued equally over the vesting periods. Currently, this amortised fair value is not recognised as an expense in the financial statements and no adjustments have been made to reflect estimated or actual forfeitures (i.e., options that do not vest or are not exercised).

Details relating to options issued and the valuation basis adopted are as follows:

Options Granted in 2000/2001
As stated in the company's 2001 annual report:

500,000 options were granted to a director during the 2001 financial year. "Each option entitles the holder to purchase 1 ordinary share in Circadian Technologies Limited at an exercise price of $6. All options were granted on 21 September 2000 and the option holder may not exercise more than the following proportion of the options from time to time held by the option holder:

• prior to 21 September 2001 (vesting date: 21/9/00)	25%
• prior to 21 September 2002 (vesting date: 21/9/01)	50%
• prior to 21 September 2003 (vesting date: 21/9/02)	75%
• prior to 21 September 2004 (expiration date) (vesting date: 21/9/03)	100%

It is difficult to estimate the fair value of these options as the options are 'well out of the money' at the date of grant (market share price $3.96 as at 21 September 2000) and as at the 2001 year end (market share price $2.80), whereas the options have an exercise price of $6.00 and will have no value unless Circadian's share price reaches this figure. Thus the directors have endeavoured to estimate the fair value of the options by considering two methods namely the value of the options in accordance with the taxation method and secondly the Black-Scholes options pricing formula. The options have a $nil value according to the taxation method and an indicative value of $0.55 according to the Black-Scholes method mentioned above. The indicative value has to be treated with caution because of the perceived weaknesses in the valuation methodology which include: (i) the long delay between the issue date and exercise date of the options; (ii) the fact that these options are not tradeable and thus have liquidity restrictions; and (iii) due to the historical volatility of the share price not necessarily being a sound indication of its future volatility. Discounting the Black-Scholes indicative value for the above weaknesses, it would not be unjustifiable to value the options at $0.20 per option and the directors have adopted this valuation for the purpose of these accounts."

Note 16. Remuneration of Directors and Executives (continued)

These options continue to be "well out of the money" as at the 2003 year end (market share price $1.55).

Options Granted in 2001/2002

As stated in the company's 2002 annual report:

735,000 options were granted to directors during the 2002 financial year. "Each option entitles the holder to purchase 1 ordinary share in Circadian Technologies Limited at exercise prices ranging between $4.75 and $5.50 (one third of the total options granted have an exercise price of $4.75 each; another third of the total options granted have an exercise price of $5.00 each; and the final third of total options granted have an exercise price of $5.50 each). All options were granted on 30 July 2001 and the option holder may not exercise more than the following proportion of the options from time to time held by the option holder:

- prior to 30 July 2002 (vesting date: 30/7/01) 25%
- prior to 30 July 2003 (vesting date: 30/7/02) 50%
- prior to 30 July 2004 (vesting date: 30/7/03) 75%
- prior to 30 July 2005 (expiration date) (vesting date: 30/7/04) 100%

These options are 'well out of the money' at the grant date (market price per share: $2.40) and as at the 2002 year end (market price per share: $1.63), whereas, as stated above, the options have exercise prices ranging between $4.75 and $5.50 and will have no value unless Circadian's share price reaches these figures. The directors have endeavoured to estimate the fair values of the options by using the Black-Scholes options pricing formula which values each option, based on the various expiration dates and exercise prices. Based on this accepted formula each option has a negligible value of between 0.0001 of a cent and 0.0002 of a cent. The directors have adopted these valuations for the purpose of these accounts."

These options continue to be "well out of the money" as at the 2003 year end (market share price $1.55).

Values of Options Issued to Directors and Officers - Assumptions

The following assumptions were used to derive a value for the options issued using the Black-Scholes options pricing formula at their respective financial year end dates:

	Options Granted		
	21 September 2000	**30 July 2001**	**14 August 2001**
Dividend yield	–	–	–
Expected volatility	52.06%	12.34%	12.34%
Historical volatility	52.06%	12.34%	12.34%
Risk-free interest rate	6.062%	5.745%	5.745%
Expected life of option	*	*	*

* Assumed to be total years from grant date to expiration date.

