

28 August 2006

**PRELIMINARY FINAL REPORT (APPENDIX 4E) (AUDITED)
FINANCIAL YEAR ENDED 30 JUNE 2006**

No. of Pages: 103

In accordance with Listing Rule 4.3A, we enclose the Preliminary Final Report (Appendix 4E) (audited) on the consolidated results of Circadian Technologies Limited ('Circadian' or 'Group') for the year ended 30 June 2006.

Key Financials

- The consolidated loss of the Group for the year was \$6,472,467 after an income tax expense of \$340,093 (2005: profit of \$21,729,492 after an income tax benefit of \$17,548).
- The net tangible asset backing per share as at 30 June 2006 was \$1.41.
- Cash reserves as at 30 June 2006 amounted to \$14,607,460.
- The current year's results reflect an equity accounted loss in Antisense Therapeutics Limited of \$1.5 million, an increase in research and development and patent costs of approximately \$638,000, an impairment loss on a loan to associate Syngene Limited of \$544,000 (reflecting research and development expenses) and costs of approximately \$538,000 (including due diligence costs) relating to forming a research collaboration with the Ludwig Institute for Cancer Research based in New York and Licentia Limited, a commercial arm of the University of Helsinki. Further details regarding this collaboration and the Group's other research and development projects are provided below and in the Review of Operations Report included in the Preliminary Final Report attached.
- The combined market value of Circadian's shareholdings in listed investments as at 30 June 2006 was \$42,734,606 (2005: \$48,819,559). An unrealised gain after tax of \$18,053,984 has been recognised in the unrealised gains reserve account during the year. This reflects the increase in the respective share prices of holdings in Zenyth Therapeutics Limited and Avexa Limited during the current financial year and the difference between the cost of Circadian's other listed holdings (except for investment in associate) and their respective market values at year end. Subsequent to year end the market value of listed investments increased by \$14,698,986 to \$57,433,592 which is not reflected in the 30 June 2006 financial statements.
- On 17 July 2006, CSL Limited (Australia's largest biopharmaceutical company) and Zenyth announced a merger proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders.

The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited.

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

- All research and development costs have been expensed during the year.

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The results for the current year and the corresponding reporting period are pursuant to the Australian equivalents of International Financial Reporting Standards (AIFRS) as explained in Note 2 to the financial statements which are included in the Preliminary Final Report attached. As described in Note 2, effective 1 July 2005 the Group's holdings in non-current listed entities are recorded at their fair (market) values with movements in these values after tax reflected in the net unrealised gains reserve.

The Group's profit for the previous year of \$21,729,492 after an income tax benefit of \$17,548 included a gain on the disposal of the Group's interest in Axon Instruments Inc amounting to \$26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction and the subsequent realised gain of \$3,490,252 on the sale of shares in Molecular Devices received as part consideration for the sale of the Axon shares. This was offset by a total unrealised loss relating to holdings in Zenyth and Avexa Limited amounting to \$4,585,349. The share prices for each of these holdings has increased since last year end, however, as required by AIFRS, this unrealised gain before tax of \$3,013,390 is recognised in an equity reserve account in the current financial year.

Highlights

(to be read in conjunction with the Review of Operations Report contained in the Appendix 4E attached):

R&D Projects and Circadian's listings

The excerpts below, with respect to Circadian's listed holdings, are taken from each company's ASX announcements. To form a view on the operations and performance of these companies, their announcements should be read in full together with information available on their websites.

- *Vegenics Limited (Circadian's interest 50%)* - On 1 May 2006, Circadian announced a major cancer development collaboration with the New York based Ludwig Institute for Cancer Research and the University of Helsinki. A new company, Vegenics Limited, was formed to develop and commercialise the intellectual property and technology of Ludwig and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On 4 July 2006, Circadian made an initial equity injection of \$4 million into Vegenics, which is 50% owned by Circadian and 50% by Ludwig and Licentia. Vegenics will initially focus on developing peptide and antibody antagonists to two forms of VEGF (VEGF-C and VEGF-D) as anti-tumour agents.
- *Cancer vaccine project (Circadian's interest 50%)* – On 8 September 2005, Circadian announced a new cancer vaccine project based on research at Monash University and the University of Melbourne. The project is centred on the development of novel immunising agents with potential application in the development of vaccines against cancer. Circadian has committed \$1.2m in research funding over two years to demonstrate in laboratory models that the improved immune response will result in better treatment outcomes.
- *DiCarba Analogues Project (Circadian's interest 50%)* – In March 2006, Circadian completed an agreement with Monash University for a research project based on a novel technology for the development of stable peptides as therapeutic agents. The project builds on work carried out by a team at Monash University which has developed a method of replacing internal molecular linkages known as disulphide bonds with more stable carbon bonds, in a highly specific fashion. Circadian has committed \$250,000 in research funding over 12 months with an option to extend funding at the same level for a further 12 months.

- *Memory enhancement project (Circadian's interest 60%)* – This project is based around designing antagonists to specific receptors (known as GABA-C receptors) in the brain, with the potential for treating memory disorders. Recently, a similar compound being developed by another company has shown significant results in memory enhancement in Phase 2 human clinical trials. We have engaged the University of Sydney to produce additional quantities of our compounds for evaluation in laboratory models.
- *Metabolic Pharmaceuticals Limited (Circadian interest: 17%)* – On 10 May 2006 Metabolic advised that “the low dose, Phase 2B trial for Metabolic’s obesity drug, known as the OPTIONS Study, is proceeding ahead of schedule with full recruitment achieved in April 2006. 536 subjects were enrolled into the study, which is designed to confirm the drug’s efficacy at 1 mg and assess efficacy at lower doses than previously tested (0.5 mg and 0.25 mg). Metabolic expects to announce the results of this obesity trial in March 2007.”
(ASX: MBP; website: www.metabolic.com.au)
- *Antisense Therapeutics Limited (Circadian's direct and indirect interest: 27%)* – On 12 January 2006, Antisense Therapeutics reported that “the Ethics Committee of the University of Essen in Germany has approved the company’s application to restart the Phase IIa trial of its antisense compound, ATL1102, for patients with relapsing remitting multiple sclerosis. The University of Essen is the primary trial site for the Phase IIa clinical trial. The Company now has the requisite approval and regulatory documentation in place to restart the Phase IIa trial at this centre.”

On 21 June 2006, Antisense Therapeutics reported that “dosing has commenced in the Phase IIa clinical trial of ATL1102 in patients with relapsing remitting multiple sclerosis (MS). The study, a multi-centre, randomized, double-blinded, placebo-controlled clinical trial in approximately 80 patients with relapsing-remitting MS, is being conducted at 9 clinical trial sites across Germany. The trial will assess the activity and safety of the drug in MS patients.”
(ASX: ANP; website: www.antisense.com.au)
- *Optiscan Imaging Limited (Circadian interest: 6%)* – Optiscan announced on 6 March 2006 that “Pentax Corporation today announced the sales release of the Pentax ISC 1000 flexible endo-microscope. The ISC 1000 flexible endo-microscope is a major product initiative for Pentax. It provides doctors with previously unobtainable levels of magnification (1000x) and resolution (0.001mm) enabling them to observe cells and cellular structures in real time during an endoscopic examination.”

On 24 May 2006, Optiscan reported “The largest international congress for Gastroenterologists has featured presentations on a growing number of applications for the Optiscan/Pentax flexible endo-microscope. Doctors leading the Pentax international clinical trial program presented exciting data spanning 9 separate disease conditions, including four previously unreported. The four new uses for endo-microscopy reported at the congress were diagnosis of gastric intestinal metaplasia, ...diagnosis & monitoring of Celiac’s disease, ... non-erosive reflux disease ... [and] collagenous colitis. Investigators also presented additional data from ongoing studies with expanded patient populations for the previously established clinical uses. Presenting doctors have reported consistently high sensitivity, specificity and overall accuracy in all applications. In several of the studies, doctors found significantly more disease using endo-microscopes than by taking conventional biopsies.”
(ASX: OIL; website: www.optiscan.com)
- *Zenyth Therapeutics Limited (formerly Amrad Corporation Limited, Circadian interest: 23%)* – On 17 July 2006, CSL Limited (Australia’s largest biopharmaceutical company) and Zenyth announced a merger proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders.

The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited.
(ASX: ZTL; website: www.zenyth.com.au)

- *Avexa Limited (Circadian interest: 12%)* – On 8 February 2006, Avexa reported “progress with the ongoing AVX-201 Phase IIb trial and its intentions to ramp up preparations towards Phase III development. The AVX-201 Phase IIb trial is a blinded study of the efficacy of AVX754 in the treatment of drug-resistant HIV infection. Although the study is blinded as to the exact treatment an individual receives, no person enrolled into the trial to date has experienced any adverse effects attributed to the study treatment. No subjects have been withdrawn from the study, and the first subject has completed 6 months of dosing.”

On 24 July 2006 Avexa provided an update on the clinical progress of AVX754 (now named apricitabine) stating that “While there is inherent unpredictability to clinical trial timelines, the Company estimates that the Phase IIb trial will be completed by the end of the 4th quarter of 2006.”
(ASX: AVX; website: www.avexa.com.au)

For further details regarding Circadian's projects and technology holdings refer to the Operations report included in the Appendix 4E attached. For further information regarding the progress of Circadian's listed technology holdings, see their respective public announcements which can be found on their respective websites, as detailed above, and on www.asx.com.au.

Circadian's Holdings in Listed Companies and Cash

As at close of trading on 25 August 2006, the value of Circadian's listed holdings and net cash was as follows:

Holdings and Cash	Shareholding %	Portfolio Value	
		\$'000	\$ per Circadian share
Metabolic Pharmaceuticals Ltd	16.9	22,806	0.57
Optiscan Imaging Ltd	6.4	3,384	0.08
Antisense Therapeutics Ltd [¶]	22.1	2,933	0.07
Zenyth Therapeutics Ltd	22.6	23,460	0.58
Avexa Limited	12.1	5,381	0.13
Cash		9,680	0.24
Total		67,644	1.69

[¶] Including listed options and direct and indirect interests

The market value of the company's listed share portfolio as at 25 August 2006 and cash is \$67.6 million, equating to \$1.69 per Circadian share.

This letter and the attached Appendix 4E Preliminary Final Report form part of this announcement to the Australian Stock Exchange Limited.

Yours faithfully
Circadian Technologies Limited

Natalie Korchev
Company Secretary

APPENDIX 4E

Preliminary final report

Name of entity: **CIRCADIAN TECHNOLOGIES LIMITED**

ABN: **32 006 340 567**

Reporting period: **FINANCIAL YEAR ENDED 30 JUNE 2006**

Previous
corresponding period: **FINANCIAL YEAR ENDED 30 JUNE 2005**

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

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The consolidated results of Circadian Technologies Limited for the year ended 30 June 2006 are as follow:

Revenues and Results from Ordinary Activities:	Change compared to 2005 %	2006 \$
Revenues from ordinary activities		
	Down 96.3 to	1,166,948
Profit/(loss) from ordinary activities after tax attributable to members		(6,472,467)
Profit/(loss) for the year attributable to members		(6,472,467)
Note: The percentage changes for the profit (loss) comparative have not been provided as the company has moved from a profit position in the 2005 financial year to a loss position in the 2006 financial year.		
Brief explanation of figures reported above:		
<i>Revenues from ordinary activities – explanation of % change compared to 30/6/05:</i>		
The previous corresponding period includes a net gain on sale of investments of \$29,942,876 which comprises the realised gain on the sale of shares in Axon Instruments Inc (\$26,452,624), and the realised gain on the subsequent sale of shares in Molecular Devices Corporation received as part consideration for the sale of the Axon shares (\$3,490,252). Also see “ <i>Net profit/ (loss) for the year</i> ” below for further details.		

Net profit/(loss) for the year:

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

The current year result reflects the equity accounting of the results of Antisense Therapeutics as it was determined effective from 1 January 2006 that the consolidated entity's holding in this company met the definition of an associate in accordance with accounting standards. The equity accounted loss reflected in the consolidated entity's results amounts to \$1,529,102. The current year results also reflect the increased activity in research and development with an increase in research and development costs of \$380,293, an increase in patent fees of \$257,419 and the costs incurred of \$538,689 (including due diligence costs) in forming a research collaboration with the Ludwig Institute for Cancer Research (LICR), based in New York, and Licentia Limited (Licentia), a commercial arm of the University of Helsinki. During the year a write-down of \$544,000 in a loan to another associate (reflecting research and development expenses) has also been recognised and in accordance with the requirements of AIFRS the expensing of share based payments of \$152,260. The Review of Operations Report contains further details regarding the consolidated entity's research and development activities and the formation of Vegenics Limited for the collaboration with LICR and Licentia.

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

The consolidated profit for the 2005 financial year included the gain on the disposal of the Group's interest in Axon Instruments Inc ("Axon") amounting to \$26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction and the realised gain of \$3,490,252 on the subsequent sale of shares in Molecular Devices received as part consideration for the sale of the Axon shares. The consideration received by Circadian was partly paid in cash (approximately 50%) and partly paid by the issue of Molecular Devices shares (approximately 50%). The Group during the prior year also sold its interest in Molecular Devices resulting in a further gain of \$3,490,252. These gains were offset by a foreign exchange loss of \$1.1 million due to the strengthening of the Australian dollar against the US dollar during the prior year. Last year's result also reflects a decrease of \$868,434 in the value of an investment in listed options. During the 2006 financial year there were no disposals of non-current listed holdings.

For further details relating to the current period's results, refer to the section headed "Commentary on Results" in this report.

Shareholder Distributions

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

In the previous corresponding period, Circadian provided its shareholders with a total of 65 cents per share return comprising of:

- a capital return of 38 cents per share (paid in October 2004)
- an unfranked special dividend of 12 cents per share (paid in October 2004)
- an unfranked special dividend of 15 cents per share (paid in February 2005)

The total distribution to shareholders in the previous corresponding period amounted to \$26.1 million.

COMMENTARY ON RESULTS

As communicated in the cover letter to this Appendix 4E:

Key Financials

- The consolidated loss of the Group for the year was \$6,472,467 after an income tax expense of \$340,093 (2005: profit of \$21,729,492 after an income tax benefit of \$17,548).
- The net tangible asset backing per share as at 30 June 2006 was \$1.41.
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Subject to the proposed Share Scheme being effected, Circadian would receive on the sale of its investment in Zenyth cash proceeds of approximately \$23.2 million and Avexa shares worth \$1.1 million (assuming that the share price of Avexa on the day of settlement is 22.5 cents – this is the closing bid price on 25 August 2006). Based on the original cost of the investment, this would give rise to a profit before tax of approximately \$7.4 million. Based on the carrying value of the Zenyth investment at 30 June 2006, the profit before tax would be approximately \$11 million.

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(ASX: AVX; website: www.avexa.com.au)

For further details regarding Circadian's projects and technology holdings refer to the Review of Operations report which follows.

REVIEW OF OPERATIONS REPORT

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

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

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

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

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

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

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

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

PROJECTS AND TECHNOLOGY HOLDINGS

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

LISTED TECHNOLOGY HOLDINGS

Key Highlights:

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

Metabolic Pharmaceuticals Limited - Advanced Obesity Drug & Other New Drug Development Projects

Circadian Holding 30 June 2006 - Market Value: \$18.5 million; Original cost: \$10K

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

Company Background

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

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

AOD9604 Obesity Drug

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

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

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

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

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

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

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

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

Update

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

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

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

Pain Drug ACV1

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

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

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

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

Update

On 16 November 2005, Metabolic announced “successful results of the Phase 1 single and multiple dose human clinical trial of its innovative pain drug, ACV1, which will move into Phase 2a human trials in 2006 in patients suffering from neuropathic pain. This Phase 1 study was the first time ACV1 has been administered to humans. The aim, when delivered by subcutaneous injection to healthy male volunteers, was to assess: safety and tolerability (which was the primary endpoint); pharmacokinetics of the drug (the appearance and disappearance of the drug in the body, particularly in the blood); and pharmacodynamics of the drug (the physiological effects of the drug in the body).”