(b) Remuneration of Executives

The number of executive officers (other than executive directors) whose total income for the year falls within the following bands was:

	Consolidated		Parent	
	2003	**2002**	**2003**	**2002**
$ 150,000 - 159,999	–	1	–	1
$ 160,000 - 169,999	**1**	–	**1**	–
The aggregate income of the executive referred to above:	(i) **$ 160,559**	(i) $ 159,304	(i) **$ 160,559**	(i) $ 159,304

(i) Based on the method described in (a)(i) above, total remuneration of the executive for the current financial year includes a value of $2,500 for options granted to the executive in previous years (00/01 and 01/02), which had not vested at 1 July 2002. For further details see (a)(i) above.

Note 16. Remuneration of Directors and Executives (continued)

Options Granted in 2000/2001

50,000 options were granted to the executive on 21 September 2000. The terms of the options are the same as described in Note (a)(i) *'Options Granted in 2000/2001'* above and the valuation of 20 cents per option has been determined on the same basis as described in Note (a)(i) *'Options Granted in 2000/2001'* above.

Options Granted in 2001/2002

50,000 options were granted during the 2002 financial year to the executive. The terms of the options are the same as described in Note (a)(i) *'Options Granted in 2001/2002'* above except the options were granted on 14 August 2001 and the option holder may not exercise more than the following proportion of the options from time to time held by the option holder:

- prior to 14 August 2002 (vesting date: 14/8/01) 25%
- prior to 14 August 2003 (vesting date: 14/8/02) 50%
- prior to 14 August 2004 (vesting date: 14/8/03) 75%
- prior to 14 August 2005 (expiration date) (vesting date: 14/8/04) 100%

The valuation of an average of 0.0001 of a cent per option has been determined on the same basis as described in Note (a)(i) *'Options Granted in 2001/2002'* above.

Note 17. Interests in Joint Venture Operations

Parties	Pharmaceutical Research and Development Project	Share of Project Income (Note (a))		Loss Contributed (Note (b)) $	
		2003	**2002**	**2003**	**2002**
Circadian Pharmaceuticals (Aust) Pty Ltd and Monash University	Circadian Rhythm Disorders Project	**60%**	60%	–	161,020
Polychip Pharmaceuticals Pty Ltd and Monash University	Anti-Allergy Asthma Project	**67.5%**	67.5%	**88,146**	144,224
	Analgesics Compound Project	**85.7%**	85.7%		
Polychip Pharmaceuticals Pty Ltd and University of Sydney	Anti-Anxiety – GABA-C Receptors Project	**60%**	60%	**(14,964)**	79,241
Polychip Pharmaceuticals Pty Ltd and Victoria University of Technology	Yeast Mediated Reactions Project (Ephedrine)	**60%**	60%	**4,166**	33,583
Polychip Pharmaceuticals Pty Ltd and the University of Melbourne	Alzheimer's Disease Research Project	**100%**	–	**79,549**	–
				156,897	418,068

(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 21(b)):

	Consolidated		Parent	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
Not later than one year	**165,642**	147,947	–	–
Later than one year, but not later than five years	**183,750**	–	–	–
	349,392	147,947	–	–

(d) The consolidated entity has nil assets in the financial statements employed in the joint ventures.

Note 18. Controlled Entities

Name of company incorporated in Australia	Book value of parent entity investment and % of each class of shares held			
	2003		2002	
	$	%	$	%
Circadian Pharmaceuticals (Aust) Pty Ltd	–	100	–	100
Precision Patchclamps (Int) Pty Ltd	925,972	100	925,972	100
Polychip Pharmaceuticals Pty Ltd	–	100	–	100
Fibre Optics (Aust) Pty Ltd	–	100	–	100
	925,972		925,972	

Circadian Technologies Limited is the ultimate parent entity.
All controlled entities have the same financial year as Circadian Technologies Limited.

Note 19. Related Party Transactions

(a) The following are the names of the directors who held office for some or all of the financial years ended 30 June 2002 and 2003 unless otherwise stated:

Sir Peter Derham
Mr Leon Serry
Mr Ian R Davis
Dr John Stocker
Mr Graeme Kaufman (appointed 29 January 2002)
Mr James MacKenzie (appointed 16 July 2002)
Professor Ray L Martin (retired 19 September 2002)

(b) Directors' share and option holdings

	Shares/options issued by the Parent entity		Shares/options issued by Controlled entities	
	2003	2002	2003	2002
	No.	No.	No.	No.
(i) Ordinary share options				
Share options issued during the year	–	735,000	–	–
Share options outstanding at year end	1,235,000	1,235,000	–	–
(ii) Ordinary shares				
Ordinary shares acquired by the directors from the entity during the year:				
- directly	17,000	2,000	–	–
- indirectly	52,000	64,900	–	–
Transfer of ordinary shares by a director during the year:				
- directly	–	(400,000)	–	–
- indirectly	–	400,000	–	–
Ordinary shares purchased by a director prior to the relevant financial year (director appointed during the relevant financial year)	–	4,000	–	–
Ordinary shares held by retired director - directly	(245,001)	–	–	–
	(176,001)	70,900	–	–