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

Other Projects

Metabolic is conducting preclinical research in several other disease areas, including the potential use of AOD9064 in treatment of osteoporosis and the use of Neural Regeneration Peptide (NRP) to prevent or reverse nerve damage.

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

Antisense Therapeutics Limited - Gene Directed Therapeutics

Circadian Holding 30 June 2006 – Market Value: \$3.3 million; Original cost: \$2.8 million

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

Company Background

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

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

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

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

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

Multiple Sclerosis (ATL1102)

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

“Multiple Sclerosis (MS) is a life-long, chronic disease that progressively destroys the central nervous system (CNS). It affects approximately 400,000 people in North America and the current market for MS drugs is

estimated at more than US\$4 billion. It is a disease that affects more women than men, with onset typically occurring between 20 and 40 years of age. worldwide MS may affect more than one million people.”

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

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

Update

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

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

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

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

Other Research Projects

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

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

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

Optiscan Imaging Limited - Early Cancer Detection

Circadian Holding 30 June 2006 - Market Value: \$2.9 million; Book Value: \$366K

Shareholders: *Circadian: 6.4%; Others: 93.6%*

Company Background

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

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

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

Flexible 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)

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

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

Update

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

On 24 May 2006, Optiscan reported "The largest international congress for Gastroenterologists has featured presentations on a growing number of applications for the Optiscan/Pentax flexible endo-microscope. Doctors leading the Pentax international clinical trial program presented exciting data spanning 9 separate disease conditions, including four previously unreported. The four new uses for endo-microscopy reported at the congress were diagnosis of gastric intestinal metaplasia, ...diagnosis & monitoring of Celiac's disease, ... non-erosive reflux disease ... [and] collagenous colitis. Investigators also presented additional data from ongoing studies with expanded patient populations for the previously established clinical uses. Presenting doctors have reported consistently high sensitivity, specificity and overall accuracy in all applications. In several of the studies, doctors found significantly more disease using endomicroscopes than by taking conventional biopsies."

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*)

"Over the last year or so doctors and researchers who have used our prototype rigid instruments if a pre-clinical research studies have consistently asked us if an endo-microscope instrument is available for commercial purchase. After careful analysis we have decided to develop and supply such an instrument. It will be called the Optiscan FIVE 1. In essence, the instrument will be a repackaging of the miniaturised scanner supplied to Pentax into a small rigid endoscope style probe. Other technical variations to the instrument will be extremely modest and hence low cost and quick to achieve." (*AGM 8 November 2005, Managing Director's address*)

Update

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

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

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

Zenyth Therapeutics Limited (formerly Amrad Corporation Limited)

Circadian Holding 30 June 2006 - Market Value: \$13.3 million; Original cost: \$16.8 million

Shareholders: *Circadian: 22.6%; Others: 77.4%*

Company Background

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

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

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

Merger Proposal

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

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

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

Update

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

On 17 August 2005, Zenyth announced that "its partner Merck & Co., Inc has selected an optimized lead therapeutic antibody for full preclinical development as a potential new treatment for asthma and other types of respiratory disease. The antibody targets a subunit of IL-13 receptor over which Amrad holds patents, including a recently granted US patent. Amrad partnered its IL-13 receptor antibody project with Merck in June 2003 in a deal potentially worth US\$112 million, plus royalties on product sales. The project continues to make excellent progress with Amrad already receiving payments totalling US\$14 million."

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

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

Avexa Limited

Circadian Holding 30 June 2006 - Market Value: \$5.4 million; Original Cost: \$8.3 million

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

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

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

Update

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

On 8 February 2006, Avexa reported "progress with the ongoing AVX-201 Phase IIb trial and its intentions to ramp up preparations towards Phase III development. The AVX-201 Phase IIb trial is a blinded study of

the efficacy of AVX754 in the treatment of drug-resistant HIV infection. Although the study is blinded as to the exact treatment an individual receives, no person enrolled into the trial to date has experienced any adverse effects attributed to the study treatment. No subjects have been withdrawn from the study, and the first subject has completed 6 months of dosing.”

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

NEUROSCIENCE RESEARCH PORTFOLIO

Alzheimer’s Disease Project

Project Owner: Circadian: 100%

Project Background

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

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

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

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

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

Update

A number of compounds have been synthesized and tested in the assay system for measuring uptake of compounds into the brain. Further work is being undertaken to establish the feasibility of the uptake of antisense oligonucleotides into the brain.

Additional work is being conducted on alternative methods of delivery into the brain.

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

Analgesic Project - Non-Sedating Analgesics

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

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

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

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

An international patent application was lodged in early 1999, and entered into national phase in the 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. A patent has been granted in Australia.

Update

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

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

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

Memory Enhancement Project

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

In March 2002, Circadian entered into a collaboration agreement with the University of Sydney to fund further work on the memory enhancement project based around designing antagonists to specific receptors (known as GABA-C receptors) in the brain, where a family of compounds with potential for enhancing memory function has already been identified. This work was based on previous research funded by Circadian and a joint provisional patent covering this work was lodged on 30 November 2001.

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

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

Update

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

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

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

Neurodegenerative Diseases Project

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

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

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

Update

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

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

Paracetamol Project

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

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

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

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

Update

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

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

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

CANCER RESEARCH PORTFOLIO

Cancer Vaccines Project

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

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

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

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

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

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

Update

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

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

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

Cancers of Unknown Primaries Project

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

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

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

Update

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

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

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

CancerProbe Pty Ltd - Cancer Diagnostics/Therapeutics

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

Background

On 8 December 2000, Fibre Optics (Aust) Pty Ltd, a wholly owned subsidiary of Circadian, together with the inventing scientists incorporated CancerProbe Pty Ltd ("CancerProbe") with Fibre Optics providing \$400,000 for

research funding in exchange for a 40% shareholding. In June 2005, Fibre Optics subscribed an additional \$300,000, bringing its shareholding to 60%.

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

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

Update

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

OTHER RESEARCH

Dicarba Analogues Project

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

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

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

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

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

Update

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

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

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

Syngene Limited - Gene Diagnostics

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

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

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

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

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

Update

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

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

INHERENT RISKS OF INVESTMENT IN BIOTECHNOLOGY COMPANIES

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

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

Consideration should be given to these and other risks concerning the Company's research and development program referred to in this annual report for the period ended 30 June 2006.

**CIRCADIAN TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES**

ABN 32 006 340 567

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

Independent audit report to members of Circadian Technologies Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Circadian Technologies Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report..

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

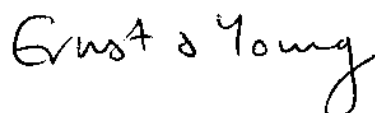
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Circadian Technologies Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Circadian Technologies Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Denis Thorn
Partner
Melbourne
25 August 2006

BALANCE SHEET**AS AT 30 JUNE 2006**

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

INCOME STATEMENT**FOR THE YEAR ENDED 30 JUNE 2006**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

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

CASH FLOW STATEMENT**FOR THE YEAR ENDED 30 JUNE 2006**

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. CORPORATE INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Preparation**

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

(b) Statement of compliance

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

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 30.

Australian Accounting Standards/UITG/Exposure Drafts that have recently been issued but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Statement of compliance (continued)**

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Statement of compliance (continued)**

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

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

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

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

(c) Basis of consolidation

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

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

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Significant accounting judgements, estimates and assumptions***(i) Significant accounting judgements*

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

Deferred Tax Asset

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

(ii) Significant accounting estimates and assumptions

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

Impairment of goodwill with an indefinite useful life.