Note 19. Related Party Transactions (continued)

	Shares/options issued by the Parent entity		Shares/options issued by Controlled entities	
	2003	2002	2003	2002
	No.	No.	No.	No.
Ordinary shares held directly by directors at the end of the year	**1,222,004**	1,450,005	–	–
Ordinary shares held indirectly by directors at the end of the year	**3,849,898**	3,797,898	–	–
	5,071,902	5,247,903	–	–

(c) The following transactions and balances were held with related parties during the years ended 30 June 2002 and 2003:

(i) During the year legal fees, including miscellaneous expenses, totalling $26,680 (2002: $31,289) were incurred by the consolidated entity for services provided by the legal firm of Minter Ellison of which Mr Ian Davis, a director of the company, is a partner. These legal fees were charged at commercial rates.

(ii) Loans to controlled entities of $19,940,899 (2002: $19,809,654) and to associated entity of $544,987 (2002: $544,987) are stated at the lower of cost and recoverable value, are unsecured and have no fixed terms of repayment of principal (although repayment is not expected within the next year). No interest is payable except for the loan to Syngene Limited which is payable at 5% p.a. The amounts are owed by the following companies (stated at the lower of cost and recoverable value):

	2003	2002
	$	$
Controlled Entities		
Precision Patchclamps (Int) Pty Ltd	**510,310**	510,310
Polychip Pharmaceuticals Pty Ltd (a)	**1,482,655**	607,347
Fibre Optics (Aust) Pty Ltd (b)	**17,947,934**	18,691,997
	19,940,899	19,809,654
Associated Entity		
Syngene Ltd	**544,987**	544,987

(a) 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 via a share placement by Antisense Therapeutics Limited in December 2002 (refer to Note 4(b)(iii)).

(b) The amount lent to Fibre Optics (Aust) Pty Ltd was used to fund the further acquisition of Amrad Corporation Limited shares.

(iii) A loan from controlled entity Circadian Pharmaceuticals (Aust) Pty Ltd (a 100% owned subsidiary) totalling $3,145,577 (2002: $3,154,014) is unsecured and has no fixed terms of repayment of principal (although repayment is not expected within the next year). No interest is payable.

(iv) During the year Professor Ray Martin, a director of Circadian Technologies Limited (retired on 19 September 2002), received $15,833 as remuneration from Optiscan Pty Ltd (2002: $30,000). Professor Ray Martin retired as a director of Optiscan Pty Ltd on 13 November 2002.

(v) During the year, secretarial fees totalling $17,500 (2002: $17,500) were paid by Traders Macquarie Pty Ltd to Circadian. Mr 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.

(d) Unrelated Listed Entity Transactions

(i) Metabolic Pharmaceuticals Limited, a company in which Polychip Pharmaceuticals Pty Ltd (a 100% owned subsidiary) has a 31.7% shareholding, rented premises from Castlegreen Pty Ltd during the year, a company in which Mr Leon Serry, Polychip's Managing Director, is a director and major shareholder. The total amount of rent, rates and taxes paid during the year was $41,770 (2002: $40,466) and was based on commercial rental rates.

(ii) Antisense Therapeutics Limited, a company in which Polychip Pharmaceuticals Pty Ltd (a 100% owned subsidiary) has a 23.5% shareholding, rented premises from Castlegreen Pty Ltd during the year, a company in which Mr Leon Serry, Polychip's Managing Director, is a director and major shareholder. The total amount of rent, rates and taxes paid during the year was $41,247 (2002: $20,258 for the period 1 February 2002 to 30 June 2002) and was based on commercial rental rates.