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

Share-based payment transactions

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

(e) Revenue recognition

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

(i) Interest income

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

(ii) Dividends

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

(f) Government grants

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

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

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Leases**

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

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

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

(i) Cash and cash equivalents

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

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

(j) Current receivables

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

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

(k) Impairment of financial assets

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

Accounting policies applicable for the year ending 30 June 2006

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

(i) Available-for-sale investments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Impairment of financial assets (continued)***(ii) Financial assets carried at amortised cost*

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

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

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

Accounting policies applicable for the year ending 30 June 2005

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

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

(l) Investments in associates

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Investments in associates (continued)**

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

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

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

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

(m) Interest in a jointly controlled operation

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

(n) Income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Income tax (continued)**

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

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

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

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

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

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

(o) Other taxes

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(p) Plant and equipment**

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

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

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

(i) Impairment

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

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

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

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

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

(ii) Derecognition and disposal

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

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

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

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

Accounting policies applicable for the year ending 30 June 2006

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(q) Investments and other financial assets (except listed options) (continued)**

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

(i) Available-for sale investments

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

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

(ii) Loans and receivables

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

Accounting policies applicable for the year ending 30 June 2005

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

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

(r) Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(s) Listed options**

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

Accounting policy applicable for the year ending 30 June 2006

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

Accounting policy applicable for the year ending 30 June 2005

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

(t) Goodwill

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

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

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

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

Impairment losses recognised for the goodwill are not subsequently reversed.

(u) Research and development costs

Research costs are expensed as incurred.

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

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

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

(v) Payables

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(v) Payables (continued)*****Accounting policies applicable for the year ending 30 June 2006***

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

Accounting policies applicable for the year ending 30 June 2005

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

(w) Interest-bearing loans and borrowings

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

Accounting policies applicable for the year ending 30 June 2006

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

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

Accounting policies applicable for the year ending 30 June 2005

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

(x) Employees benefits***(i) Wages, salaries, annual leave and sick leave***

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

(ii) Long service leave

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(y) Share-based payment transactions***Equity settled transactions:*

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

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

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

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

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

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

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

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

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

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

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

(z) Contributed equity

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

(aa) Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(aa) Earnings per share (continued)**

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

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

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

3. SEGMENT INFORMATION

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****4. REVENUES AND EXPENSES (continued)****(a) Revenue (continued)**

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

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

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Other income				
Reversal of impairment of receivable from controlled entity	-	-	1,340,664	-
Distributions from controlled entities (note 5)	-	-	225,127	2,263,408
Gain on discount of loans from controlled entities	-	-	254,773	-
	<u>-</u>	<u>-</u>	<u>1,820,564</u>	<u>2,263,408</u>

(c) Impairment losses

- Zenyth Therapeutics Ltd (formerly Amrad Corporation Ltd) and Avexa Ltd (i)	-	(4,585,349)	-	-
- Listed options	(179,329)	(868,434)	-	-
- Other listed financial asset	(4,853)	(20,800)	-	-
- Loan to associate (note 13)	<u>(544,987)</u>	<u>-</u>	<u>(544,987)</u>	<u>-</u>
	<u>(729,169)</u>	<u>(5,474,583)</u>	<u>(544,987)</u>	<u>-</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
4. REVENUES AND EXPENSES (continued)				
(d) Finance costs				
Bill facility: (i)				
- Bank charges	(8,361)	(38,750)	(8,361)	(38,750)
- Interest expense	(88,490)	(196,593)	(88,490)	(196,593)
	<u>(96,851)</u>	<u>(235,343)</u>	<u>(96,851)</u>	<u>(235,343)</u>
Interest expense - subsidiaries	-	-	(254,773)	-
	<u>(96,851)</u>	<u>(235,343)</u>	<u>(351,624)</u>	<u>(235,343)</u>
(i) Finance costs relate to a bill facility of \$5,000,000 secured from the Commonwealth Bank of Australia in October 2004 for a term of twelve months. The bill facility was repaid at the end of the twelve month term in October 2005 (refer to note 18).				
(e) Other expenses				
Formation of research collaboration (i)	<u>(538,689)</u>	<u>-</u>	<u>(538,689)</u>	<u>-</u>
(i) Circadian announced on 1 May 2006 that it had formed a collaboration with the Ludwig Institute for Cancer Research (LICR) and Licentia Ltd, a commercial arm of the University of Helsinki. The collaboration is to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). Licence and Shareholder Agreements became effective on completion of the conditions precedent. The last conditions precedent was the completion of patent and legal due diligence to the satisfaction of the Circadian board which occurred on 29 June 2006. A significant portion of the costs incurred relate to due diligence work performed including legal fees, patent attorney fees in respect to the review of the patents (comprising a family of 50 granted patents in the US, Europe, Japan and Australia and over 400 pending patent applications worldwide). Also see notes 24 and 27.				
(f) Lease payments and other expenses included in the Income Statement				
Included in occupancy expenses:				
- Operating lease rentals	87,504	76,078	87,504	76,078
Included in administrative expenses:				
- Depreciation of:				
Equipment and furniture	12,491	11,966	12,491	11,966
Leasehold improvements	<u>1,198</u>	<u>9,194</u>	<u>1,198</u>	<u>9,194</u>
	<u>13,689</u>	<u>21,160</u>	<u>13,689</u>	<u>21,160</u>
- Employee benefits expense:				
Salaries and fees	1,593,324	1,267,054	1,593,324	1,267,054
Workers' compensation costs	5,440	4,579	5,440	4,579
Superannuation	150,806	116,021	150,806	116,021
Annual leave expense	130,284	100,517	130,284	100,517
Long service leave provision	41,051	21,448	41,051	21,448
Share-based payments expense (note 21)	<u>152,260</u>	<u>108,754</u>	<u>152,260</u>	<u>108,754</u>
	<u>2,073,165</u>	<u>1,618,373</u>	<u>2,073,165</u>	<u>1,618,373</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
5. INCOME TAX				
The major components of income tax expense are:				
Income Statement				
Deferred income tax relating to origination and reversal of temporary differences	345,922	(21,212)	843,012	(1,506,985)
Income (tax benefit received)/taxes paid	(5,829)	3,664	-	-
Income tax expense/(benefit) reported in the income statement	<u>340,093</u>	<u>(17,548)</u>	<u>843,012</u>	<u>(1,506,985)</u>
Statement of Changes in Equity				
<i>Deferred income tax related to items charged or credited directly to equity</i>				
Net unrealised gain on listed investments	6,962,146	-	-	-
Tax benefit on loss of new share issue by associate (note 20(c))	(18,344)	-	-	-
Derecognition of tax liability for associated entity (note 20(c))	(358,457)	-	-	-
Income tax expense reported in equity	<u>6,585,345</u>	<u>-</u>	<u>-</u>	<u>-</u>
A reconciliation between tax expense/(benefit) and the product of accounting profit/(loss) before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit/(loss) before tax	<u>(6,175,308)</u>	<u>21,706,429</u>	<u>3,925,398</u>	<u>25,181,354</u>
At the Group's statutory income tax rate of 30% (2005: 30%)	(1,852,592)	6,511,929	1,177,619	7,554,406
Adjustments in respect of tax losses of previous years	(66,139)	(93,770)	(61,120)	(26,777)
Unrecognised unrealised & realised tax assets	2,088,305	-	163,496	-
Recognition of realised capital gains tax loss	-	(2,598,489)	-	-
(Increase)/decrease in deferred tax assets due to temporary differences	(626,002)	3,511,581	1,189,895	(1,227,839)
Decrease in deferred tax liabilities due to temporary differences	(175,364)	-	(35,685)	-
Expenditure not allowable for income tax purposes	986,755	1,406,779	764,212	1,272,248
Income not assessable for income tax purposes	-	-	(2,355,405)	(9,079,023)
Research and development additional deductions allowable	(70,125)	(39,485)	-	-
Fair value adjustment on investment in listed options and other listed investment	55,255	266,770	-	-
Non-assessable gains on disposal of investments (a)	-	(8,982,863)	-	-
Income tax expense/(benefit) reported in the income statement	<u>340,093</u>	<u>(17,548)</u>	<u>843,012</u>	<u>(1,506,985)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****5. INCOME TAX (continued)**

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****5. INCOME TAX (continued)**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****5. INCOME TAX (continued)**

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

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

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****6. EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing net profit/loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****7. DIVIDENDS PAID (continued)**

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

- a capital return of 38 cents per share
- an unfranked special dividend of 12 cents per share