	Consolidated		Parent	
	2003	2002	2003	2002
	$	$	$	$
Note 20. Remuneration of Auditors				
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 entity	**28,975**	18,900	**28,975**	18,900
- other services in relation to the entity and any other entity in the consolidated entity:				
- tax compliance	**7,000**	3,500	**7,000**	3,500
- assurance related	**9,500**	6,100	**6,500**	6,100
	45,475	28,500	**42,475**	28,500
Amounts received or due and receivable by auditors other than Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	–	9,350	–	9,350
- other services in relation to the entity and any other entity in the consolidated entity:				
- tax compliance	–	7,000	–	7,000
- assurance related	–	2,195	–	2,195
	45,475	47,045	**42,475**	47,045

Note 21. Commitments

(a) Operating office lease expenditure contracted for is payable as follows:				
Not later than one year	**75,576**	68,550	**75,576**	68,550
Later than one year, but not later than five years	**71,849**	143,826	**71,849**	143,826
	147,425	212,376	**147,425**	212,376

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

(b) Expenditure commitments relating to research projects are payable as follows:				
Not later than one year	**165,642**	147,947	–	–
Later than one year, but not later than five years	**183,750**	–	–	–
	349,392	147,947	–	–

Note 22. 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 23. Fair Value of Financial Instruments

The carrying amounts of investments (current), receivables (non-current) and accrued expenses approximate their fair values.

Note 24. Associated Entities

(a) Details of material interests in associated entities are as follows:

	Ownership Interest %		Carrying Amount $	
	2003	2002	2003	2002
Name and Principal Activities				
Syngene Limited – Gene Diagnostics	**42.38**	42.38	**447,216**	461,655
CancerProbe Pty Ltd – Cancer Diagnostics/Therapeutics	**30.00**	30.00	**69,692**	83,907
			516,908	545,562

(b) Share of Associates' Results

	2003 $	2002 $
Loss from ordinary activities before tax	**(28,654)**	(425,734)
Income tax expense	**–**	–
Share of loss of associate	**(28,654)**	(425,734)

(c) Aggregate Carrying Amount of Associates

2003

	Accumulated Losses $	Cost $	Reserves $	Total Carrying Amount $
Balance at the beginning of the year	**(656,328)**	**545,000**	**656,890**	**545,562**
Movements during the year:				
Share of net result	**(28,654)**	**–**	**–**	**(28,654)**
Balance at the end of the year	**(684,982)**	**545,000**	**656,890**	**516,908**

2002

	Accumulated Losses $	Cost $	Reserves $	Total Carrying Amount $
Balance at the beginning of the year	(448,660)	545,000	656,890	753,230
Movements during the year:				
Share of net result	(425,734)	–	–	(425,734)
Share of historical accumulated losses	(196,870)	–	–	(196,870)
Investments acquired	–	500,001	–	500,001
Antisense Therapeutics – Investment no longer equity accounted (i), (Note 4(b))	414,936	(500,001)	–	(85,065)
Balance at the end of the year	(656,328)	545,000	656,890	545,562

(i) On 1 July 2001, the Company's interest in Antisense Therapeutics Limited ('ATL') was diluted from 50.001% to 50% as a result of a share issue to Syngene Limited. Consequently, the Company ceased to control ATL as defined by Australian Accounting Standard AASB 1024, however it still retained significant influence over the operations of ATL. This significant influence over ATL ceased on 20 December 2001 with the further dilution by the public issue of shares when ATL was listed on the ASX. Accordingly, the residual investment amount of $85,065 has been reclassified to "Other Financial Assets – Shares in Listed Companies" (see Note 4(b)). The impact on the Company's financial performance in 2002 as a result of these events is as follows:

Note 24. Associated Entities (continued)

- A gain on loss of control of a subsidiary of $341,279 was recognised in accordance with the requirements of accounting standard AASB 1024 in the Statement of Financial Performance.

- Under the equity accounting method, the carrying value of the Company's investment in ATL has been adjusted as follows:
  - the share of losses of ATL since the dilution of ownership on 1 July 2001 to 19 December 2001 amounting to $218,066 has been recognised in the Statement of Financial Performance; and
  - the share of accumulated losses of ATL, had the investment been an associate since acquisition date (being the period 13 November 2000 to 30 June 2001), amounting to $196,870, has been recognised in the Statement of Financial Performance.

The amounts impacting the Statement of Financial Performance in 2002 as described above have been included in the following profit and loss captions:

Net gain on loss of subsidiary ($341,279-$196,870)	$144,409
Share of net loss of associate	($218,066)

(d) Financial Summary of Material Associates

	Syngene Ltd		CancerProbe Pty Ltd	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
Total assets	**783,086**	835,593	**242,534**	279,690
Total liabilities	**571,260**	589,697	**10,226**	-
Net loss	**(34,071)**	(416,355)	**(47,382)**	(104,056)

(e) Expenditure Commitments of Associates

Syngene Limited had expenditure commitments outstanding in relation to joint venture research projects as at 30 June 2003. Circadian's share of these commitments is payable as follows:

	2003	**2002**
	$	**$**
Not later than one year	**14,875**	60,096
Later than one year, and not later than five years	**-**	15,024
	14,875	75,120

CancerProbe Pty Ltd does not have any outstanding expenditure commitments at balance date.

Note 25. Subsequent Event

Subsequent to year end, the share price of a material investment in Amrad Corporation Limited increased to 65 cents. The market value at year end was $16,958,749 and the market value at the date of this report is $18,371,979. The increase in market value of the consolidated entity's investment in Amrad Corporation Limited since year end of $1,413,230 is not reflected in the financial report.

ERNST & YOUNG

Independent audit report to members of Circadian Technologies Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Circadian Technologies Limited and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during the 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 that complies with Accounting Standards, 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 on it 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, Accounting Standards 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 its performance as represented by the results of its 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 judgment 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 have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our statutory audit work, 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.

ERNST & YOUNG

Audit opinion

In our opinion, 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 2003 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 professional reporting requirements in Australia.

Ernst & Young

Ernst & Young

Denis Thorn

Denis Thorn
Partner
Melbourne
31 July 2003

Other Information

SHAREHOLDINGS

The distribution of members and their holdings as at 29 July 2003 as per the Register of Members was as follows:

	Fully Paid Ordinary Shares	
Category	No. of Holders	No. of Shares
1 - 1,000	2,305	1,615,223
1,001 - 5,000	2,964	7,787,747
5,001 - 10,000	563	4,467,180
10,001 - 100,000	330	9,058,942
100,001 - and over	38	17,404,445
	6,200	40,333,537

The number of shareholders with less than a marketable parcel was 258 representing 44,269 ordinary shares.

The twenty largest shareholders as per the Register of Members on 29 July 2003 were as follows:

	No. of Shares	% Interest
Cogent Nominees Pty Ltd <Packer & Co Investigator Trust>	4,786,875	11.87%
Capital Macquarie Pty Ltd	2,265,260	5.62%
JFF Steven Pty Ltd	965,867	2.39%
Jagen Pty Ltd	819,322	2.03%
Traders Macquarie Pty Ltd	647,972	1.61%
Invia Custodian Pty Ltd <Black A/C>	600,000	1.49%
Mr Ian Davis	578,667	1.43%
Audivac Pty Ltd	543,400	1.35%
Sir Peter Derham	500,001	1.24%
Sked Pty Ltd <Superannuation Fund A/C>	412,000	1.02%
Peters Investments Pty Ltd	400,000	0.99%
Mr Leon Serry	362,668	0.90%
Mr Eric Lucas	324,036	0.80%
ANZ Nominees Limited	291,526	0.72%
Dr Alan Finkel	285,000	0.71%
Dr John Stocker	282,334	0.70%
Permanent Trustee Australia Limited <SAM0002 A/C>	276,777	0.69%
Guardian Trust Australia Limited <TSSF A/C>	263,111	0.65%
Westpac Custodian Nominees Limited	246,274	0.61%
Professor Raymond Martin	245,001	0.61%
	15,096,091	37.43%

VOTING RIGHTS

Articles 42 to 51 (incl.) of the Company's Articles of Association stipulate the voting rights of members. In summary, but without prejudice to the provisions of the Articles, every member present in person or by representative, proxy or attorney shall have one vote on a show of hands and on a poll have one vote for each share held by him/her. The Company's shares are quoted on Australian Stock Exchange Limited.

DIRECTORS' INTEREST IN SHARES

As at 29 July 2003 the interest of each Director of the Company in the issued share capital and options of the Company was as follows:

	Shares held directly	Shares held by companies in which Directors have a beneficial interest	Directors' options
Sir Peter Derham	500,001	-	-
Mr Leon Serry	362,668	3,325,232	1,025,000
Mr Graeme Kaufman	23,000	-	210,000
Mr Ian Davis	54,001	524,666	-
Dr John Stocker	282,334	-	-
Mr James MacKenzie	-	-	-

SUBSTANTIAL SHAREHOLDERS

As at 29 July 2003 the substantial shareholders of the Company were:

	No. of Shares
Mr Leon Serry	
- Capital Macquarie Pty Ltd	2,265,260
- Traders Macquarie Pty Ltd	647,972
- Sked Pty Ltd <Superannuation Fund A/C>	412,000
- L. Serry	362,668
	3,687,900
Cogent Nominees Pty Ltd <Packer & Co Investigator Trust>	4,786,875