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

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

Franking credit balance

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

8. CASH AND CASH EQUIVALENTS**(a) Reconciliation of Cash Flow Statement**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2006

8. CASH AND CASH EQUIVALENTS (continued)

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Reconciliation of net profit/(loss) after tax to net cash flows from operations				
Net profit/(loss)	(6,515,401)	21,723,977	3,082,386	26,688,339
<i>Adjustments for:</i>				
Depreciation	13,689	21,160	13,689	21,160
Employee benefits expense	152,260	108,754	152,260	108,754
Impairment of goodwill	76,947	-	-	-
Profit on sale of investments	-	(29,942,876)	-	-
Share of associates' net (profits) and losses (note 13(c))	1,655,088	(76,858)	-	-
Net exchange differences	6,629	1,092,653	5,355	-
Interest income from subsidiaries	-	-	(1,430,789)	-
Distributions from subsidiaries	-	-	(225,127)	(2,263,408)
Reversal of write-down of receivable from subsidiary	-	-	(1,340,664)	-
Gain on discount of loans from subsidiaries	-	-	(254,773)	-
Write-down of receivables from subsidiaries	-	-	883,172	4,118,097
Interest expense on loans from subsidiaries	-	-	254,773	-
Increase in provision for diminution of investments in Zenyth Therapeutics Ltd and Avexa Ltd to reflect year end market value	-	4,585,349	-	-
Fair value adjustment of options to reflect year end market value	179,329	868,434	-	-
Write-down of other investment to reflect year end market value	4,853	20,800	-	-
Write-down of loan to associate	544,987	-	544,987	-
<i>Changes in assets and liabilities:</i>				
(Increase)/decrease in prepayments	(204,813)	60,969	16,273	69,224
(Increase)/decrease in interest receivable	118,950	(82,090)	118,478	(82,475)
(Increase)/decrease in other receivables	6,154	(17,390)	(20,935)	(6,284)
(Decrease)/increase in payables	670,623	(7,134)	420,040	(8,788)
(Decrease)/increase in employee provisions	56,671	29,096	56,671	29,096
(Increase)/decrease in deferred tax assets	445,994	(21,213)	878,697	(1,506,985)
(Decrease)/increase in deferred tax liabilities	(100,072)	-	(35,685)	-
Net operating cash flows from/(used in) operating activities	(2,888,112)	(1,636,369)	3,118,808	27,166,730

Disclosure of financing facilities

Refer to note 18.

Disclosure of investing activities

Refer to note 12 and note 26.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****8. CASH AND CASH EQUIVALENTS (continued)****(c) Acquisition of Controlled Entity**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

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

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

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

11. ASSET CLASSIFIED AS HELD FOR SALE (CURRENT)

Investment at fair value:

- Listed shares (note 12(a))	<u>13,284,354</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Prior to 30 June 2006, the directors of Circadian intended to dispose of the Group's holding in the ordinary shares of Zenyth Therapeutics Limited ('Zenyth'). On 17 July 2006, Zenyth and CSL Limited ('CSL') "announced a proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders ('Share Scheme'). The consideration to be offered by CSL to Zenyth shareholders will comprise 82 cents cash per Zenyth share and, subject to shareholder approval, a pro-rata capital return to Zenyth shareholders of all Zenyth's shareholding in Avexa Limited ('Avexa') ('Special Distribution'). If the Special Distribution is approved by Zenyth shareholders, and if the Share Scheme becomes effective, Zenyth shareholders will also receive approximately one Avexa share for every six Zenyth shares they hold at the record date. This represents additional value of four cents per Zenyth share, as at the date of this announcement."

As advised in Zenyth's 17 July 2006 announcement, "The Share Scheme will require the approval of Zenyth's shareholders and the approval of the Supreme Court of Victoria." "Zenyth will also seek shareholder approval to undertake the Special Distribution. This approval will be sought at a general meeting to be held on the same day as the meeting to consider and vote on the Share Scheme." "The meetings to approve the Share Scheme, Option Scheme and the Special Distribution are expected to be held in early to mid October 2006." Also see note 27. In the absence of a more attractive/superior offer being made by another party, Circadian intends to vote in favour of the proposed offer at the general meeting of shareholders of Zenyth.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****11. ASSET CLASSIFIED AS HELD FOR SALE (CURRENT) (continued)**

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

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

(a) Details of listed shares and options

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****12. FINANCIAL INVESTMENTS (NON-CURRENT) (continued)****(a) Details of listed shares and options (continued)**

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

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

- (i) As stated in note 2, the Group has elected to adopt the exemption from the requirement to restate comparative information for AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' as allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. Accordingly the 30 June 2005 comparative reflects the AGAAP policy for non-current holdings in non-subsiary, non-associated corporations (ie. the Group's listed investments) which are carried at the lower of cost or market valuation (fair value). At 30 June 2005, the shares held in Zenyth Therapeutics Limited and Avexa Limited and options held in Antisense Therapeutics Limited were recorded at fair value. All other non-current listed shareholdings were recorded at cost. Also see (iii) below.

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

- (iii) Closing retained earnings include cumulative impairment losses of \$9,485,983 for the investments in Zenyth and Avexa representing the decrease in the respective share prices of these investments from the time of their acquisition to 30 June 2005 (also refer note 4(c) and note 11).

During the current year, Circadian acquired an additional 4,783,073 ordinary shares in Avexa for a consideration of \$1,147,938 through a rights issue by Avexa in May 2006.

- (iv) During the current year, Circadian acquired an additional 30,303,030 ordinary shares in Antisense Therapeutics for a consideration of \$1 million through a share placement by Antisense Therapeutics in April 2006.

The consolidated entity's total undiluted interest in Antisense Therapeutics, including its indirect interest in Antisense Therapeutics through its investment in Syngene Limited, amounted to 27% at year end, representing a market value of \$3,270,807 (cost: \$2,964,136).

13. INVESTMENTS IN ASSOCIATES**(a) Details of material interests in associated entities are as follows:**

Name and Principal Activities	Ownership Interest		Carrying Amount	
	2006	2005	2006	2005
			\$	\$
Syngene Limited – Gene diagnostics	42.38	42.38	438,746	572,037
Antisense Therapeutics Ltd – Gene directed therapeutics (ii)	22.1	20.4	1,945,041	-
			2,383,787	572,037
Non-current receivable from Syngene Limited (i) (note 26(a))			-	544,987
			2,383,787	1,117,024

All associated entities were incorporated in Australia.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****13. INVESTMENTS IN ASSOCIATES (continued)**

- (i) There was an impairment loss of \$544,987 during the current year relating to the write down of the loan to Syngene Limited due to a decrease in Syngene's net assets since 30 June 2005 to 30 June 2006. This amount is included in the line item 'Impairment losses' in the Income Statement.
- (ii) In the February 2006 capital raising by Antisense Therapeutics Limited (which was approved by Antisense Therapeutics shareholders in April 2006), Circadian (through its wholly owned subsidiary Polychip Pharmaceuticals Pty Ltd) purchased an additional 30 million ordinary shares at a total cost of \$1 million and served as the major investor (Circadian's direct interest in Antisense increased from 20.4% to 22.13% after the share placement). As Circadian was the main investor in this transaction, the board of directors determined that Circadian has "significant influence" over Antisense Therapeutics based on the definition in accounting standard AASB 128 *Investments in Associates* and as such it was resolved that Circadian should equity account Antisense Therapeutics with effect from 1 January 2006.

Prior to 1 January 2006, the investment in Antisense Therapeutics was accounted for as an "available for sale asset" pursuant to AASB 139 *Financial Instruments: Recognition and Measurement*.

(b) Share of the associates' balance sheet:

	Syngene Ltd		Antisense Therapeutics Ltd (a)(ii)	
	2006	2005 (i)	2006	2005
	\$	\$	\$	\$
Current assets	88,734	91,034	1,914,079	-
Non-current assets	599,571	369,828	103,350	-
	688,305	460,862	2,017,429	-
Current liabilities	18,594	15,304	71,486	-
Non-current liabilities	230,965	230,965	-	-
	249,559	246,269	71,486	-
Net assets	438,746	214,593	1,945,943	-

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****13. INVESTMENTS IN ASSOCIATES (continued)****(c) Share of the associates' profit or loss:**

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

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

(d) Contingent liabilities of associates:

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

(e) Expenditure Commitments of Associates

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

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

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

Equipment and Furniture	3-10 years
Leasehold Improvements	8 years

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
15. GOODWILL				
Deemed gross carrying amount	226,165	226,165	-	-
Impairment of goodwill	(76,947)	-	-	-
Net carrying amount at 30 June	<u>149,218</u>	<u>226,165</u>	<u>-</u>	<u>-</u>

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

16. IMPAIRMENT TESTING OF GOODWILL WITH AN INDEFINITIVE LIFE

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

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

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

Goodwill is not amortised.

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

17. PAYABLES (CURRENT)

Creditors (unsecured) (i)	767,486	101,490	478,307	63,006
Payable to shareholders (ii)	119,738	134,147	119,738	134,147
PAYG tax liability	<u>57,461</u>	<u>41,964</u>	<u>57,461</u>	<u>41,964</u>
	<u>944,685</u>	<u>277,601</u>	<u>655,506</u>	<u>239,117</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
18. INTEREST BEARING BORROWING				
Bill Facility, secured (i), (ii)	-	5,000,000	-	5,000,000
(i) A bill facility was secured from the Commonwealth Bank of Australia in October 2004 for a term of twelve months at a fixed bill rate of approximately 5.8% per annum, and was secured by a Letter of Set Off by Circadian over Cash Deposit Account for \$5,000,000. The bill facility was repaid at the end of the twelve month term in October 2005.				
(ii) The company obtained this borrowing to partly fund the 38 cents per share capital return paid to shareholders in October 2004 (refer note 20). The borrowing reflects discussions with the Australian Taxation Office prior to the issuance of the Class Ruling confirming that the return of capital would not be a dividend for income tax purposes.				
19. PROVISIONS				
<i>Annual leave:</i>				
At 1 July	103,042	95,394	103,042	95,394
Arising during the year	130,284	100,517	130,284	100,517
Utilised	(114,664)	(92,869)	(114,664)	(92,869)
At 30 June	118,662	103,042	118,662	103,042
<i>Long service leave:</i>				
At 1 July	244,408	222,960	244,408	222,960
Arising during the year	46,002	28,195	46,002	28,195
Utilised	-	-	-	-
Discount rate adjustment	(4,951)	(6,747)	(4,951)	(6,747)
At 30 June	285,459	244,408	285,459	244,408
Total provisions	404,121	347,450	404,121	347,450
Current	367,817	322,294	367,817	322,294
Non-Current	36,304	25,156	36,304	25,156
	404,121	347,450	404,121	347,450

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

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

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares.

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

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

The total distribution amounted to \$20.1 million.

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

Share options and performance rights:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****20. CONTRIBUTED EQUITY AND RESERVES (continued)**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Retained earnings				
Movements in retained earnings were as follows:				
Balance at 1 July	10,001,318	(894,561)	6,830,370	(9,024,356)
Impairment loss on investment in associate (note 13(b))	(357,446)	-	-	-
Transfer from contributed capital of associate reserve ((c)(iii))	656,890	-	-	-
Net profit/(loss) for the year	(6,472,467)	21,729,492	3,082,386	26,688,339
Unfranked dividends (note 7)	-	(10,833,613)	-	(10,833,613)
Balance at 30 June	<u>3,828,295</u>	<u>10,001,318</u>	<u>9,912,756</u>	<u>6,830,370</u>
(c) Reserves				
Asset revaluation reserve (i)	734,407	734,407	734,407	734,407
Option reserve (ii)	19	19	19	19
Contributed capital of associate reserve (iii)	609,379	656,890	-	-
Net unrealised gains reserve (iv)	17,990,006	229,745	-	-
Employee equity benefits reserve (v)	<u>261,014</u>	<u>108,754</u>	<u>261,014</u>	<u>108,754</u>
Total reserves	<u>19,594,825</u>	<u>1,729,815</u>	<u>995,440</u>	<u>843,180</u>
<i>(i) Movement in asset revaluation reserve:</i>				
Opening and closing balance	<u>734,407</u>	<u>734,407</u>	<u>734,407</u>	<u>734,407</u>
<i>(ii) Movement in option reserve:</i>				
Opening and closing balance	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>
<i>(iii) Movement in contributed capital of associate reserve:</i>				
Opening balance	656,890	656,890	-	-
Transfer to retained earnings	(656,890)	-	-	-
Investment which became an associate (note 13):				
- Transfer from net unrealised gains reserve	293,723	-	-	-
- Loss on new share issue by associate	(61,145)	-	-	-
- Tax effect	18,344	-	-	-
- Reversal of total tax liability	* 358,457	-	-	-
Closing balance	<u>609,379</u>	<u>656,890</u>	<u>-</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****20. CONTRIBUTED EQUITY AND RESERVES (continued)**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****20. CONTRIBUTED EQUITY AND RESERVES (continued)****(c) Reserves (continued)*****Nature and purpose of reserves******Asset revaluation reserve***

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

Option reserve

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

Contributed capital of associate reserve

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

Net unrealised gains reserve

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

Employee equity benefits reserve

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

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
(d) Minority interests				
At balance date, the minority interests in the economic entity comprised:				
Share of contributed equity	280,084	280,084	-	-
Share of accumulated losses	(180,605)	(137,671)	-	-
	<u>99,479</u>	<u>142,413</u>	<u>-</u>	<u>-</u>

Refer to note 8(c) for further details.

21. SHARE-BASED PAYMENT PLANS**Employee Share Option Plan**

Share options are granted to executive directors and certain employees.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****21. SHARE-BASED PAYMENT PLANS (continued)****Performance Rights**

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

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

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

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

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

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

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

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

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

Vested performance rights may be exercised at any time on or before the expiry of ten (10) years from the date the performance rights are granted, subject to compliance with the Company's share trading policy (i.e. 7 years after the performance test is satisfied). There are no cash settlement alternatives.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****21. SHARE-BASED PAYMENT PLANS (continued)****(a) Options over Ordinary Shares**

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

2006

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

The following proportion of options vest from the dates shown:

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

(i)	Exercise price on options issued:	(ii)	Exercise price on options issued:
	1/3 options exercisable at \$4.37 per share		1/3 options exercisable at \$2.62 per share
	1/3 options exercisable at \$4.62 per share		1/3 options exercisable at \$2.87 per share
	1/3 options exercisable at \$5.12 per share		1/3 options exercisable at \$3.12 per share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****21. SHARE-BASED PAYMENT PLANS (continued)****(a) Options over Ordinary Shares (continued)**

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

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

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

(b) Performance Rights over Ordinary Shares

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

2006

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

- (i) The number of performance rights which may vest, if any, will be determined based on Circadian's TSR (as described earlier in this note) over the performance period which commenced on 1 July 2005 and will end on 30 June 2008.
- (ii) As stated earlier, the fair value of the performance rights granted during the year was performed by Leadenhall VRG Pty Ltd. The valuation was performed based on estimates of TSR for Circadian compared to the TSR of the comparator group of companies over the performance period ending 30 June 2008 and took into account the probability of performance hurdles being achieved. The key steps undertaken to perform the valuation are as follows:
- estimation of the increase in the value of each of the Group's listed investments as of date of grant over the performance period ending on 30 June 2008 based on discounted cash flow analysis
 - projection of the research and development expenditure for the Group's unlisted projects from date of grant to 30 June 2008
 - estimation of Circadian's TSR based on the sum of the above

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****21. SHARE-BASED PAYMENT PLANS (continued)****(b) Performance Rights over Ordinary Shares (continued)**

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Cash flow interest rate risk

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

Market rate risk

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

Foreign currency risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006**

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)*Credit risk*

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

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

Liquidity risk

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

23. FINANCIAL ASSETS AND LIABILITIES**Fair values**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****23. FINANCIAL ASSETS AND LIABILITIES (continued)**

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

* Fair value is disclosed unless stated otherwise.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****23. FINANCIAL ASSETS AND LIABILITIES (continued)****Interest rate risk**

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****23. FINANCIAL ASSETS AND LIABILITIES (continued)**

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

24. COMMITMENTS**Operating lease commitments – Group as lessee**

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

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

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

Research projects commitments

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

Within one year	1,292,857	229,446	-	-
After one year but not more than five years	223,323	180,000	-	-
	<u>1,516,180</u>	<u>409,446</u>	<u>-</u>	<u>-</u>

Investing commitment

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

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

Guarantees

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****25. INTERESTS IN JOINT VENTURE OPERATIONS**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****26. RELATED PARTY DISCLOSURES**

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

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

Circadian Technologies Limited is the ultimate parent entity.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****26. RELATED PARTY DISCLOSURES (continued)**

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

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

- (i) The amount lent to Polychip Pharmaceuticals Pty Ltd was mostly used for working capital purposes and was also used to subscribe for further ordinary shares in Antisense Therapeutics Limited in a share placement by Antisense Therapeutics Limited in April 2006 (refer to note 12).
- (ii) The amount lent to Fibre Optics (Aust) Pty Ltd ('Fibre Optics') during the year was used to fund the acquisition of ordinary shares in Avexa Limited and also reflects the reversal of impairment losses.
- A significant portion of the loan to Fibre Optics has been classified as current at year end as cash proceeds are expected to be received from Fibre Optics on the proposed acquisition by CSL Limited of Zenyth Therapeutics Limited ('Zenyth') as detailed in note 11. The Group's investment in Zenyth is owned by Fibre Optics.
- In the prior financial year, the amount lent to Fibre Optics was used to fund the acquisition of ordinary shares in Avexa Limited and CancerProbe Pty Ltd, part of which was offset by proceeds received on the disposal of its investment in Axon Instruments Inc (a small portion of the total investment in Axon was owned by Fibre Optics) (refer to note 4).
- (iii) The amounts lent to Cancer Therapeutics Limited and Neuro Therapeutics Limited during the year were mostly used for working capital purposes.
- (iv) The amount lent to Vegenics Limited during the year was partly used for incorporation costs and for working capital purposes. The loan was repaid by Vegenics subsequent to year end.
- (b) Loans from controlled entities of \$159,615 (2005: \$4,770,016) are non-interest bearing, unsecured and have no fixed terms of repayment of principal (although repayment is not expected within the next year). Interest of \$254,773 was incurred by the parent during the year (2005: \$Nil) due to the discounting of the loans and use of the effective interest method in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* (see note 2(q)).

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****26. RELATED PARTY DISCLOSURES (continued)**

The amounts are owed to the following companies:

	2006 \$	2005 \$
Controlled Entities		
Precision Patchclamps (Int) Pty Ltd (i)	67,558	1,667,559
Circadian Pharmaceuticals (Aust) Pty Ltd (ii)	92,057	3,102,457
	<u>159,615</u>	<u>4,770,016</u>

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

27. EVENTS AFTER THE BALANCE SHEET DATE

- (i) As stated in note 11, prior to 30 June 2006, the directors of Circadian intended to dispose of the Group's holding in the ordinary shares of Zenyth Therapeutics Ltd. On 17 July 2006, Zenyth Therapeutics Ltd ('Zenyth') (Circadian interest 22.6%) and CSL Limited ('CSL') announced a proposal under which CSL would acquire 100% of the issued shares in Zenyth. The acquisition is to be implemented by way of a scheme of arrangement between Zenyth and its shareholders. For further details see note 11.
- (ii) As explained in note 24, Vegenics Limited is an entity which was incorporated by Circadian Technologies Limited on 10 January 2006 for the purpose of forming a collaboration between Circadian, the Ludwig Institute for Cancer Research (LICR) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors (VEGF). On the satisfaction of the conditions precedent of the Shareholders Agreement relating to Vegenics between Circadian, LICR and Licentia, shares were to be applied for in Vegenics by each of these entities.

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

- (iii) At the date of this report, the market value of the consolidated entity's shareholdings in listed investments, including the investment in Zenyth which is an asset classified as held for sale (see note 11), increased by \$14,698,986 to \$57,433,592. The increase in market value of these investments since year end is not reflected in the financial report.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****28. AUDITORS' REMUNERATION**

The auditor of Circadian Technologies Limited is Ernst & Young.

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

29. DIRECTOR AND EXECUTIVE DISCLOSURES**(a) Details of Key Management Personnel***(i) Directors*

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

(ii) Executives

Ms Natalie Korchev	Company Secretary & Chief Financial Officer
Mr Robert Klupacs	Manager, Strategic Development (commenced 15 August 2005)

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

(b) Compensation of Key Management Personnel*(i) Compensation Policy*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(b) Compensation of Key Management Personnel (continued)**

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

(A) Remuneration Committee

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

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

(B) Compensation Structure

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

(C) Non-executive Director CompensationObjective

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

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount (not exceeding the amount approved at the General Meeting) is determined by the Board and then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting on 30 September 2004 when shareholders approved the aggregate maximum sum to be paid or provided as compensation to the non-executive directors as a whole (therefore excluding the Managing Director and the Executive Director) for their services as \$300,000 per annum. Currently, non-executive directors are compensated to an aggregate of \$225,000 per annum.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(b) Compensation of Key Management Personnel (continued)****(D) Executive Compensation**Objective

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

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

Structure

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

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

- Fixed Compensation
- Long-Term Incentive

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

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

(E) Fixed CompensationObjective

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

Structure

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(b) Compensation of Key Management Personnel (continued)****(F) Variable Pay – Long Term Incentive (LTI)**Objective

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

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

Structure

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

Options:

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

Performance rights:

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

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

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

Note 29(c) provides details of options and performance rights granted under the LTI plan.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(b) Compensation of Key Management Personnel (continued)***(ii) Compensation of Key Management Personnel (Consolidated)*

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

¹ Appointed 1 September 2005² Retired 6 October 2005 after 21 years of service³ Resigned 26 April 2005 after 20 years of service⁴ Employment commenced 15 August 2005

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2006

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

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

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

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

(iii) Compensation by category: Key Management Personnel

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(c) Compensation options and performance rights: Granted and vested during the year (Consolidated) (continued)**

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

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

(i) Refer to note 21(a).

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

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

(i) Refer to note 21(a).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(d) Shares issued on Exercise of Compensation Options and Performance Rights (Consolidated)**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(e) Option holdings and performance rights held by Key Management Personnel (Consolidated)
(continued)**

Total at 30 June 2005

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

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

(f) Shareholdings of Key Management Personnel (Consolidated)*Ordinary shares held in Circadian Technologies Limited (Number)*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)****(f) Shareholdings of Key Management Personnel (Consolidated) (continued)**

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

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

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

(g) Loans to Key Management Personnel (Consolidated)

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

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

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

Revenue

- (i) During the year, secretarial fees totalling \$22,500 (2005: \$17,500) were paid by Traders Macquarie Pty Ltd to Circadian Technologies Limited. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2006

29. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(h) Other transactions and balances with Key Management Personnel (continued)***Amounts recognised at the reporting date in relation to director related entity transactions:*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS**

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

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

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

Exemptions applied

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

Business combinations

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

Share-based payment transactions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2006

30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**Explanation of material adjustments to the cash flow statement**

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

Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

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

	Consolidated		Parent	
	30-Jun-05**	01-Jul-04*	30-Jun-05**	01-Jul-04*
	\$	\$	\$	\$
Total equity under AGAAP	37,545,530	41,695,542	32,072,869	36,697,253
Adjustments to retained earnings (net of tax):				
Recognition of share-based payment expense (A)	(108,754)	-	(108,754)	-
Write-back of goodwill amortisation (B)	31,297	-	-	-
Recognition of deferred tax asset (C)	6,964,493	6,943,281	3,103,847	1,596,862
Distributions from subsidiaries – head entity assumption of tax consolidated group losses (C),(D)	-	-	2,408,029	144,620
Adjustments to reversal of impairment losses on intercompany loans receivable (D)	-	-	3,256,782	1,667,820
Equity accounting of associate's recognition of deferred tax asset	270,458	254,416		
Adjustments to other reserves (net of tax):				
Recognition of share-based payment expense (A)	108,754	-	108,754	-
Recognition of deferred tax asset (C)	229,745	229,745	-	-
Total equity under AIFRS	45,041,523	49,122,984	40,841,527	40,106,555

* This column represents the adjustments as at the date of transition to AIFRS.

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those of the year ended 30 June 2005.

(A) Under AASB 2 'Share-Based Payments', the Group has recognised the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payments were not recognised under AGAAP.

(B) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

- (C) AASB 112 'Income Taxes' requires the Group to use a balance sheet liability method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Under AGAAP, the income statement method was used. This has resulted in the recognition of a net deferred tax asset in relation to the Group's non-current investments in listed entities and in associated companies. This includes the difference in the cost base of the Group's investment in Axon Instruments Inc and its tax cost base and the difference between the market value of listed investments in Zenyth Therapeutics Limited (formerly Amrad Corporation Limited) and Avexa Limited (their book values reflecting the lower of cost and market value) and their tax cost base. Under AGAAP, the tax effects of differences between cost base and tax base for such assets were not recognised. The Group's deferred tax asset also includes carry forward tax losses.

The recognition of deferred tax asset for the Parent comprises tax losses which under AIFRS meet the recognition criteria and the difference between the carrying value and tax base of intercompany loans receivable.

As at 1 July 2005, the Group applied the requirements of AASB 139 'Financial Instruments: Recognition and Measurement'. Pursuant to AASB 139, the Group has recorded at fair value all of its investments which meet the definition of "available-for-sale" financial assets, namely the investments in listed shares and options. Under AGAAP, these assets were recorded at the lower of cost and market value. As required by AASB 112, a deferred tax liability has been recognised on the fair value adjustments to the "available-for-sale" financial assets recorded at cost as at 30 June 2005 (namely listed shares in Metabolic Pharmaceuticals Limited, Antisense Therapeutics Limited and Optiscan Imaging Limited).

- (D) Pursuant to AIFRS UIG 1052 *Tax Consolidation Accounting*, the head entity of a tax consolidated group is to assume the current tax liability (asset), tax losses and certain tax credits relating to subsidiaries which are to be accounted for as a contribution by or distribution to equity participants.

Under AGAAP, the taxes recorded/disclosed by the head entity reflected all of the taxes for the tax consolidation group and there was no requirement to account for the assumption of tax losses as a contribution by or distribution to equity participants.

As a result of accounting for distributions from subsidiaries as described above, this has had a resultant impact on the reversal of impairment losses on intercompany loans to subsidiaries.

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

	Consolidated		Parent	
	30-Jun-05	01-Jul-04	30-Jun-05	01-Jul-04
	\$	\$	\$	\$
Opening net deferred tax asset balance	5,684,920	-	-	-
Increase/(decrease) due to changes in retained earnings - note (C)	1,509,318	6,943,281	5,787,279	1,046,789
Increase due to changes in reserves – note (C)	-	229,745	-	-
Closing net deferred tax asset balance	<u>7,194,238</u>	<u>7,173,026</u>	<u>5,787,279</u>	<u>1,046,789</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)****(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS**

	Consolidated Year ended 30-Jun-05 \$	Parent Year ended 30-Jun-05 \$
Profit after tax as previously reported	21,764,179	21,437,736
Recognition of share-based payment expense - note (i)(A)	(108,754)	(108,754)
Write-back of goodwill amortisation – note (i)(B)	31,297	-
Equity accounting of associate's adjustment to income tax benefit	16,043	-
Adjustment to income tax benefit/(expense) - (a), note (i)(C)	21,212	1,506,985
Distributions from subsidiaries – head entity assumption of tax consolidated group losses – note (i)(C),(D)	-	2,263,409
Adjustments to reversal of impairment losses on intercompany loans receivable – note (i)(D)	-	1,588,963
Profit after tax under AIFRS	21,723,977	26,688,339

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

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

(iii) Restated Balance Sheet on adoption of AASB 132 and AASB 139 as at 1 July 2005

	Consolidated 1 July 2005 \$	Parent 1 July 2005 \$
Total equity under AIFRS as per (i)	45,041,523	40,841,527
Adjustment to retained earnings (net of tax)		
Fair value adjustment to intercompany loan accounts – gain on discount on loans from subsidiaries	-	254,772
Tax effect	-	(76,432)
Changes in accounting investment value in associate (tax expense)	(75,292)	-
Adjustments to other reserves (net of tax)		
Fair value adjustment to financial investments	31,860,498	-
Tax effect	(9,558,150)	-
Total equity under AIFRS after AASB 139	67,268,579	41,019,867

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2006****30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

The above change will result in a net deferred tax liability under AIFRS as at 1 July 2005 as follows:

	Consolidated	Parent
	1 July 2005	1 July 2005
	\$	\$
Deferred tax asset balance as at 30 June 2005 (refer (i))	7,194,238	5,787,279
Tax effect of fair value adjustment to financial assets	(9,558,150)	(76,432)
Changes in accounting investment value in associate	(75,292)	-
Deferred tax asset/(liability) as at 1 July 2005	<u>(2,439,204)</u>	<u>5,710,847</u>

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

DIRECTORS' DECLARATION

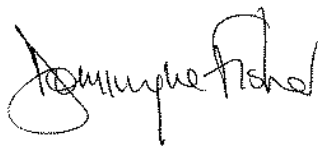
In accordance with a resolution of the directors of Circadian Technologies Limited, we state that:

- (1) In the opinion of the directors:
- (a) the financial report of the company and of the consolidated entity is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

For and on behalf of the Board:



Mr Leon Serry
Director



Ms Dominique Fisher
Director

Melbourne
25 August 2006

OTHER INFORMATION

	Consolidated	
	2006	2005
NTA backing		
Net tangible asset backing per ordinary security	\$1.41	\$1.12

(Note: For the previous corresponding period, NTA backing does not take into account the market value of the Company's non-current listed investments which were in excess of the book value as the Group elected to adopt the exemption allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* with respect to AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information. At prior year end, the carrying value of these investments was \$16,959,060 and the market value was \$48,819,559.

Control gained over entity

Name of entity	VEGENICS LIMITED	
Loss from ordinary activities and extraordinary items after tax of the controlled entity since the date in the current period on which control was acquired	\$ (106,494)	
Date from which such loss has been calculated	10 JANUARY 2006	
Loss from ordinary activities and extraordinary items after tax of the controlled entity for the whole of the previous corresponding period	\$ NIL	

Vegenics Limited was incorporated by Circadian Technologies Limited on 10 January 2006 for the purpose of forming a collaboration between Circadian, the Ludwig Institute for Cancer Research (LICR) and the commercial arm of the University of Helsinki, Licentia Limited (Licentia) to develop and commercialise the intellectual property and technology of LICR and Licentia in respect of molecules known as vascular endothelial growth factors.

On the satisfaction of the conditions precedent of the Shareholders Agreement relating to Vegenics between Circadian, LICR and Licentia, shares were to be applied for in Vegenics by each of these entities.

On 29 June 2006 the conditions precedent were satisfied in full and subsequently in July 2006 Circadian's interest in Vegenics was reduced to 50% pursuant to the Shareholders Agreement relating to Vegenics. Refer to the Review of Operations Report for further details.

	Consolidated	
Ratios	2006	2005
Consolidated net profit/(loss) from ordinary activities after tax attributable to members as a percentage of equity at the end of the year	(11.4)%	48.2%

Status of audit of accounts

This Appendix 4E is based on accounts which have been audited. The audit report is included with the financial report which forms part of this Appendix 4E.

Annual General Meeting

The annual general meeting will be held as follows:

Place: Computershare Conference Centre
 Yarra Falls
 452 Johnston Street
 Abbotsford Victoria

Date: Friday, 27 October 2006

Time: 9.00 am

Approximate date the
 annual report will be
 available: 25 September 2006